

香港交易及結算所有限公司及香港聯合交易所有限公司對本公告的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示概不就因本公告全部或任何部分內容而產生或因倚賴該等內容而引致的任何損失承擔任何責任。

本公告及當中所述的上市文件根據香港聯合交易所有限公司證券上市規則的規定僅供參考，並非在美國或任何其他司法權區（在該等司法權區，要約、招攬或出售在根據任何有關司法權區的證券法律進行登記或獲得資格前屬違法）出售任何證券的要約或招攬購買任何證券的要約。本公告及當中任何文件（包括上市文件）概不構成任何合約或承諾的依據。本公告所述證券並無亦不會根據一九三三年美國證券法（經修訂）（「美國證券法」）登記，且在沒有進行登記的情況下，不得在美國提呈發售或出售，惟獲得適用的美國證券法登記規定豁免或在毋須遵守美國證券法登記規定的交易中則除外。所有於美國進行的證券公開發售將須以招股章程形式作出。該招股章程須載有提出有關發售的公司、其管理層及財務報表的詳盡資料。本公司不擬於美國進行任何證券的公開發售。

為免生疑問，刊發本公告及當中所述的上市文件，就香港法例第32章公司（清盤及雜項條文）條例而言，不得被視為根據發行人或其代表所刊發的招股章程而作出的證券要約，以及就香港法例第571章證券及期貨條例而言，亦不構成載有邀請公眾訂立或要約訂立協議以取得、處置、認購或包銷證券的廣告、邀請或文件。



CAR Inc.

神州租車有限公司

（於開曼群島註冊成立的有限公司）

（股份代號：0699）

250,000,000美元於二零二四年到期按9.75厘計息之優先票據
（「票據」）（票據證券代號：40636）

刊發發售備忘錄

本公告乃由神州租車有限公司（「本公司」）根據香港聯合交易所有限公司（「聯交所」）證券上市規則（「上市規則」）第37.39A條的規定而刊發。

請參閱附載於本公告內日期為二零二一年三月二十六日有關發行票據的發售備忘錄（「發售備忘錄」）。誠如發售備忘錄中披露，票據乃擬定僅供專業投資者（定義見上市規則第三十七章）購買，並將按此基準在聯交所上市。

發售備忘錄並不構成向任何司法權區之公眾提呈出售任何證券之招股章程、通告、通函、宣傳冊或廣告，亦並非向公眾發出邀請以就認購或購買任何證券作出要約，且不被視為邀請公眾作出認購或購買任何證券之要約。因此，本公司及附屬公司擔保人(定義見發售備忘錄)確認，票據並不適合香港散戶投資者投資。投資者應審慎考慮所涉及的風險。發售備忘錄僅以英文發佈。概無發佈中文版本的發售備忘錄。

發售備忘錄不得被視為對認購或購買本公司任何證券之勸誘，亦並非擬作有關勸誘。不應根據發售備忘錄中所載資料作出任何投資決策。

承董事會命
神州租車有限公司
執行董事
宋一凡

香港，二零二一年四月一日

於本公告日期，董事會包括執行董事宋一凡女士；非執行董事于洪飛先生、嚴旋先生、李毅文先生、徐俊先生及俞聖萍女士；及獨立非執行董事孫含暉先生、丁瑋先生及張黎先生。

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following disclaimer applies to the offering memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to China International Capital Corporation Hong Kong Securities Limited, Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities plc (together, the "Initial Purchasers") and China CITIC Bank International Limited, the Co-Manager, that (i) you are outside the United States and are not acting on behalf of any person in the United States and to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"), AND (ii) that you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors – The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2016/97/EU ("IDD"), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRIIPs Regulation/Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The attached offering memorandum is not a prospectus for the purposes of the European Union's Regulation (EU) 2017/1129. The communication of the following information memorandum and any other document or materials relating to the issue of the Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "Relevant Persons"). In the United Kingdom, the Notes offered hereby are only available to, and any investment or investment activity to which the following information memorandum relates will be engaged in only with, Relevant Persons. Any person in the United Kingdom that is not a Relevant Person should not act or rely on the following information memorandum or any of its contents.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") – the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the issuer of the securities, the Initial Purchasers, the Trustee, the Registrar or the Paying and Transfer Agent (each as defined herein) or any person who controls any of them or any of their respective directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. Any one of the Initial Purchasers will provide a hard copy version to you upon request.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein. If you have gained access to this transmission contrary to any of the restrictions herein, you are not authorized and will not be able to purchase any of the securities described in the offering memorandum. You are reminded that the information in the attached document is not complete and may be changed.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or the Initial Purchasers to subscribe for or purchase any of the securities described therein and access has been limited so that it shall not constitute a "general advertisement" or "solicitation" (as those terms are used in Regulation D under the Securities Act) or "directed selling efforts" (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or their affiliates on behalf of the issuer of the securities in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions That You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other items of a destructive nature. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

US\$250,000,000
CAR Inc.
神州租車有限公司
(incorporated in Cayman Islands with limited liability)
Stock Code: 0699

9.75% Senior Notes Due 2024
Issue Price: 99.366%

The 9.75% Senior Notes (the “Notes”) due 2024 bear interest from March 31, 2021, at 9.75% per annum payable semi-annually in arrears on September 30 and March 31 of each year, beginning September 30, 2021. The Notes will mature on March 31, 2024.

The Notes are general obligations of CAR Inc. (the “Company”) and guaranteed by certain of its existing subsidiaries (the “Subsidiary Guarantors”). The guarantees by the Subsidiary Guarantors are referred to as the Subsidiary Guarantees.

At any time on or after March 31, 2023, the Company may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to 103.65625% of the principal amount of the Notes redeemed plus accrued and unpaid interest, if any, to (but not including) the relevant redemption date. At any time and from time to time prior to March 31, 2023, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined in the indenture governing the Notes (the “Indenture”)) as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), the Company must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase.

The Notes are (i) general obligations of the Company; (ii) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (iii) at least *pari passu* in right of payment with the Existing *Pari Passu* Indebtedness (as defined in the Indenture) and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); (iv) guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described in “Description of the Notes – The Subsidiary Guarantees”; (v) effectively subordinated to all existing and future secured obligations of the Company, to the extent of the value of the collateral serving as security therefor; and (vi) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees. See “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees.”

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 136.

Investing in the Notes involves risks. Furthermore, investors should be aware that the Notes are guaranteed by Subsidiary Guarantors which do not currently have significant operations and that there are various other risks relating to the Notes, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Notes. See the section entitled “Risk Factors” beginning on page 12 and particularly page 33 for risks related to the Notes and the Subsidiary Guarantees.

The Notes are expected to be rated “Caa1” by Moody’s Investors Service, Inc. (“Moody’s”) and “B-” (preliminary) by S&P Ratings Services (“S&P”). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)(the “Professional Investors”) only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Company and the Subsidiary Guarantors confirm that the Notes are intended for purchase by Professional Investors only and are expected to be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Company and the Subsidiary Guarantors confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should consider carefully the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company, the Subsidiary Guarantors or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the content of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Offering Memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company and the Subsidiary Guarantors and the Notes. The Company and the Subsidiary Guarantors accept full responsibility for the accuracy of the information contained in this Offering Memorandum and confirms, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States. The Notes are being offered and sold by the Initial Purchasers only outside the United States in compliance with Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see “Transfer Restrictions” beginning on page 201.

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知發改外資[2015]2044號) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC on December 18, 2020 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 PRC working days after the issue date of the Notes.

It is expected that delivery of the Notes will be made on or about March 31, 2021 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners (in alphabetical order)

China International Capital Corporation Goldman Sachs (Asia) L.L.C. J.P. Morgan

Co-Manager

China CITIC Bank International

The date of this offering memorandum is March 26, 2021.

TABLE OF CONTENTS

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION	v
INDUSTRY AND MARKET DATA	vii
FORWARD-LOOKING STATEMENTS	vii
ENFORCEMENT OF CIVIL LIABILITIES	viii
SUMMARY	1
THE OFFERING	5
SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA	9
RISK FACTORS	12
USE OF PROCEEDS	43
EXCHANGE RATE INFORMATION	44
CAPITALIZATION	46
SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA	47
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	51
OUR CORPORATE STRUCTURE	78
BUSINESS	79
REGULATIONS OVERVIEW	104
MANAGEMENT	120
SUBSTANTIAL SHAREHOLDERS	126
CONNECTED TRANSACTIONS	128
DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS	130
DESCRIPTION OF THE NOTES	136
TAXATION	195
PLAN OF DISTRIBUTION	197
TRANSFER RESTRICTIONS	201
RATINGS	203
LEGAL MATTERS	204
INDEPENDENT ACCOUNTANTS	204
GENERAL INFORMATION	205
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

This offering memorandum is not a prospectus for the purpose of the European Union’s Regulation (EU) 2017/1129.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors – The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); or (ii) a customer within the meaning of Directive 2016/97/EU (“IDD”), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRIIPs Regulation/Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The communication of the following information memorandum and any other document or materials relating to the issue of the Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”)), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “Relevant Persons”). In the United Kingdom, the Notes offered hereby are only available to, and any investment or investment activity to which the following information memorandum relates will be engaged in only with, Relevant Persons. Any person in the United Kingdom that is not a Relevant Person should not act or rely on the following information memorandum or any of its contents.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) – the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

IN CONNECTION WITH THIS OFFERING, ANY OF THE INITIAL PURCHASERS APPOINTED AND ACTING IN ITS CAPACITY AS A STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILIZING MANAGER, OR ANY AGENT OF IT, TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" in the offering memorandum.

No representation or warranty, express or implied, is made by China International Capital Corporation Hong Kong Securities Limited, Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities plc (together, the "Initial Purchasers"), Citicorp International Limited (the "Trustee") or Citibank, N.A., London Branch (the "Paying and Transfer Agent", "Registrar", and collectively the "Agents") or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The appointment of the Trustee and Agents remains subject to satisfactory completion of their regulatory and internal compliance procedures.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, the Trustee or the Agents or any person affiliated with the Initial Purchasers, the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates or the Notes (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, the Trustee or the Agents.

To the fullest extent permitted by law, none of the Initial Purchasers accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on its behalf in connection with the Company, the Group or the issue or offering of the Notes. The Initial Purchasers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this offering memorandum or any such statement.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes may in certain jurisdictions be restricted by law.

Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see the sections headed “Transfer Restrictions” and “Plan of Distribution” below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

In this offering memorandum, all references to:

“ADRR” refer to average daily rental rate, which is calculated by dividing our car rental revenue in a given period by the rental days in that period. Rental days are the total rental days for all vehicles in our car rental fleet in a given period.

“2019 Bank of China (Hong Kong) Facility” refer to a term loan facility of up to US\$150 million under a facility agreement we entered into with, among others, Bank of China (Hong Kong) Limited as arranger and agent on November 19, 2019;

“2019 China Citic Bank International Limited Facility” refer to a term loan facility of up to HK\$330 million under a loan agreement we entered into with, among others, China Citic Bank International Limited as facility agent and security agent on December 27, 2019;

“2021 Notes” refer to the CNY400 million 6.5% Senior Notes due 2021 issued by the Company on April 4, 2018 (the “Original 2021 Notes”) and the CNY350 million 6.5% Senior Notes due 2021 further issued by the Company on May 2, 2018, which were consolidated and formed a single series with the Original 2021 Notes;

“2022 Notes” refer to the US\$372,333,000 8.875% Senior Notes due 2022 issued by the Company on May 10, 2019;

“CAR Beijing” refer to Beijing China Auto Rental Co., Ltd. (北京神州汽車租賃有限公司), a company incorporated on September 27, 2007 and existing under the laws of the PRC, and a wholly-owned subsidiary of the Company;

the “Company,” “our Company,” the “Group,” “our Group,” “we,” “us” and “our” refer to CAR Inc. or, if the context requires, CAR Inc. and its subsidiaries;

“Convertible Bonds” refer to the US\$175,000,000 convertible bonds due 2026 issued by the Company on January 15, 2021;

“eHi” refer to eHi Auto Services Limited (一嗨汽車租賃有限公司), a car rental company in the PRC;

“FDG” refer to FDG Electric Vehicles Limited, a company listed on the main board of the Hong Kong Stock Exchange with stock code of 729;

“Hong Kong Stock Exchange” refer to The Stock Exchange of Hong Kong Limited;

“Lianhui Langfang” refer to Lianhui Auto (Langfang) Co., Ltd. (聯慧汽車(廊坊)有限公司) (formerly known as United Auto (Langfang) Co., Ltd. (聯合汽車(廊坊)有限公司)), a company incorporated on October 26, 2006 and existing under the laws of the PRC, and a wholly-owned subsidiary of the Company;

“Listing Rules” refer to the Rules Governing the Listing of Securities on the Stock Exchange;

“MOFCOM” refer to the Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches;

“Moody’s” refer to Moody’s Investors Service, Inc.;

“NDRC” refer to National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) or its competent local branches;

“OEM” refer to original automobile manufacturers that manufacture vehicles sold through automobile retail dealerships;

“Offeror” refer to Indigo Glamour Company Limited, a limited liability company incorporated under the laws of the Cayman Islands, wholly-owned by MBK Partners Fund IV, L.P.;

“PBOC” refer to The People’s Bank of China (中國人民銀行), the central bank of the PRC;

“SAFE” refer to the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局);

“SAT” refer to the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局);

“S&P” refer to S&P Ratings Services;

“total fleet” refer to all of our rental vehicles, including (i) car rental vehicles, (ii) fleet rental vehicles, (iii) finance lease vehicles, (iv) retired fleet awaiting for sale, and (v) vehicles held for sale;

“UCAR” refer to UCAR Inc. (神州優車股份有限公司);

“VAT” refer to value-added tax; and

“VGO” refer to the conditional voluntary general cash offers by Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities (Asia Pacific) Limited on behalf of the Offeror to acquire all of the issued shares of the Company held by shareholders other than the Offeror and to cancel all of the outstanding options of the Company.

In this offering memorandum, all references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America; all references to “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China; all references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC; and all references to the “PRC” are to the People’s Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB6.5250 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2020, and all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK\$7.7534 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2020. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts or H.K. dollars amounts referred to herein have been, could have been or could be converted into U.S. dollars, or vice versa, at any particular rate, or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

Our financial information included in this offering memorandum is prepared and presented in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, which differ in certain respects from accounting principles generally accepted in certain other countries, including generally accepted accounting principles in certain other countries. Unless the context otherwise requires, references to “2018,” “2019” and “2020” in this offering memorandum are to our financial years ended December 31, 2018, 2019 and 2020, respectively.

Certain amounts and percentage figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

INDUSTRY AND MARKET DATA

This offering memorandum includes market share and industry data and forecasts that we have obtained from iResearch and various government publications, market data provider and other independent third-party sources. Specifically, “*Business – Industry and Competition*” contains information, including estimates, extracted from industry information and data commissioned by us and produced by iResearch. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. While reasonable actions have been taken by us to ensure that the information is extracted accurately and in its proper context, it has not been independently verified by us, the Initial Purchasers or our or the Initial Purchasers’ respective directors, affiliates and advisors, and neither we, the Initial Purchasers nor our or the Initial Purchasers’ directors, affiliates and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Investors should exercise caution in respect of such market data, industry forecast and statistics set forth in this offering memorandum.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain statements that are, or may be deemed to be, “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 offering memorandum, the words “aim,” “anticipate,” “believe,” “consider,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negatives thereof or 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, our business, results of operations, financial condition, profitability, future prospects, 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 offering memorandum. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties.

The risks and uncertainties we face which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business strategies and initiatives, as well as our business plans;
- our future business development, results of operations and financial condition;
- expected changes in our revenue and certain cost or expense items;
- our expectations with respect to increased revenue growth and our ability to sustain profitability;
- our ability to attract customers and further enhance our brand recognition; our dividend distribution plans;
- trends and competition in China’s car rental industry;
- capital market developments and our ability to obtain credit or other forms of financing;
- changes in the general economic, regulatory and operating conditions in the markets in which we operate; and
- future development of COVID-19 pandemic.

We do not intend publicly to update or otherwise revise the forward-looking statements in this offering memorandum, 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 offering memorandum 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 offering memorandum are qualified by reference to this cautionary statement.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability. The Subsidiary Guarantors may be incorporated outside the United States in jurisdictions such as the British Virgin Islands and Hong Kong. The Cayman Islands, the British Virgin Islands, Hong Kong and other jurisdictions having different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the assets of the Subsidiary Guarantors are located outside the United States. In addition, most of our directors and officers and the Subsidiary Guarantors' directors and officers are nationals or residents of countries other than the United States (principally, the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We have been advised by our Cayman Islands legal advisor, Conyers Dill & Pearman, that there is uncertainty as to whether the courts of the Cayman Islands would (i) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (ii) entertain original actions brought in the courts of the Cayman Islands against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. Conyers Dill & Pearman has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the United States federal or state courts against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon *provided* that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We have been advised by our British Virgin Islands legal advisor, Conyers Dill & Pearman, that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the courts of United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon *provided* that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We have been advised by our Hong Kong legal advisor, Kirkland & Ellis, that provided the courts of Hong Kong have jurisdiction, a judgment rendered by a state or federal court sitting in New York may be enforced in Hong Kong by first bringing a substantive claim in the Hong Kong courts within the applicable limitation period and then seeking summary or default judgment on the strength of the foreign judgment *provided that* the foreign judgment is for a debt or definite sum of money, is final and conclusive on the merits, and is in relation to a commercial transaction in which the claimant has acted in a private or commercial capacity. However, the Hong Kong courts may refuse to recognize or enforce a foreign judgment, including the grounds that the foreign judgment:

- (a) was obtained by fraud, misrepresentation or mistake;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time;
- (c) is (or was obtained in proceedings which were) contrary to public policy or natural justice;

- (d) is for penal damages;
- (e) is based on foreign penal, revenue or other public law;
- (f) is barred from enforcement by the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong); or
- (g) is inconsistent with a prior Hong Kong judgment or foreign judgment which is entitled to recognition or enforcement in Hong Kong.

Furthermore, we have been advised by our PRC legal advisor, King & Wood Mallesons, that there is uncertainty as to whether the courts of the PRC would (i) enforce judgments of United States courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States, or (ii) entertain original actions brought in the courts of the PRC against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.

OVERVIEW

We are the largest car rental company in China in 2020 in terms of car rental revenue, according to market research conducted by iResearch. We mainly engage in offering comprehensive car rental services and are a market leader in terms of fleet size, revenue, network coverage and brand awareness.

Our total fleet comprised 109,688 vehicles (including 5,000 vehicles leased from a financial institution) as of December 31, 2020.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China, supplemented by 211 service locations in 158 small cities operated by our franchisees.

We provide a superior car rental experience by offering our customers a wide vehicle selection, vehicles in decent condition, a “hassle-free” rental process and 24/7 service in almost every city where we operate. We have been steadily advancing our smart mobile platform to enhance the operating efficiency. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Our comprehensive self-served network has been largely in place since end of 2019. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to December 31, 2019. In December 2020, our self-served transactions increased to 91% of total reservations from 88% in December 2019.

As a technology driven company, we have developed an effective, reliable and scalable technology platform. Our technology platform centralizes all aspects of our operational management, including transaction, yield, customer, fleet, staffing and financial management. We utilize our technology platform to collect and analyze a vast amount of transactions and customer data to improve our operational efficiency and customer experience and explore new products and services. We leverage big data analytics and machine learning technology to analyze and predict customer behavior, which enables us to implement dynamic pricing and precise marketing. Reservations from mobile app as a percentage of our total reservations increased from 87% in 2018 to 94% in 2019 and, in the fourth quarter of 2020, 99% of the car rental reservations were made through our mobile app.

Despite the periodic disruption of mobility activities by the outbreak of COVID-19 throughout 2020 and the normal seasonal declines in the fourth quarter, the Company experienced an increasing pace of recovery in the second half of 2020. For the year ended December 31, 2020, the Company recorded a recovered adjusted EBITDA of approximately RMB2,019 million (US\$309.4 million), RMB1,202 million (US\$184.2 million) of which was generated in the second half of 2020, representing an increase of 47.2% as compared with that in the first half of 2020. Rental revenue and revenue from sales of used vehicles also showed a meaningful rebound at the same time. For the six months ended December 31, 2020, rental revenue was RMB2,187 million (US\$335.2 million), representing an increase of 21.1% over the first half of 2020, car rental revenue was RMB2,105 million (US\$322.6 million), representing an increase of 28% over the first half of 2020, and revenue from sales of used vehicles was RMB1,179 million (US\$180.7 million), representing an increase of 23.8% over the first half of 2020. Compared with inflow of free cash flow of RMB1,516 million in 2019, the Company generated a record high inflow of free cash flow of RMB4,929 million (US\$755.4 million) in 2020, safeguarding the Company against the outbreak of the COVID-19 pandemic and temporary financing limitations resulted from evolving shareholding structure at the time. For the six months ended December 31, 2020, free cash flow was an inflow of RMB2,997 million (US\$459.3 million), representing an increase of 55% over the first half of 2020. In addition, we recorded continuing increase for our ADRR, car utilization rate and RevPAC for the last two quarters of 2020. Our ADRR increased to RMB196 (US\$30.0) for the fourth quarter of 2020, as compared with RMB195 (US\$29.9) and RMB157 (US\$24.1) for the third and second quarter of 2020, respectively. Our utilization rate increased to 58.8% for the fourth quarter of 2020, as compared with 56.9% and 50.0% for the third and second quarter of 2020, respectively. Our RevPAC increased to RMB115 (US\$17.6) for the fourth quarter of 2020, as compared with RMB111 (US\$17.0) and RMB79 (US\$12.1) for the third and second quarter of 2020, respectively.

Looking back to the year of 2020, since early 2020, the outbreak of COVID-19 has caused an unprecedented decline in rental demand, which materially affected the Company's business performance, in particular in the first half of 2020. For the year of 2020, the Company's total revenue, which includes rental revenue and revenue from sales of used vehicles, was RMB6,124 million (US\$938.5 million), representing a decrease of 20.4% year-over-year. For the year ended December 31, 2020, the Company recorded a net loss of RMB4,163 million (US\$638.0 million), compared with a net profit of RMB31 million during the year ended December 31, 2019, mainly due to a decrease of 28.2% in rental revenue to RMB3,994 million (US\$612.1 million), mostly attributed to the outbreak of COVID-19, the significant impairments of (a) the equity investment in UCAR of approximately RMB2,801 million (US\$429.3 million); (b) trade receivables from related parties and other customers, who were mostly customers leasing vehicles from the Company, of approximately RMB593 million (US\$90.9 million); (c) the prepayment of the subscription price of the shares and convertible bonds to be issued by FDG of approximately RMB86 million (US\$13.2 million); and (d) adjustment of approximately RMB499 million (US\$76.5 million) of the residual values of all vehicles manufactured by Borgward. While our ADRR decreased by 13.8% year-over-year to RMB181 (US\$27.7) in 2020, as a result of pricing initiatives to stimulate demand, our ADRR recovered to RMB195 (US\$29.9) and RMB196 (US\$30.0) in the third quarter and fourth quarter of 2020, respectively, compared to RMB213 and RMB193 in the third quarter and fourth quarter of 2019, respectively. Our utilization rate was 53.3% in 2020 due to weak demand as a result of the outbreak of COVID-19. Such utilization rate recovered to 56.9% and 58.8% in the third quarter and fourth quarter of 2020, respectively, compared to 60.0% and 50.1% in the third quarter and fourth quarter of 2019, respectively.

In 2020, the Company repaid all interests and maturities on time, and proactively communicated with lenders from time to time to repay loans before maturities in a controlled manner to relieve lenders' concerns in order to support long term relationship. For the year ended December 31, 2020, the Company repaid a total of over RMB8 billion (US\$1.2 billion) to lenders. Our net debt to adjusted EBITDA lowered to 2.2x as of December 31, 2020 from 2.6x as of December 31, 2019.

Our rental revenue increased from RMB5,340.1 million in 2018 to RMB5,558.7 million in 2019. Our fleet size increased from 135,191 vehicles as of December 31, 2018 to 148,894 vehicles as of December 31, 2019 and decreased to 109,688 as of December 31, 2020. Due to decreased car rental demand and the ability to obtain financing resulted from the outbreak of COVID-19, we strategically limited our car purchase in 2020 and we disposed of 38,378 used vehicles in 2020, compared with 29,203 used vehicles in 2019. Cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020. The average price for disposed vehicle in 2020 was lower as a result of (i) fewer higher priced ride hailing vehicles and (ii) the disposal of certain vehicle models with lower sales prices. Leveraging our leading market position, sound brand recognition, advantage in terms of fleet size and digital services, we will expand our business in a market with good prospect of recovery.

Looking into 2021, we are committed to continuing recovery, restoring growing business performance, and improving profitability.

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Non-IFRS Measures." The way adjusted EBITDA is calculated and presented in "Summary," "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" may be different from the way Consolidated EBITDA is defined in "Description of the Notes."

RECENT DEVELOPMENT

MBK Share Acquisition and issuance of Convertible Bonds

Towards the end of 2020 and going into 2021, the Company eventually brought in a reputable shareholder and subsequently raised a sizeable funding to strengthen liquidity. In December 2020, MBK Partners, through its affiliate Indigo Glamour Company Limited (the "Offeror"), completed the acquisition of approximately 21% of the total then issued share capital of the Company (the "MBK Share Acquisition"). In the following month, Mcqueen SS Ltd., an affiliate of MBK Partners, subscribed for an aggregate of US\$175 million convertible bonds of the Company (the "Convertible Bonds"). The two milestones signalled a reboot of the Company after the prolonged impact of COVID-19 and uncertainty of shareholding structure.

The Convertible Bonds are unguaranteed. The Notes, the 2022 Notes, the 2021 Notes and certain offshore loans (as described in the section headed “Description of Other Material Indebtedness”) are guaranteed by the Subsidiary Guarantors. Such Subsidiary Guarantors hold (directly or indirectly) substantially all the equity interest in the Group’s operating companies. Any assets of a Subsidiary Guarantor should be applied (in the event of liquidation) to satisfy its obligations under the guarantees before they would be distributed to its shareholder(s) to satisfy the Company’s obligations under the Convertible Bonds (subject to the relevant insolvency laws). For more information of the Convertible Bonds, see “Description of Other Material Indebtedness.”

VGO

On February 1, 2021, the financial advisers on behalf of Indigo Glamour Company Limited (the Offeror) made conditional voluntary cash offers: (i) to acquire all of the issued Shares of the Company held by qualifying Shareholders at HK\$4.0 per offer Share (the “**Share Offer**”); and (ii) to cancel all of the outstanding options of the Company (the “**Option Offer**”, together with the Share Offer, the “**VGO**”), as detailed in the composite document dated February 1, 2021 jointly issued by the Offeror and the Company in relation to the VGO (the “**Composite Document**”). The purchase price implies an equity valuation of approximately HK\$8.5 billion (US\$1.1 billion) for the Company.

On March 4, 2021, the Offeror had received valid acceptances in respect of 1,556,617,734 shares under the Share Offer (representing approximately 73.20% of the issued share capital and voting rights of the Company as of March 4, 2021 and 92.44% of the offer Shares and 92.44% of the disinterested Shares). As the Offeror received valid acceptances in respect of not less than 90% of the offer Shares and not less than 90% of the disinterested Shares, the Offeror will privatise the Company by exercising its rights, pursuant to Section 88 of the Cayman Islands Companies Law and Rule 2.11 of the Code on Takeovers and Mergers published by the Securities and Futures Commission of Hong Kong, to compulsorily acquire those offer Shares not already acquired by the Offeror under the Share Offer on the same terms as the Share Offer. After the compulsory acquisition completes, the Company will become a wholly owned subsidiary of the Offeror. An application will be made to the Hong Kong Stock Exchange for the withdrawal of listing of the Shares from the Hong Kong Stock Exchange under Rule 6.15(1) of the Listing Rules, which is currently expected to be in around July 2021.

We believe MBK Partners’ investment will: (a) bring stability to the Company’s shareholding base, which in turn will help stabilise the Company’s business operations and support positive views on the Company’s outlook and ability to meet its obligations, which were negatively impacted by movements in the shareholding structure of the Company; and (b) through MBK Partners’ strong industry expertise and strong financial position, allow the Company to be well-positioned to benefit from the long-term growth trends in the PRC.

Repayment of the offshore notes

On February 11, 2021, the Company fully repaid the US\$300 million 6.00% senior notes upon maturity.

OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors.

- We are a leader in a fragmented and underpenetrated market with highly attractive outlook.
- We established a defensible business model with high entry barrier.
- We have wide geographic coverage and strong fleet management capabilities.
- Our insights from big data platform drive superior performance.
- We have financial flexibility and sustainable cashflow and leverage profile built up over the past few years.
- We have predictable business prospect with support from a solid and stable shareholder base.
- We have an experienced management team.

OUR STRATEGIES

Looking into 2021, the Company is committed to continuing recovery, restoring growing business performance, and improving profitability by implementing the following strategies:

- Enhance our revenue by more effective customer engagement and lead generation tools, smart dynamic pricing and more value-added services and better product offerings catering to different use cases;
- Improve our fleet efficiency by higher fleet utilization rate and upgrade of inventory and used car sales model;
- Improve profitability by optimizing cost structure and enhancing staff-less operations; and
- Enhance customer experience by fleet mix optimization through adding popular car models and achieving younger fleet age.

THE OFFERING

The following is a brief summary of the term of this offering and is qualified in its entirety by the remainder of this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”

Issuer	CAR Inc.
Notes Offered	US\$250,000,000 aggregate principal amount of 9.75% Senior Notes due 2024 (the “Notes”).
Offering Price	99.366% of the principal amount of the Notes.
Issue Date	March 31, 2021.
Maturity Date	March 31, 2024.
Interest	The Notes will bear interest from and including March 31, 2021 at the rate of 9.75% per annum, payable semi-annually in arrears.
Interest Payment Dates	September 30 and March 31 of each year, commencing September 30, 2021.
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• general obligations of the Company; senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with the Existing <i>Pari Passu</i> Indebtedness and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described in “Description of the Notes – The Subsidiary Guarantees” and in “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees”;• effectively subordinated to all existing and future secured obligations of the Company to the extent of the value of the collateral serving as security therefor; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.
Subsidiary Guarantees	As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.”

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Restricted Subsidiaries other than (i) the Restricted Subsidiaries organized under the laws of the PRC (the “PRC Restricted Subsidiaries”) and (ii) Car Holdings Limited (the “Initial Offshore Non-Guarantor Subsidiary”). All of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

None of the existing or future PRC Restricted Subsidiaries will provide a Subsidiary Guarantee at any time in the future. Such Restricted Subsidiaries, together with any Offshore Non-Guarantor Subsidiaries (as defined below), are referred to herein as the “Non-Guarantor Subsidiaries.”

The Company will cause each of its Restricted Subsidiaries (other than PRC Restricted Subsidiaries or any Excluded Subsidiaries, as defined in “Description of the Notes”), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes. Notwithstanding the foregoing, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or have the Subsidiary Guarantee provided by such Restricted Subsidiary released (Offshore Restricted Subsidiaries that do not provide a Subsidiary Guarantee in accordance with the Indenture, including the Initial Offshore Non-Guarantor Subsidiary, are referred to as the “Offshore Non-Guarantor Subsidiaries”); provided that, after giving effect to the amount of Consolidated Assets of such Restricted Subsidiary (excluding any Excluded Subsidiaries), the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries do not exceed 10% of Total Assets.

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees – Release of the Subsidiary Guarantees.” In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Offshore Restricted Subsidiaries, provided that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (including the new Offshore Non-Guarantor Subsidiaries but excluding any Excluded Subsidiaries) do not account for more than 10% of Total Assets.

Ranking of the Subsidiary
Guarantees

If any is provided, the Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general obligation of such Subsidiary Guarantor; is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- at least *pari passu* with the guarantees provided for the Existing *Pari Passu* Indebtedness (where applicable) and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Use of Proceeds	We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$244.9 million, which we plan to use for repayment of existing indebtedness and general corporate purposes. See “Use of Proceeds.”
Optional Redemption.	At any time on or after March 31, 2023, the Company may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to 103.65625% of the principal amount of the Notes redeemed plus accrued and unpaid interest, if any, to (but not including) the relevant redemption date. At any time and from time to time prior to March 31, 2023, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined in the indenture governing the Notes (the “Indenture”)) as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date.
Repurchase of Notes Upon a Change of Control Triggering Event	Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but excluding) the Offer to Purchase Payment Date. See “Description of the Notes – Repurchase of Notes upon a Change of Control Triggering Event.”
Redemption for Taxation Reasons.	As more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date of redemption, if the Company would be obligated to pay certain Additional Amounts (as defined in the “Description of the Notes – Additional Amounts”) as a result of certain changes in specified tax laws. See “Description of the Notes – Redemption for Taxation Reasons.”
Covenants.	<p>The Notes and the indenture governing the Notes will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> • incur or guarantee additional indebtedness and issue disqualified or preferred stock; • declare dividends on capital stock or purchase or redeem capital stock; • make investments or other specified restricted payments; • guarantee indebtedness of the Company or any other Restricted Subsidiaries; • sell assets; create liens; • enter into sale and leaseback transactions;

- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates;
- effect a consolidation or merger; and
- engage in any business other than businesses permitted by the Indenture.

All of these limitations are subject to a number of important qualifications and exceptions. See "Description of the Notes – Certain Covenants."

Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depositary for Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of their participants. For a description of certain factors relating to clearance and settlement, see "Description of the Notes – Book-Entry; Delivery and Form."
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in immediately available funds on or about March 31, 2021 which is expected to be the third business day following the date of this offering memorandum referred to as "T+3." You should note that initial trading of the Notes may be affected by the T+3 settlement. See "Plan of Distribution."
Trustee	Citicorp International Limited.
Paying and Transfer Agent and Registrar	Citibank, N.A., London Branch.
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of the Notes by way of debt issues to Professional Investors only as described in this offering memorandum.
Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 has been derived from, and should be read in conjunction with, our audited consolidated financial statements together with the related notes included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with the IFRS.

CONSOLIDATED RESULTS OF OPERATIONS

	Year ended December 31,						
	2018		2019		2020		
	RMB	% of revenue	RMB	% of revenue	RMB	US\$	
						% of revenue	
	(in thousands, except percentages)						
Rental revenue.....	5,340,132	82.9%	5,558,702	72.3%	3,993,779	612,073	65.2%
Sales of used vehicles	1,103,566	17.1%	2,131,958	27.7%	2,130,629	326,533	34.8%
Total revenue	6,443,698	100.0%	7,690,660	100.0%	6,124,408	938,607	100.0%
Depreciation of rental vehicles	(1,494,832)	(23.2%)	(1,835,717)	(23.9%)	(2,011,190)	(308,228)	(32.8%)
Direct operating expenses of rental services.....	(1,718,188)	(26.7%)	(1,829,445)	(23.8%)	(1,468,556)	(225,066)	(24.0%)
Cost of sales of used vehicles	(1,146,913)	(17.8%)	(2,188,531)	(28.5%)	(2,209,908)	(338,683)	(36.1%)
Gross profit	2,083,765	32.3%	1,836,967	23.9%	434,754	66,629	7.1%
Other income and expenses, net.....	(169,965)	(2.6%)	47,914	0.6%	(2,351,180)	(360,334)	(38.4%)
Share of (loss)/profit of associates	9,426	0.1%	6,286	0.1%	(4,796)	(735)	(0.1%)
Selling and distribution expenses.....	(78,258)	(1.2%)	(27,755)	(0.4%)	(127,892)	(19,600)	(2.1%)
Administrative expenses.....	(468,228)	(7.3%)	(607,429)	(7.9%)	(682,494)	(104,597)	(11.1%)
Impairment losses on financial and contract assets.....	-	-	-	-	(679,671)	(104,164)	(11.1%)
Finance costs	(782,185)	(12.1%)	(983,940)	(12.8%)	(681,197)	(104,398)	(11.1%)
(Loss)/profit before tax.....	594,555	9.2%	272,043	3.5%	(4,092,476)	(627,199)	(66.8%)
Income tax expenses	(304,710)	(4.7%)	(241,267)	(3.1%)	(70,675)	(10,831)	(1.2%)
(Loss)/profit for the period.....	289,845	4.5%	30,776	0.4%	(4,163,151)	(638,031)	(68.0%)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Non-current assets				
Rental vehicles.....	10,788,372	10,792,336	6,814,459	1,044,362
Others	5,012,491	5,461,390	1,741,652	266,920
Total non-current assets	15,800,863	16,253,726	8,556,111	1,311,281
Current assets				
Cash and cash equivalents	3,186,401	5,360,520	2,179,659	334,047
Others	3,217,645	3,018,785	1,368,119	209,673
Total current assets	6,404,046	8,379,305	3,547,778	543,721

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Current liabilities				
Interest-bearing bank and other borrowings	4,699,665	3,554,423	871,294	133,532
Senior notes	–	2,284,546	2,699,231	413,675
Others	1,352,105	1,450,643	1,231,965	188,807
Total current liabilities	6,051,770	7,289,612	4,802,490	736,014
Net current (liabilities) assets	352,276	1,089,693	(1,245,712)	(190,914)
Total assets less current liabilities	16,153,139	17,343,419	7,301,399	1,118,988
Non-current liabilities				
Interest-bearing bank and other borrowings	754,846	2,589,269	665,727	102,027
Senior notes.....	6,176,503	5,427,090	2,424,746	371,609
Corporate bonds	1,020,834	1,024,221	–	–
Others	227,928	210,159	204,456	31,334
Total non-current liabilities	8,180,111	9,250,739	3,294,929	504,970
Net assets.....	7,973,028	8,092,680	4,006,470	614,018
Equity				
Equity attributable to owners of the parent Share capital	131	131	131	20
Reserves and retained profits	7,972,897	8,092,549	4,006,339	613,998
Total equity	7,973,028	8,092,680	4,006,470	614,018

NON-IFRS MEASURES AND KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2018	2019	2020
	(RMB in millions, except percentages and ratios)		
Adjusted EBITDA ⁽¹⁾	3,255	3,464	2,019
Adjusted EBITDA margin ⁽²⁾	60.9%	62.3%	50.6%
Net debt ⁽³⁾	9,214	8,995	4,469
Net debt/Adjusted EBITDA (times)	2.8x	2.6x	2.2x
Adjusted EBITDA/Finance costs (times).....	4.2x	3.5x	3.0x
Free cash flow ⁽⁴⁾	(973)	1,516	4,929

Notes:

- (1) We define adjusted EBITDA as our earnings before interest, income tax expenses, depreciation and amortization, impairment of trade receivables, share-based compensation, foreign exchange (gain)/loss, fair value loss from investment in equity shares, fair value changes on derivative instrument-transaction not qualifying as hedges and share of loss/(profit) of associates. For further details and the reconciliation of our adjusted EBITDA, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Non-IFRS Measures.” The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation expense, amortization, income taxes, finance costs, interest income from bank deposits, and share based compensation, among others, have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital and other investing activities should not be considered as a measure of our liquidity. The term adjusted EBITDA is not defined under IFRS, and adjusted EBITDA is not a measure of profit for the year or liquidity presented in accordance with IFRS. Investors should not consider adjusted EBITDA in isolation of, or as a substitute for, measures of our financial performance and liquidity as determined in accordance with IFRS. In addition, the way adjusted EBITDA is calculated and presented in “Summary,” “Selected Consolidated Financial and Other Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” may be different from the way Consolidated EBITDA is defined in “Description of the Notes.”
- (2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by rental revenue.
- (3) Net debt is calculated by total debt less total cash.
- (4) We define free cash flow as our operating cash flow minus net expenditures of other property, plant and equipment, other intangible assets and prepaid lease payments.

KEY OPERATING INFORMATION

The following tables set forth key operating metrics that are critical to our business over the years of 2018 to 2020:

Car rental metrics

(a) by year

	Year ended December 31,		
	2018	2019	2020
Average daily fleet ⁽¹⁾	91,802	111,636	105,769
ADRR ⁽²⁾ (RMB).....	218	210	181
Utilization rate ⁽³⁾ (%).	61.5%	57.5%	53.3%
RevPAC ⁽⁴⁾ (RMB).....	134	121	97

(b) by quarter

	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20
Average daily fleet ⁽¹⁾	80,303	86,160	100,112	100,321	103,384	109,047	118,104	115,799	113,325	108,147	105,382	96,332
ADRR ⁽²⁾ (RMB).....	229	216	222	208	226	208	213	193	176	157	195	196
Utilization rate ⁽³⁾ (%).	63.0%	61.4%	64.3%	57.7%	60.4%	60.2%	60.0%	50.1%	48.4%	50.0%	56.9%	58.8%
RevPAC ⁽⁴⁾ (RMB).....	144	132	143	120	136	125	128	97	85	79	111	115

Notes:

- (1) Average daily car rental fleet is calculated by dividing the aggregate days of our car rental vehicles in operation in a given period by the aggregate days of that period. "Car rental vehicles in operation" refers to our entire car rental fleet, including those temporarily unavailable for customer use due to repair or maintenance and those that are being transported.
- (2) Average daily rental rate or ADRR is calculated by dividing our car rental revenue in a given period by the rental days in that period. Rental days are the total rental days for all vehicles in our car rental fleet in a given period.
- (3) Utilization rate is calculated by dividing the aggregate days that our vehicles are rented out for car rentals by the aggregate days of our car rental vehicles in operation.
- (4) RevPAC refers to average daily rental revenue per car rental vehicle, which is calculated by multiplying the average daily rental rate in a given period by the car utilization rate in that same period.

RISK FACTORS

Investing in the Notes involves certain risks. You should read this offering memorandum in its entirety and carefully consider each of the risks described below and all of the other information contained in this offering memorandum before deciding to purchase the Notes. If any of the following risks materialize, our business, results of operations and financial condition could be materially and adversely affected, and you may lose all or part of your investment in the Notes.

Risks Related to Our Business and Industry

COVID-19 has disrupted, and may continue to disrupt, our business and financial performance.

The outbreak of COVID-19 since December 2019 has created unique global and industry-wide challenges and has adversely impacted the global economy and demand for our business. Governmental authorities have taken and continue to take measures to address the outbreak including restrictions on travel. In early 2020, certain of our service locations were temporarily closed due to the outbreak and our employees were unable to go to our service locations for extended periods of time, which negatively impacted our operations. The population in most of the major cities was locked down to a greater or lesser extent. Travel restrictions imposed by local governments and suppress on tourism and travel activities had negatively impacted the car rental market in China.

More than a year since the outbreak, there is great uncertainty as to the future progression of the disease and whether countries around the world (including China) could be hit by subsequent waves of COVID-19 infections. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions and we cannot anticipate with any certainty the length, scope or severity of such restrictions in each of the cities that we operate.

The full impact that COVID-19 will have on our business cannot be predicted at this time due to numerous uncertainties, including the duration and severity of the outbreak, including another wave caused by additional periods of increases or spikes in the number of cases and travel restrictions, the effectiveness of actions taken to contain the disease, the length of time it takes for rental volume and pricing to return and normal economic and operating conditions to resume, and other factors. This impact could include, but is not limited to, those discussed below:

- (a) *changes in our revenues and customer demand*: Our revenues and profitability have been materially impacted during the first half of 2020 compared to the prior year periods. For the year ended December 31, 2020, the Company recorded a net loss of RMB4,163 million (US\$638.0 million), compared with a net profit of RMB31 million during the year ended December 31, 2019, mainly due to, among others, a decrease of 28.2% in rental revenue to RMB3,994 million (US\$612.1 million), mostly attributed to the outbreak of COVID-19. We cannot predict whether and when volumes will increase to historical levels and how long our revenues and customer demand will be affected by the COVID-19 pandemic.
- (b) *our relationship with, and the financial and operational capacities of, vehicle manufacturers and other suppliers*: We could face disruptions in the supply of vehicles from vehicle manufacturers, whether due to outbreaks of COVID-19 at their manufacturing facilities, measures they take in response to COVID-19 or otherwise. We may also face delays in receiving delivery of vehicles or other supplies that may make it difficult to meet consumer demand.
- (c) *value of our equity investment and trade receivables*: UCAR has experienced significant decrease in its business and operations due to the outbreak of COVID-19 and change of operational environment in 2020. The Company is uncertain as to the recovery of UCAR's business. It may bring challenges to UCAR's going concern basis. In light of significant uncertainty of UCAR's operation and its ability to pay its trade receivables, the Company has recognized 100% fair value loss on the equity investment in UCAR in 2020 resulting in an impairment of the equity investment in UCAR approximately RMB2,801 million (US\$429.3 million) and the Company has recognised an impairment of RMB410.4 million (US\$62.9 million), which was the net of trade receivables from UCAR and trade payables to UCAR as of December 31, 2020.

Our business is generally subject to and impacted by, international, national and local economic conditions and travel demands. We do not expect economic and operating conditions for our business to fully recover until consumers are once again able to travel without restrictions. Additionally, our business is also dependent on consumer sentiment and discretionary spending patterns. Uncertainty on business environment and labor market caused by COVID outbreak in China is likely to continue to have a significant negative impact on consumer discretionary spending, including in the mobility industry. Even when economic and operating conditions for our business improve, we cannot predict the long-term effects of the pandemic on our business or the mobility industry as a whole. If the mobility industry is fundamentally changed by the COVID-19 outbreak in ways that are detrimental to our operating model, our business may continue to be adversely affected even as the broader global economy recovers.

We believe that business disruption relating to the COVID-19 pandemic will continue to negatively impact the global economy and may materially affect our businesses as outlined above, all of which would adversely impact our business and results of operations. To the extent that the COVID-19 outbreak continues to adversely affect our business and financial performance, including for the reasons outlined above, it may also have the effect of heightening many of the other risks identified below.

Our business requires a large amount of capital to finance the expansion and replenishment of our fleet. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future may materially and adversely affect our business, results of operations and financial condition.

The car rental business is capital intensive. Maintaining our competitiveness and implementing our growth strategies both require us to obtain sufficient funds to replenish and expand our fleet. We purchased rental vehicles valued at RMB4,034.0 million in 2019. To replenish and expand our fleet, we have depended substantially on borrowings from banks and other financial institutions and onshore and offshore bond financing. Our issued senior notes and interest-bearing bank and other borrowings as of December 31, 2020 were RMB5,124.0 million (US\$785.3 million) and RMB1,537.0 million (US\$235.6 million), respectively. We have been unable to obtain borrowings since April 2020 due to uncertainty of our shareholding structure resulted from the sale of Shares owned by UCAR. The MBK Share Acquisition completed in December 2020 and in January 2021, we issued the Convertible Bonds to refinance existing indebtedness. See the section entitled “Description of Other Material Indebtedness.” We may not be able to generate sufficient cash flows from our operations or obtain additional financing to service our borrowings. As of December 31, 2020, 52.7% of our liabilities under the senior notes were current liabilities and 56.7% of our interest-bearing bank and other borrowings were short-term borrowings repayable within one year or on demand. Such short-term borrowings were primarily for purchasing vehicles, which are non-current assets. The mismatch in using short-term borrowings for non-current assets may cause liquidity risks to us. As of December 31, 2020, our current liabilities exceeded our current assets by RMB1,254.7 million (US\$192.3 million).

The outbreak of the COVID-19 pandemic since December 2019 had also resulted in negativity on market sentiment. Furthermore, additional financing may not be available on commercially reasonable terms or at all, especially if there is a recession or other events causing volatility in the capital markets worldwide. To the extent that we raise additional funds by issuing equity securities, our shareholders may experience substantial dilution, and, to the extent we engage in debt financing, we may become subject to restrictive covenants that could limit our flexibility in conducting future business activities.

Our ability to retain our existing financial resources and obtain additional financing on acceptable terms is subject to a variety of uncertainties, including but not limited to:

- (a) economic, political and other conditions in China;
- (b) stability of our shareholding and management structure;
- (c) development of COVID-19 pandemic or uncertainty in respect of occurrence of other health epidemics in China;
- (d) investors’ perception of, and demand for, securities of car rental companies;
- (e) PRC governmental policies relating to bank loans and other credit facilities, including without limitation, the prior approval requirement of NDRC for debt financing of the Company or our offshore subsidiaries;

- (f) PRC governmental regulations of foreign investment and the car rental industry in China;
- (g) conditions of the Hong Kong and other capital markets in which we may seek to raise funds; and
- (h) our future results of operations, financial condition and cash flows.

If additional financing is not available on acceptable terms, or at all, we may not be able to fund our expansion, promote our brand, enhance our products and services, respond to competitive pressures or take advantage of investment or acquisition opportunities, all of which may adversely affect our results of operations and business prospects.

If we do not compete successfully against existing and new competitors, we may lose customers and market share.

The car rental industry in China is competitive and fragmented. We compete in the car rental market with local car rental companies such as eHi and other smaller car rental companies. Alliances or mergers among our existing competitors or with new entrants into the car rental industry may present additional challenges. In addition, some of our competitors have operated commercially successful car rental businesses for as long as or longer than we have. Some of our competitors or potential competitors may have higher brand recognition among our target customers or greater financial, technical and marketing resources.

An increasing number of car rental customers in China reserve car rental services through car rental companies' mobile apps due to its convenience. As a result, it is critical for us to continue to enhance and improve the responsiveness, functionality and features of our mobile apps to remain competitive. Our competitors may use new technologies more effectively, develop more appealing and popular mobile apps, or adapt more quickly than we do to evolving industry trends or changing market requirements. Some of our competitors may have closer relationships with major Internet companies in China than us and thus receive better access from Internet and mobile interfaces.

We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including the competitiveness of our prices, the diversity and condition of our vehicles, the quality of our products and services, the size and diversity of our customer base, our brand strength in the market relative to our competitors, customer receptivity of the car rental business, consumer spending power and other macroeconomic factors. In order to protect our market share, we may deploy countermeasures such as increasing promotional activities or lowering rental rates, which may impact our financial performance. If we fail to maintain our competitive position, our business and prospects will be materially and adversely affected.

Our business depends heavily on our reputation and consumer perception of our brand, and any negative publicity or other harm to our brand or failure to maintain and enhance our brand recognition may materially and adversely affect our business, financial condition and results of operations.

We believe that our reputation and consumer perception of our brand are critical to our business. Maintaining and enhancing our reputation and brand recognition depends primarily on the quality and consistency of our products and services, as well as the success of our marketing and promotional efforts. We believe that maintaining and enhancing our brand is essential to our efforts to maintain and expand our customer base. If customers do not perceive our products or services to be of high quality, our brand image may be harmed, thereby decreasing the attractiveness of our products. While we have devoted significant resources to brand promotion efforts in recent years, our ongoing marketing efforts may not be successful in further promoting our brand. In addition, our brand image may be harmed by negative publicity relating to our Company or China's car rental industry regardless of its veracity. If we are unable to maintain and further enhance our brand recognition and increase market awareness for our company and products, our ability to attract and retain customers may be impeded and our business prospects may be materially and adversely affected.

We face risks related to the residual value of our rental vehicles and may not be able to dispose of our used cars at desirable prices.

As of December 31, 2020, the net carrying value of rental vehicles was RMB6,814 million (US\$1,044.3 million). We face risks related to the residual value of our rental vehicles. Automobile manufacturers in China do not typically offer guaranteed depreciation or vehicle repurchase programs to car rental companies with good economic terms. When we acquire rental vehicles, we estimate the period that we will hold these vehicles and their residual value at the expected time of disposition. We record our depreciation expenses based on such estimates. We adjust depreciation rates of rental vehicles quarterly in response to the latest market conditions and their effect on residual values as well as the estimated time of disposition. Any changes in the market conditions that require us to reduce the estimated residual values could have a material adverse effect on our results of operation.

There are also significant uncertainties in whether we will be able to dispose of our used cars at desirable prices. We dispose of our used cars to dealers, franchisees and end users. A variety of reasons could cause the used car market to experience considerable downward pricing pressure, which could further affect our ability to realize the residual value of our used vehicles. For example, a decline in new car sales prices may drive down used car sales prices, and a continued decline in the reputation of a manufacturer of vehicles included in our fleet could reduce the residual values of those vehicles, particularly if the manufacturer were to unexpectedly announce the eventual elimination of a model or immediately cease manufacturing them altogether. The outbreak of COVID-19 has increased the likelihood of occurrence of the above events and confluence of events may lead to sharp and sustained declines in vehicle residual values. In the event of extreme declines in residual values, the sale of vehicle inventory might result in no incremental recovery of our equity capital or even the requirement to fund additional capital to dispose of vehicles, or to choose to continue to keep idle vehicle fleet until demand or market values recover, which cannot be assured.

In addition, some of our rental vehicles were acquired under repurchase programs including certain number of vehicles purchased from Borgward. The repurchase agreement will entitle the Company the right to request car dealers (including Borgward) to repurchase the vehicles at a specified price and date, subject to certain vehicle condition and mileage. Considering the uncertainty of Borgward's ability to repurchase the vehicles, we have made an adjustment of the residual values of Borgward vehicles with repurchase arrangements. Borgward vehicles' residual values might be further reduced and resulted in higher depreciation cost depending on market conditions, which will affect the financial performance of the Company and customer experience. As of December 31, 2020, we made an adjustment of approximately RMB499 million (US\$76.5 million) of the residual values of all vehicles manufactured by Borgward.

As used cars constitute a significant portion of our assets and as our business requires us to constantly replenish our fleet, risks related to the residual value of our rental vehicles and failure to dispose of our used cars at desirable prices may materially and adversely affect our financial condition and business prospects.

We have maintained a high level of indebtedness, which may materially and adversely affect our liquidity and consequently our financial performance and operating results.

We have maintained a high level of indebtedness. Our interest-bearing bank and other borrowings as of December 31, 2018, 2019 and 2020 were RMB5,454.5 million, RMB6,143.7 million and RMB1,537.0 million (US\$235.6 million), respectively. Our liabilities under the senior notes and corporate bonds as of December 31, 2018, 2019 and 2020 were RMB7,197.3 million, RMB8,735.9 million and RMB5,124.0 million (US\$785.3 million), respectively. On January 15, 2021, we have issued the Convertible Bonds to refinance existing indebtedness. See "Description of Other Material Indebtedness."

The level of indebtedness could have significant consequences to our business, including, but not limited to:

- (a) requiring a substantial portion of our cash flow from operations to be used for financing our debt service, thereby reducing the availability of the cash flow to fund working capital, capital commitments or other general corporate purposes;
- (b) limiting our ability to obtain and increasing the cost of, additional financing to fund future working capital, capital commitments or general corporate purposes; and
- (c) limiting our flexibility in planning for, or reacting to, changes in our business and within the car rental industry.

Our financial performance and operating results may be materially and adversely affected if our business environment or interest rates change, or if our cash flows and capital resources are insufficient to fund our debt service obligations. We may be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness, which may not be successful or provide sufficient remedial measures. Failure to service our debt could result in the imposition of penalties, including increases in rates of interest that we pay on our debt, legal actions against us by our creditors, or bankruptcy.

The interest of the Offeror may not be aligned with the interest of the holders of the Notes.

On February 1, 2021, the financial advisers on behalf of Indigo Glamour Company Limited (being the Offeror) made conditional general offers to acquire all of the offer Shares at HK\$4.0 per offer Share, and to cancel all of the outstanding options of the Company. The purchase price implies an equity valuation of approximately HK\$8.5 billion (US\$1.1 billion) for the Company.

On March 4, 2021, the Offeror had received valid acceptances in respect of 1,556,617,734 shares under the Share Offer resulting in the Offeror holding in Shares in aggregate representing approximately 94% of the issued share capital and voting rights of the Company. The Offeror will privatise the Company by exercising its right to compulsorily acquire those offer Shares not already acquired by the Offeror under the Share Offer. After the compulsory acquisition completes, the Company will become a direct wholly owned subsidiary of the Offeror. See “Summary – Recent Development – VGO.”

The Offeror, being the controlling shareholder of the Company or the sole shareholder after it completes compulsory acquisition of Shares held by other shareholders of the Company, will be able to exert significant influence over our business and on other matters of significance by voting at the general meetings of shareholders or sole shareholder’s written resolutions (as applicable), such as election of directors, amount and timing of dividend payments and other distributions, the acquisition of or merger with another entity, overall strategic and investment decisions, issuance of securities and amendments to our Articles of Association, among others. The interests of the Offeror may differ from those of the holders of the Notes, the Offeror is generally free to exercise its votes according to its own interests. The Offeror’s actions with respect to its control of us, including by determining the amount and timing of dividend payments and other distributions, may adversely affect our business, results of operation, financial condition and cash flows, and may not be aligned with the interests of the holders of the Notes.

Expected privatisation and withdrawal of listing of Shares from the Hong Kong Stock Exchange may adversely affect our access to equity capital markets for funding.

The Company will make an application for the withdrawal of the listing of the Shares from the Hong Kong Stock Exchange pursuant to Rule 6.15 of the Listing Rules, which is currently expected to be in around July 2021. We may have less access to the equity capital markets for funding our business and investment after we become a private company.

Restrictions on car purchase in certain Chinese cities may limit our fleet growth, which may adversely affect our results of operations.

In an effort to cope with traffic congestion and air pollution, several of China’s largest cities and/or province, such as Beijing, Shanghai, Guangzhou, Tianjin, Hangzhou and Shenzhen and Hainan province have implemented quotas or other restrictions on new vehicle registrations. See “Regulations Overview – Regulations relating to enterprises engaging in car rental business – Regulations on limitation of use and purchase of automotive vehicles.” If our business expansion outpaces our license reserve, our fleet expansion in these cities and province may be adversely affected, which in turn may adversely affect our business prospects and results of operations.

We face risks related to vehicle electrification and other advanced technologies.

Vehicle electrification refers to a range of technologies that uses electricity to propel a vehicle and includes hybrid, plug-in, extended range and battery electric vehicles, as well as autonomous vehicles. We believe that the vehicle industry will continue to experience significant change in the coming years, in particular as it relates to vehicle electrification. Worldwide demand for electric and hybrid vehicles continues to increase, and manufacturers continue to invest more time and cost into producing these types of vehicles to reduce fuel consumption and greenhouse gas emissions, as mandated by various governmental standards and regulations. In addition, electric vehicles have priorities in terms of license plate application in certain cities that have control measures over license plates.

We expect to face pressure to ensure our fleet has both electric and hybrid vehicles both from consumer demand, from competitors who substantially adopt new energy or autonomous vehicles and from our purchase agreements with various vehicle manufacturers. Currently we only have a very small number of electric vehicles and hybrid vehicles. In addition, autonomous, or “self driving” vehicles are being tested and produced by various auto manufacturers globally at a rapid pace. We currently do not have any autonomous vehicles in our fleet. If we are not adequately prepared to meet consumer demand for electric, hybrid and autonomous vehicles as such demand develops, our financial condition or results of operations could be adversely impacted.

Any disruption to our information technology systems could adversely impact our business and we face risks of reliance on the adaptability of our services with mobile devices.

We rely heavily upon our technology platform in all aspects of our operations, including transaction processing, fleet management and payment processing. Our technology platform connects our central data center with our different service terminals, including our website at www.zuche.com, our mobile apps, our call centers and our service locations. Any system interruptions caused by our servers, telecommunications failures, computer viruses or hacking or other attempts could cause a loss of reservations, interfere with our fleet management, slow down rental and sales processes or otherwise materially and adversely affect our ability to manage our business effectively.

The reliability of our network infrastructure is critical to our business. Any system interruption that results in the unavailability of our website or a disruption to our communications platform could damage our reputation and brand and cause our business and operating results to suffer. We may experience temporary system interruptions for various reasons, including network failures, power failures, cyber-attacks, software errors or system overload due to overwhelming customer visits. As we are dependent in part on third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely or satisfactory manner, or at all.

Our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions and delays in our service and operations as well as loss, misuse or theft of data. Any successful attempts by hackers to disrupt our website service or our internal systems could harm our business, reputation or brand, and could be expensive to remedy. Efforts to prevent hackers from entering our computer systems are expensive to implement and may limit the functionality of our services. Any significant disruption to our website or internal computer systems could result in a loss of customers and adversely affect our business and results of operations.

Our business prospects may also suffer from our failure to capture and retain a significant portion of the growing number of customers that access travel products and services through mobile devices if we are unable to develop services compatible with new mobile devices and technologies. The lower functionality, speed and memory generally associated with mobile devices make the use of our services through such devices more difficult, and the versions of the mobile apps we develop for these devices may fail to prove compelling to users, manufacturers or distributors of mobile devices. Distributors of mobile devices may establish unique technical standards for their devices, and our mobile apps and services may not work or be viewable on these devices as a result. As new mobile devices and technologies are continually being released, it is difficult to predict the problems we may encounter in developing or adapting new versions of our mobile apps to these devices and technologies and we may need to devote significant resources to the creation, support, and maintenance of such mobile apps. If we are slower than our competitors in developing attractive mobile apps that are adapted for such devices, we may fail to capture and retain a significant portion of the growing number of customers who access services through mobile devices, and we may also lose our existing customers, either of which could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We may not be able to maintain continuing growth in future periods due to a number of factors, including, among others, our execution capability, our ability to maintain customer satisfaction, macroeconomic factors out of our control, competition within China's car rental industry, the greater difficulty of growing at sustained rates from a larger revenue base, our inability to control our expenses and the availability of resources for our growth. In addition, our anticipated expansion will place a significant strain on our management, systems and resources. Our development and expansion strategies will require substantial managerial efforts and skills and the incurrence of additional expenditures and may subject us to new or increased risks. For example, as our leasing business grows, we may face increased consumer credit risks if our leasing customers fail to make payments pursuant to the leasing contracts. In addition, should we decide to expand along our value chain and extend into emerging business areas, we may not be successful in executing our expansion plans, and may encounter unanticipated market and business risks and suffer financial loss. Further, pursuing these strategies may require us to expand our operations through internal development efforts as well as partnerships, joint ventures, investments and acquisitions. We may not be able to efficiently or effectively implement our growth strategies or manage the growth of our operations, and any failure to do so may limit future growth and hamper our business strategies.

Our business depends substantially on the continued efforts of our key executive officers and our business may be severely disrupted if we lose their services.

Our future success depends on the active participation of our executive team, who possess significant knowledge of the car rental business and is responsible for the strategic direction of our business. Our business depends on the continued services of our executive director and key employees who have specialized knowledge of our business and industry and would be difficult to replace.

Competition for qualified personnel is particularly intense in the car rental industry. While we attempt to provide competitive compensation packages to attract and retain key personnel, some of our competitors may have greater resources and more experience than us, making it difficult for us to compete for key personnel.

Restrictive covenants contained in credit facilities and issued senior notes and other debt agreements may limit our ability to incur additional indebtedness and restrict our future operations, and failure to comply with these restrictive covenants may adversely affect our liquidity, financial condition and results of operations.

We are subject to restrictive covenants under our credit facilities with banks and other financial institutions and our issued senior notes and corporate bonds, see "Description of Other Material Indebtedness." These restrictive covenants include, among other things, financial covenants, restrictions on change of control, limitations on our ability to incur additional indebtedness or create new mortgages or charges, making timely reports, requirements to provide notice or obtain consent for certain significant corporate events and restrictions on dividend declaration and payment.

These covenants limit the manner in which we conduct our business and we may be unable to engage in certain business activities or finance future operations or capital needs.

If we are able to meet these financial covenants or any other restrictive covenants in the future, there could be a default under the terms of these debt agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indenture governing the Notes, the 2021 Notes and the 2022 Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, the 2021 Notes and the 2022 Notes, or result in a default under our other debt agreements, including the indenture governing the Notes, the 2021 Notes and the 2022 Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us. As a result, our business, financial condition and results of operations would be materially and adversely affected.

Our planned business expansions expose us to liquidity risks.

As a mitigation to cope with low rental demand due to outbreak of COVID-19, we significantly reduced the purchase size of new vehicles in 2020 and we increased sale of used vehicles to main sufficient cash flow. To fulfill anticipated demand for our services and subject to recovery from interruption due to COVID-19 and relaxation of the travel restrictions in 2021, we plan to purchase more new vehicles and may expand our rental fleet and enhance our nationwide network by adding service locations to increase penetration in our existing cities. We expect to incur additional bank and other borrowings for these goals.

We have mainly relied on bank and other borrowings, bonds issuance, equity financings and cash generated from our operations to fund our business expansion. Our leverage could materially and adversely affect our liquidity. For example, it could:

- (a) require us to allocate a higher portion of our cash flow from operations to fund repayments of the principal amount and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital needs;
- (b) increase our vulnerability to adverse economic or industry conditions;
- (c) potentially restrict us from pursuing strategic business opportunities;
- (d) limit our ability to incur additional debt; and
- (e) increase our exposure to interest rate fluctuations.

We cannot assure you that we will always be able to refinance our future debt when they become due, repay our debt upon maturity and/or raise the necessary funding to finance our current liabilities and our capital commitments. In addition, we cannot assure you that we will be able to comply with all the requirements under our credit facilities, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debt or comply with the terms, conditions and covenants of our credit facilities could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of the credit facilities, cross default and legal actions against us by our creditors, any of which could have a material and adverse effect on our business, results of operations and financial condition. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, some of which are beyond our control. If we are unable to meet our payment obligations, our business, financial condition and results of operations may be materially adversely affected.

We generated net cash flow of RMB5,013.9 million (US\$768.4 million) from operating activities for the year ended December 31, 2020. However, we cannot guarantee you that we will record positive net cash flow from operating activities in the future. For further information, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources.” If we are unable to record positive net cash flow from operating activities and/or obtain sufficient external financing to meet our financial needs and obligation, we will be in default of our payment obligations and may not be able to implement our business strategies as planned. As a result, our business, financial condition and results of operations may be materially adversely affected.

Our growth may be adversely impacted by uncertainties in China’s car rental industry, which is at an early stage of development and may experience unexpected downturns for various reasons.

China’s car rental industry is relatively new and renting a car is a relatively new concept among Chinese consumers. The growth of the car rental industry, as well as demand for our products and services, is subject to uncertainties and numerous other factors, some of which are beyond our control.

These uncertainties and factors include but are not limited to:

- (a) general economic conditions in China, particularly economic conditions adversely affecting consumer spending;

- (b) the growth and strength of China's travel industry and demand for transportation services;
- (c) the growth and strength of the global automobile industry, in particular China's
- (d) automobile industry, including the popularity and perceptions of automobile safety and reliability;
- (e) the development and change of governmental policies relating to the car rental industry and transportation laws and regulations; and
- (f) the popularity and perceptions of car rental among the general public.

Because we incur significant up-front expenses for vehicle acquisitions, our financial condition and results of operations may be materially and adversely affected if we are unable to purchase competitively priced vehicles in adequate quantities or the cost of vehicle acquisition increases.

The price and other terms at which we can acquire vehicles from automobile manufacturers vary based on market conditions. There is no guarantee we will be able to purchase a sufficient number of our desired vehicles on competitive terms and conditions to meet our expansion and replenishment needs. If we are unable to obtain an adequate supply of cars, if we obtain less favorable pricing and other terms when we acquire cars and are unable to pass on those increased costs to our customers, or if we fail to maintain relationships with any of our significant vehicle suppliers, our financial condition and results of operations and prospects may be materially and adversely affected.

To fulfill the anticipated demand for our services, we must make significant investments in vehicle acquisitions. There is no guarantee that we can maintain a high utilization rate of our car vehicles after such vehicle acquisitions. If market demand for our services does not increase as quickly as we anticipate, if at all, we may not be able to pay our up-front costs, and our operating results may be adversely affected as a result of underutilization of capacity, which will adversely affect our revenue and asset impairment charges.

We may not be able to increase or maintain our prices, which could materially and adversely affect our profit margins and results of operations.

Car rental rate is one of the key factors that customers consider in choosing car rental services. The Internet has enabled consumers to easily compare the prices of products and services offered by various car rental companies. We have offered price reductions and discounts in the past few years and during the outbreak of COVID-19 to attract customers and increase or maintain our market share. Given the intense competition in China's car rental industry, our competitors may offer lower prices to gain market share or compensate for declines in their rental activities. To the extent we do not match or remain within a reasonable competitive margin of our competitors' pricing for various reasons including the potentially higher cost base of our fleet, we may lose customers and experience a decrease in reservations. If, as a result of the competitive pressure, we lower our prices to match our competitors' prices, and we are not able to reduce our expenses, our profit margins and results of operations could be materially and adversely impacted.

If our efforts to maintain a high level of customer satisfaction are not successful, we may not be able to attract or retain customers, and our operating results may be adversely affected.

Customer satisfaction is critical to the success of our business. From time to time, our customers may express dissatisfaction with our products and services, including our vehicle availability or response time for questions or incidents relating to our vehicles. To the extent dissatisfaction with our products and services is widespread or not adequately addressed, our reputation could be harmed and our efforts to build and strengthen our brand recognition would be adversely impacted, which could harm our ability to attract and retain customers, which could in turn adversely affect our business and results of operations.

Our failure to fully comply with various PRC transportation laws and regulations and other applicable PRC laws with respect to our businesses could harm our results of operations.

Our business operations are subject to a number of PRC laws and regulations with respect to transportation and car rental businesses, including a number of regulations promulgated by various local governments. Regulatory requirements and restrictions include the registration of commercial vehicles, restrictions on the use of non-local cars for rental operations, the registration of a branch company for each service store or hub, obtaining governmental licenses and permits and making certain filings to operate the car rental business. See “Regulations Overview – Regulations relating to enterprises engaging in car rental business.” For example, some local governments have certain car ownership or local license plates requirements for rental vehicles, and some local governments require us to fulfil certain vehicle registration requirements for leasing our cars to business partners who provide ride hailing services. Since we provide nationwide car rental services with car fleet deployed and driven across our nationwide network in China, and we offer one-way rentals to our customers, whereby a customer may rent a car from one city and return it to a service location located in another city, certain local governments may find our car rental operations in violation of local rules and regulations regarding local license plate requirements for rental vehicles. If we were found to have violated local rules and regulations, regardless of whether such failure was intentional, we could be subject to fines and other penalties, including the withdrawal of licenses or permits that are essential to the operation of our business, which could adversely affect our business operations. We have been subject to fines due to non-compliance with certain local government regulations. However, we are unable to quantify the impact from potential violation of local rules and regulations by our one-way rentals because (a) it is unpredictable whether a customer drops off a non-local vehicle in a city where rental operation with vehicles with non-local license plates is prohibited, and (b) there is uncertainty whether such local rules and regulations are applicable to our one-way rentals.

In addition, PRC laws and regulations regulate other aspects of our business, including use of parking facilities, leasing and the sale of used cars and provision of car repair services. See “Regulations Overview – Regulations on operating parking facilities,” “Regulations Overview – Laws and regulations on sales and auction of used cars” and “Regulations Overview – Regulations on automobile repair and maintenance services.” If we fail to comply with any existing PRC laws or regulations, including the laws with respect to using parking facilities, leasing and the sale of used cars or provision of car repair services, or fail to obtain or maintain any of the required permits or approvals, or if the PRC government promulgates new laws and regulations that require additional licenses or imposes additional restrictions on the operation of any part of our business, the relevant regulatory authorities may impose fines and penalties on us, confiscate our income, revoke our business licenses and require us to discontinue our business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations.

Our business, financial condition and results of operations may be adversely affected by the downturn in the PRC or global economy and weakness in travel demand.

Our results are affected by many economic factors. A decline in economic activity either in China or in international markets may have a material adverse effect on our business. For the car rental business, a decline in economic activity typically results in a decline in demand of leisure travel and, accordingly, a decline in the volume of car rental transactions.

A slowdown in the global or Chinese economy or the recurrence of any financial disruptions may also have a material and adverse impact on financings available to us. The weakness in the economy could erode investors’ confidence, which constitutes the basis of the equity markets. A financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

Our business, financial condition and results of operations may be adversely affected by fluctuations in fuel prices or supplies.

We may be adversely affected by significant increases in fuel prices or limitations on fuel supplies. Prices for petroleum-based products, including gasoline, have experienced significant volatility in recent years and affected automotive travel patterns in many ways. Limitations in fuel supplies or significant increases in fuel prices could significantly discourage customers from renting cars and have an adverse effect on our business and results of operations.

Our business is vulnerable to interruptions caused by health epidemics, earthquakes, fires, floods and other natural events.

In addition to the impact of COVID-19, our business could be materially and adversely affected by the outbreak of other health epidemics such as H1N1, or swine influenza, avian influenza, severe acute respiratory syndrome, or SARS, or Ebola virus disease. Any prolonged recurrence of swine influenza, avian influenza, SARS or other adverse public health developments in China could adversely affect economic activities in China, decrease business or leisure travel and require the temporary closure of our offices, which could severely disrupt our business operations and adversely affect our results of operations. Our systems and operations are also vulnerable to interruption or damage caused by earthquakes, fires, floods, power losses, telecommunications failures, acts of war, human errors, break-ins and similar events. Significant natural disasters such as earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition.

We utilize third-party service providers to deliver certain services to our customers. If these service providers deliver services of an inadequate level of quality or terminate their relationships with us, our business could be adversely affected.

We utilize third-party service providers to deliver some of our services to our customers. In particular, we outsource some of the cleaning, repair and general maintenance work of our fleet to third-party service providers such as automobile dealerships, repair shops designated by automobile dealerships and local service shops selected based on reputation and assessment by our local teams. We do not control the operations of these providers. If these third party service providers terminate their relationship with us, or do not provide an adequate level and quality of service to our customers, it could be disruptive to our business as we seek to replace the service provider or remedy the inadequate level of service. In addition, if one or more of our customers suffer or claim to have suffered harm or damages as a result of the actions, or are otherwise unsatisfied with the quality of services of third-party service providers, our reputation and our brand could be harmed. This, in turn, may cause us to lose customers, which would adversely affect our business and results of operation.

Our expenses may increase if we implement salary increases in order to retain the requisite services of our staff.

As of December 31, 2020, we had over 5,000 employees. We have observed an overall tightening of the labor market and increased salaries. Failure to obtain stable and dedicated labor support may disrupt our business and adversely affect our operations. Furthermore, salary and wage costs have increased in China in recent years and may continue to increase in the near future. To remain competitive, we may need to increase the salaries of our employees to attract and retain them. Increases in labor costs will increase our expenses and our financial position may be adversely affected.

Our ability to monitor the performance and the quality of service provided by our franchisees is limited.

As of December 31, 2020, we had entered into franchise agreements to provide rentals through 211 franchised service locations in 158 small cities where we do not own or operate any store directly. We have a set of policy documents on the performance and the quality of service provided by our franchisees. However, it is difficult for us to monitor the day-to-day operations of our franchisees to ensure compliance with our policies and relevant PRC laws and regulations. No assurance can be given that our franchisees will comply with our requirements and the requirements of PRC laws and regulations, which may result in severe penalties or shut-down imposed by governmental authorities, or that we will be able to identify and correct all cases of noncompliance by our franchisees in a timely manner, if at all. Failure by our franchisees to adhere to our policies or our failure to identify and correct all cases of noncompliance by our franchisees in a timely manner, may have an adverse impact on our brand image and reputation, and may adversely affect our business, results of operations and financial condition.

If we are found to violate any PRC laws and regulations on commercial franchising, we may be subject to monetary and administrative penalties.

PRC laws and regulations set forth a number of requirements governing the commercial franchising, including qualification of the franchisor, reporting and filing requirements and certain disclosure obligations owned by the franchisor to the franchisee. Any failure to make the filing in compliance with the Franchising Regulations may result in being ordered to make correction, public announcement and/or fines ranging from RMB10,000 and RMB100,000 and if MOFCOM finds any of our franchising activities in violation of PRC laws and regulations, it may impose administrative penalties against us. See “Regulations Overview – Regulations on commercial franchising.”

Some of our PRC subsidiaries may have engaged in business activities without the necessary approvals from or registration with local authorities, which could subject us to fines or other penalties that may negatively impact our results of operations or interfere with our ability to operate our business.

According to applicable PRC laws, a company is required to conduct business within the business scope prescribed in its business license and file an amendment to its registration with the appropriate authority if the company expands or changes the scope of its business. Additional governmental approvals, licenses, registrations or filings may also be required for any expansion of business scope. As our PRC operating subsidiaries expand their operations, they may need to obtain additional governmental approvals and licenses or amend their registrations or filings, which they may fail to do in a timely manner. Failure to obtain these permits or register or file in a timely manner, or at all, may subject us to fines and penalties and substantially inhibit our ability to operate our business.

The car rental industry is mainly regulated by governmental authorities at local level, which impose various regulatory requirements on the operating entities and vehicles, and such regulatory requirements vary from place to place, and the practice of local authorities may also deviate from the existing local rules. See “Regulations Overview – Regulations relating to enterprises engaging in car rental business – Regulations on car rental business.” As a result of the inconsistency in local rules and their interpretation and implementation, as well as the fast expansion of our business, we have not obtained or timely renewed all of the requisite permits and licenses, made or timely renewed all of our requisite filings or registrations for our business operations or fully complied with all other regulatory requirements applicable in the cities in which we currently operate, including the permit or registration for car rental business and the registration and operational requirements of the commercial vehicles used for rental operations, as required by certain local authorities. However, in some cities, implementation procedures of the applicable rules and regulations are still under development by local government agencies. Furthermore, as the practice of local authorities may deviate from the currently effective local rules and regulations, it may take us a considerable amount of time to obtain all of the outstanding permits, licenses and registrations. As such, we are not able to anticipate when we will become fully in compliance with all of the applicable rules and regulations with regard to the permits, licenses and registrations for our car rental business. We may be subject to penalties if we fail to obtain or timely renew these permits and licenses or registrations or fail to comply with any other regulatory requirements.

Companies providing automobile repair and maintenance services are subject to various regulatory requirements, such as obtaining relevant licenses and permits. For further details, see “Regulations Overview – Regulations on automobile repair and maintenance services.” We believe that we have obtained all necessary licenses and permits for our automobile repair and maintenance services. However, due to the uncertainties of the enforcement of applicable PRC laws and regulations by competent local governments, if the competent local governments find our automobile repair and maintenance services lack of certain additional licenses or permits, including but not limited to those relating to environmental protection, we may be required to obtain such additional licenses and permits, and may face monetary fines if we fail to obtain them in a timely manner.

Furthermore, a company that uses an office in a location outside its domicile to conduct business operation must register such office as a branch company with the competent local authority. See “Regulations Overview – Regulations on registration of branch companies.” As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China. We have registered all of our service stores with active business operation that meet all other regulatory requirements as our subsidiaries or branch companies with competent local authorities. As we quickly expand our operations, we may need to register additional branch companies from time

to time. However, whether a service store or a self-served location will be deemed as having business nature or otherwise qualified for branch company registration is subject to the sole discretion of the government authorities. We cannot assure you that the governmental authorities will take the same view with us on whether a service store or self-served location is required or qualified to be registered as a branch company. If the government authorities find that we fail to complete branch company registrations for any of our service stores or pick-up points in a timely manner or otherwise violate relevant regulations on branch companies, we may be subject to penalties, including fines, confiscation of income, or being ordered to cease business. We may be subject to these penalties as a result of our failure to meet the registration requirements, and these penalties may substantially inhibit our ability to operate our business.

If our rights to lease certain properties are challenged, our business operations may be adversely affected.

We have entered into leases with government-owned enterprises, privately owned enterprises and individuals for all our stores and parking facilities throughout our network in the PRC. Some of our leases have legal deficiencies. If our rights to lease these properties are challenged by relevant government authorities or other third parties, we may have to cease our operations based on such properties and to relocate our stores or parking facilities, which could adversely affect our business operations.

Some of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.

Under PRC law, all lease agreements of our leased properties are required to be registered with the local land and real estate administration bureau. Although failure to do so does not in itself invalidate the leases, the lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As of the date of this offering memorandum, the lease agreements for some of our leased properties in China, including leased properties for our service stores, have not been registered with the relevant PRC government authorities. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We principally rely on trade secrets to protect our technology and know-how. We have devoted substantial resources to the development of our technology, including our software program for rental reservations. In order to protect our technology and know-how, we rely significantly on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently develop trade secrets and proprietary information, and in such cases we would not be able to assert any trade secret rights against such parties. Costly and time-consuming litigation might be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

We do not have title to vehicles covered by the financial leasing or OEM financing agreements during the terms of these agreements, and a failure to service these agreements could adversely impact our ability to operate the vehicles.

We use a relatively small number of our cars through financial leases or OEM financing arrangements. During the terms of the financial leasing or OEM financing agreements, which are typically 36 months, we do not have title to the leased vehicles. We believe, after consultation with our PRC legal advisor, King & Wood Mallesons, that although certain local regulations require that car rental companies must provide rental services using vehicles owned by them, it is unlikely that our rental services provided through our rental vehicles covered by the financial leasing or OEM financing agreements will be determined by the competent local authorities to be in violation of relevant local regulations as long as such vehicles are registered under the name of our PRC subsidiaries and the transfer of title of such vehicles is solely for financing purpose on a temporary basis. See “Regulations Overview – Regulations relating to enterprises engaging in car rental business – General

regulations on automotive vehicles.” Under these agreements, we may lose access to the vehicles if we fail to make timely payments, insure the vehicles as required by the financial institutions, or breach other covenants under the agreements, which would make it difficult to maintain normal operations of our fleet and achieve optimal car utilization rate, which in turn may adversely affect our results of operations.

We face risks related to liabilities resulting from the use of our vehicles by our customers.

Our business can expose us to claims for personal injury, death and property damage resulting from the use of our rental cars by our customers. For example, if a customer uses a car that has worn tires or some mechanical or other problem, including a manufacturing defect, which contributed to a motor vehicle accident that results in a death or property damage, we may be a defendant of the claims for the alleged liabilities for the accident and the damage resulting from it. Furthermore, according to the PRC Civil Code, when the driver of a rental car who is not the owner of the vehicle is held liable for a traffic accident, liability will first be covered by the insurance company providing the compulsory traffic accident insurance of the vehicle, and the driver shall be responsible for the portion not covered by the compulsory traffic accident insurance. See “Regulations Overview – Tort liability.” However, since judicial proceedings determining the cause of a motor vehicle accident can be lengthy and costly, and the results of such proceedings may be uncertain, we may not be successful in defending ourselves each time such an incident occurs. If a significant number of such claims cannot be resolved, our reputation could suffer.

We could be negatively impacted if our insurance coverage proves to be limited or inadequate.

We may suffer from insufficient insurance coverage for our vehicles or liabilities resulting from our rentals. We bear the risk of damage to or losses of our vehicles, including those caused by accidents, theft or flood. Though we believe the amounts and nature of the coverage we obtain are adequate in light of the risks involved, this coverage may not be sufficient to cover all damage that our vehicles could potentially sustain. Our rental contracts typically provide that the customers are responsible for damage to or loss of (including certain loss through theft) our vehicles during the rental period. Further, if any customer damages or loses one of our vehicles, the customer may not be able to compensate us for all of our losses, or at all. Further, pursuing claims against our insurers or our customers may prove costly and time consuming and because we are responsible for damage to our vehicles, a deterioration in claims management could lead to delays in settling claims, thereby increasing claim costs. In addition, substantial uninsured claims filed against us or the inability of our insurance carriers to pay otherwise insured claims would have an adverse effect on our financial condition.

We also face risks associated with our business and operations in general, which include, but are not limited to, damage to properties due to fire, explosions and other accidents, business interruption due to power shortages or network failure, losses of key personnel and risks posed by natural disasters including storms, floods and earthquakes, any of which may result in significant costs or business disruption. Insurance companies in China currently offer limited business-related insurance products. We do not maintain insurance coverage for our office equipment or premises, nor do we maintain business interruption insurance. If we were to incur substantial liabilities that were not covered by our insurance, we could incur costs and losses that could materially and adversely affect our results of operations.

The insurance premiums we have to pay may increase, which may adversely affect our business and results of operations.

We rely upon insurance coverage to protect against personal injuries and property damage caused by our vehicles and require our customers to bear a portion of the insurance premiums at the time of rental. We also maintain property insurance coverage in respect of vehicle damage and other losses. Our insurance expenditures amounted to RMB218.8 million, RMB272.5 million and RMB193.2 million (US\$29.6 million), respectively, for the years ended December 31, 2018, 2019 and 2020. We have purchased insurance from a limited number of insurance companies in China on favorable terms. Our insurance coverage is mainly provided by China Life P&C Insurance Company Ltd., People’s Insurance Company of China, Taiping General Insurance Co., Ltd. and Guoren Property and Casualty Insurance Co., Ltd. If the insurance premiums we pay for our coverage increase, regardless of whether it is because of an increase in claims on our part, a general industry-wide increase in pricing or our failure to maintain good relationships with our primary insurance providers, we may not be able to pass such premium increase to our customers, which could have an adverse effect upon our results of operations.

Our business is subject to a variety of PRC and international laws, rules, policies and other obligations regarding data protection. If our technology platform that stores confidential information about our customers is breached or otherwise subjected to unauthorized access or fraudulent transactions, we may be exposed to liabilities and suffer a loss of customers and damage to our business reputation.

Our technology platform holds confidential information about our customers. We have implemented measures to protect our proprietary information database from Internet hacking and other unauthorized access to our customers' confidential information. However, we cannot guarantee that such anti-hacking technology will effectively protect against increasingly sophisticated counter-measures and it is possible that third parties, such as hackers or criminal organizations, may unlawfully gain access to information provided by our users to us. Confidential information of our customers may also be misappropriated or inadvertently disclosed through employee misconduct or mistakes. We may also in the future be required to disclose to government authorities certain confidential information concerning our customers.

Furthermore, some of our customers pay for our services through third-party online payment service providers. In such transactions, secure transmission of confidential information, such as customers' debit and credit card numbers and expiration dates, personal information and billing addresses, over public networks, including our website, is essential for maintaining consumer confidence. We have limited influence over the security measures of third-party online payment service providers. Any compromise of our security or third-party service providers' security would have a material adverse effect on our reputation, business prospects, financial condition and results of operations.

Any significant breach of security of our technology platform could significantly harm our business, reputation and results of operations and could expose us to lawsuits brought by our customers and sanctions by government authorities in the jurisdictions in which we operate.

Additionally, if we are accused of failing to protect the confidential information of our customers, we may be forced to expend significant financial and managerial resources in defending against these accusations and we may face potential liability. Any negative publicity may adversely affect our public image and reputation, which in turn may reduce the number of our users and harm our business and results of operations. Our servers may also be vulnerable to computer viruses, break-ins and similar disruptions caused by any unauthorized tampering into our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential information of our customers. We may not have sufficient protection or recovery plans in these circumstances and our business interruption insurance may not be sufficient to compensate us for losses that may occur. As we rely heavily on our servers, computer systems and the Internet service in performing our business, such disruptions could negatively impact our ability to effectively run our business, which could have an adverse effect on our operating results.

If we are unable to obtain and maintain adequate space at locations convenient to our customers at reasonable costs, our growth opportunities may be adversely affected.

A part of our service locations is on leased properties, some of which have physical storefronts with parking facilities. Our service locations are located primarily in China's largest cities and we must compete for limited parking space in these cities. Further, the efficient operation of our business requires that our physical storefronts and the parking facilities are within close proximity of each other. Given the population density of the large cities in which we operate, identifying such locations can be difficult and renting them can be expensive. If we were to lose a lease or concession rights relating to our locations, finding suitable replacement locations at reasonable costs could prove difficult and we may not be able to find replacement locations at all, all of which could adversely affect our business and financial condition.

Manufacturer safety recalls could create risks to our business.

Our vehicles may be subject to safety recalls by their manufacturers. During a recall period, we may attempt to retrieve recalled cars from customers and decline to rent these cars until we have taken all of the steps described in the recall. If a large number of cars are subject to simultaneous recalls, we may not be able to rent those vehicles to our customers for a significant period of time. These recalls, depending on their severity, could materially affect our car utilization rate, revenues, damage our customer relations and brand image, and reduce the residual value of the vehicles involved.

Failure to adequately protect our intellectual property rights may substantially harm our business and operating results.

Because our business depends substantially on our intellectual property, including our technology platform, the protection of our intellectual property rights is crucial to the success of our business. We rely on a combination of trademarks, trade secrets, copyright law and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our website features, software and functionality or obtain and use information that we consider proprietary, such as the technology used to operate our website, our content and our trademarks. Moreover, policing our proprietary rights is difficult and may not always be effective.

Competitors have adopted and, in the future, may adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term “神州租車” or our other trademarks.

The protection of intellectual property rights and brands in China may not be as effective as those in the United States, Hong Kong or other jurisdictions. The steps we have taken may be inadequate to prevent the misappropriation of our technology or unauthorized use of our brands. From time to time, we may have to enforce our intellectual property rights through litigation. Such litigation may result in substantial costs and diversion of resources and management attention.

Our business may be subject to seasonal effects, and a disruption in rental activities during our busy seasons could adversely affect our results of operations.

Our business generally experiences some effects of seasonal variations due to customer demand or increases in travel during certain time of the year such as Labor Day, National Day and Chinese Lunar New Year holidays. During these times, our car utilization rates and our revenue are generally higher than the rest of the year. However, our revenues also fluctuate due to other factors affecting our income such as changing weather conditions and geographic behavior. The seasonality changes may cause fluctuations in our financial results and any occurrence that disrupts rental activity during our busy seasons could have a disproportionately material adverse effect on our liquidity and results of operations.

Current and future strategic alliances or future acquisitions may have a material and adverse effect on our business, reputation and results of operations.

Our success depends, in part, on our ability to expand our markets and grow our business in response to changing customer needs and competitive pressures. We may seek to grow our business by entering into strategic alliances to obtain access to complementary businesses, solutions or technologies, or we may seek to obtain these benefits through acquisitions. The identification of suitable partners or acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully close desired agreements. The anticipated benefits of any alliance, acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. Further, if a business partner were to violate the agreement we have entered into with them, such actions may have an adverse effect on our business and our reputation. Also, we may not be able to successfully assimilate and integrate the business, technologies, solutions, personnel or operations of any company we partner with or acquire.

Acquisitions may also involve the entry into geographic or business markets in which we have little or no prior experience. For one or more of those arrangements or transactions, we may:

- (a) provide proprietary information and the right to use our intellectual property to our business partners;
- (b) issue additional equity securities that would dilute our shareholders; use cash that we may need in the future to operate our business;
- (c) incur debt on terms unfavorable to us or that we are unable to repay; incur large charges or expenses or assume substantial liabilities;

- (d) encounter difficulties retaining key employees of the acquired companies or integrating business cultures; and
- (e) become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

Any of these actions involve risks that could harm our business and operating results.

We may be subject to additional contributions of social insurance and housing fund and late payments and fines imposed by relevant governmental authorities.

In accordance with the PRC Social Insurance Law and the Regulations on the Administration of Housing Fund and other relevant laws and regulations, China establishes a social insurance system and other employee benefits including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, housing fund, and a handicapped employment security fund, or collectively the Employee Benefits. An employer shall pay the Employee Benefits for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance and other Employee Benefits that should be assumed by the employees. For example, an employer that has not made social insurance contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% or 0.2% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue.

Under the Social Insurance Law and the Regulations on the Administration of Housing Fund, PRC subsidiaries shall register with local social insurance agencies and register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. According to the Plan on Deepening Institutional Reformation of Party and Government (《深化黨和國家機構改革方案》) adopted in 2018, the governing agency of social insurance contribution (including but not limited to the basic pension insurance, basic medical insurance, work-related injury insurance and unemployment insurance) will be changed to tax authority. Both PRC subsidiaries and their employees are required to contribute to the Employee Benefits.

As of December 31, 2020, we have not made adequate contributions to Employee Benefits for some of our employees. The relevant government authorities may require us to pay the outstanding amount and impose late fees or fines on us. If we fail to make the outstanding Employee Benefit contributions within the prescribed time frame, we may be subject to a fine of up to three times the amount of the overdue payment. If we are otherwise subject to investigations related to non-compliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

Risks Related to Doing Business in the PRC

Adverse changes in economic and political policies of the PRC government could have a material and adverse effect on overall economic growth in the PRC, which could materially and adversely affect our business.

We conduct substantially all of our business operations in the PRC. Accordingly, our business, financial condition, results of operations and prospects depend to a significant degree on economic developments in the PRC. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement in the economy, the general level of economic development, growth rates and control of foreign exchange and the allocation of resources. While the PRC economy has experienced significant growth in the past several decades, this growth has remained uneven across different periods, regions and among various economic sectors. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. The PRC government also exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operation could be materially and adversely affected by government control over capital investments or changes in certain regulations that are applicable to us. Any future actions and policies adopted by the PRC government could materially affect the Chinese economy and slow the demand of vehicle usage in China, which could materially and adversely affect our business.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on us.

We conduct our business primarily through our subsidiaries and branch companies in the PRC. Our operations in China are governed by PRC laws and regulations. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations continue to evolve and the limited number and non-binding nature of published decisions concerning them, their interpretation and enforcement involves uncertainties. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 PRC working days pursuant to the registration certificate. However, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. In addition, the PRC legal system is based partly on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware if we have violated these policies and rules until sometime after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management's attention.

The PRC government's replacement of business tax with VAT may require us to pay more taxes.

Prior to January 1, 2012, pursuant to the Provisional Regulation of China on Business Tax and its Implementing Rules, an entity or individual rendering services in China was generally subject to a business tax at the rate of 5% on revenues generated from the provision of such services. In November 2011, the Ministry of Finance and the SAT promulgated relevant rules for a VAT Pilot Program, which imposed value-added tax, or VAT, in lieu of business tax, for certain industries and certain regions at the initial stage. The VAT Pilot Program was implemented for certain industries in Shanghai in January 2012, and was expanded to Beijing, Tianjin, Jiangsu, Zhejiang, Guangdong and other regions in August 2012. Since August 2013, the VAT Pilot Program has been expanded nationwide in the transportation industry and certain modern services industries. On March 23, 2016, the Ministry of Finance and the SAT jointly issued the Notice on Comprehensive Implementation of the Pilot Program for Imposition of Value-Added Tax to Replace Business Tax, or the VAT Notice. Pursuant to the VAT Notice, the replacement of business tax with VAT was implemented comprehensively across the country and extended to all industries with effective date from May 1, 2016. After conversion to the VAT, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay VAT instead of business tax. Some of our key operating subsidiaries are located in Beijing, Shanghai, Guangzhou and other major cities in China, and since the implementation of VAT Pilot Program, we had been subject to a 17% VAT for car rental services, a 11% VAT for designated driving services and a 6% VAT for qualified management services in the cities subject to VAT Pilot Program, respectively, which had the effect of reducing our net revenues in those cities. Despite the decrease in net revenues resulted from the VAT Pilot Program, we were able to benefit from certain financial subsidies provided by local government authorities to offset such tax burdens during the pilot period. However, such financial subsidies ceased to apply after the nationwide implementation of VAT in May 2016. The nationwide implementation of VAT has an effect of reducing our net revenues in general, although we may be able to benefit from the deductible VAT that we paid for vehicle purchases and other suppliers to offset the increased tax payments. If we are unable to obtain sufficient qualified VAT invoices from our suppliers to offset the increased tax payments, the VAT will have a material adverse effect on our financial condition and results of operations.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

The PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of certain taxable assets, including equity interests in a PRC resident enterprise, by a non-resident enterprise by promulgating and implementing the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Circular 7, which was issued by the SAT on February 3, 2015 and partially replaced and supplemented previous rules under the Notice on Strengthening the Management on the Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698.

Circular 7 to replace some of the rules relating to indirect transfers in Circular 698. Circular 7 has introduced a new tax regime that is significantly different from that under Circular 698.

Circular 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise.

On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or Bulletin 37, which came into effect on December 1, 2017 and amended in June 2018, and concurrently abolished Circular 698. Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax. Pursuant to Circular 7 and Bulletin 37, both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties on the reporting and consequences on future equity financing transactions, share exchange, share repurchase or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed, under Bulletin 37 and Circular 7, and may be required to expend valuable resources to comply with Bulletin 37 and Circular 7 or to establish that we and our non-resident enterprises should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Bulletin 37 and Circular 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. Although we currently have no plans to pursue any acquisitions in China or elsewhere in the world, we may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the EIT Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 59 or Circular 698 and Circular 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

Fluctuations in the exchange rates of the Renminbi may have a material adverse effect on your investment.

The exchange rates between the Renminbi and the U.S. dollar, the Hong Kong dollar, and other foreign currencies are affected by, among other things, changes in China’s political and economic conditions. Pursuant to reforms of the exchange rate system, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a band of 2.0% above or below the central parity rate against a basket of foreign currencies, effective March 17, 2014. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC’s reference rates to consider the previous day’s closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar and other currencies, our gearing may increase, and our financial condition and results of operations could be adversely affected because part of our existing indebtedness and obligations are denominated in U.S. dollars. Such devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes and our ability to obtain future financings in foreign currencies.

As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in foreign currency terms, primarily dividends payable from our onshore operating subsidiaries. To the extent that we need to convert the proceeds from this offering and future financing into Renminbi for our operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we would receive from the conversion.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC laws and regulations, such as the M&A Rules, Anti-monopoly Law of the PRC and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM in August 2011, or the MOFCOM Security Review Rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review. The MOFCOM Security Review Rules, effective from September 1, 2011, which implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that our car rental business or other business of our PRC subsidiaries fall into the scope subject to the security review. As there is a lack of clear statutory interpretation on the implementation of these circulars, there is no assurance that the MOFCOM will apply these national security review-related circulars and rules to the acquisition of equity interest in our PRC subsidiaries. If we are found to be in violation of the MOFCOM Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income, revoking our PRC subsidiaries' business or operating licenses, requiring us to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Further, if the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012. The PRC Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the PRC Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must pay severance to an employee where a labor contract is terminated or expires, with certain exceptions. In addition, the government has continued to introduce various new labor-related regulations after

the effectiveness of the PRC Labor Contract Law. Among other things, it is required that annual leave ranging from five to fifteen days be made available to employees and that employees be compensated for any untaken annual leave days in the amount of three times of their daily salary, subject to certain exceptions. As a result of these new regulations which are designed to enhance labor protection, we expect our labor costs to increase, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to change our employment or labor practices, the labor contract law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective. In addition, as the interpretation and implementation of these new regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected.

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax.

On March 16, 2007, the National People’s Congress of the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax, or the EIT Law, effective as of January 1, 2008 and as amended on February 24, 2017 and December 29, 2018. The EIT Law provides that an enterprise established outside China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform 25% enterprise income tax rate, or EIT rate, on its global income. Under the implementation rules of the EIT Law, “de facto management body” is defined as the organization body that effectively exercises substantial and overall management and control over such aspects as the production and business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, that sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily production, business operation and management operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies located within the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within the PRC; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within the PRC. Although Circular 82 explicitly provides that the above standards apply to enterprises which are registered outside the PRC and funded by PRC enterprises or PRC enterprise groups as controlling investors, Circular 82 may reflect SAT’s criteria for determining the tax residence status of foreign enterprises in general. Although Circular 82 has been amended by the Notice Regarding the Determination of PRC Resident Enterprises on the Basis of De Facto Management Bodies (released by the SAT on January 29, 2014), or Circular 9, no PRC law, including Circular 9, has ever amended or modified such standards under Circular 82 as described above. We currently do not believe that we or our Hong Kong subsidiaries are PRC resident enterprises because we do not believe that we or our Hong Kong subsidiaries meet all of the conditions above but there is no assurance in this regard. If the PRC tax authorities successfully challenge our position, we will be subject to PRC enterprise income tax reporting obligations and 25% PRC enterprise income tax on our global income. If we are treated as a PRC resident enterprise, it is not entirely clear whether dividends received from our PRC subsidiaries will be exempted from the PRC enterprise income tax. If we are treated as a PRC resident enterprise and dividends received from our PRC subsidiaries are not exempted from the PRC enterprise income tax, the 25% PRC enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flows and our ability to service the debt.

You may be subject to PRC withholding tax on interest from us and PRC tax on any gain realized on the transfer of the Notes.

We may be classified as a PRC resident enterprise as described in the preceding risk factor. Under the EIT Law and its implementation rules, PRC withholding tax at the rate of 10% is normally (unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region) applicable to interest from PRC sources payable to investors that are non-PRC resident enterprises and either do not have an establishment or place of business in the PRC, or have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of notes by such investors is subject to 10% PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law and its implementation rules, interest from sources within the PRC paid to foreign individual investors who are not PRC residents is generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of notes are subject to 20% PRC individual income tax. Any PRC income tax liability may be reduced under applicable tax treaties. In addition, if we are considered a PRC resident enterprise under the EIT Law and relevant PRC tax authorities consider interest we pay with respect to the Notes to be income derived from sources within the PRC, such interest payable by us to non-resident holders of the Notes may be subject to 10% PRC enterprise income tax unless a treaty or similar arrangement otherwise provides. As such, we would be obligated to withhold PRC income tax of up to 10% on payments of interest, which may be reduced if an applicable tax treaty provides a lower rate, and certain other amounts on the Notes to holders that are non-resident enterprises. If we are classified as a non-resident enterprise, under the EIT Law and its implementation rules, interest payable by us to non-resident holders of the Notes and any gain realized by non-resident holders from the transfer of Notes should not be regarded as being derived from sources within the PRC, and therefore, should not be subject to aforementioned PRC enterprise income tax. Although substantially all of our business operations are conducted through our subsidiaries in China, it is unclear whether interest we pay with respect to the Notes, or the gain realized from the transfer of Notes, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized through the transfer of Notes, the value of your investment in the Notes may be materially and adversely affected. In addition, if we are required to withhold PRC taxes from interest payments and pay additional amounts with respect thereto, our cash flows and financial condition will be adversely affected.

Risks Related to the Notes and the Subsidiary Guarantees

We and the Subsidiary Guarantors are holding companies and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.

We and the Subsidiary Guarantors are holding companies with no material operations. We conduct our operations through our PRC subsidiaries. None of our PRC subsidiaries provide or will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Therefore, almost all of our revenue and income (as shown in our consolidated financial information included elsewhere in this offering memorandum) are attributed to our PRC operating subsidiaries and any contribution from direct operations of the Subsidiary Guarantors is immaterial. Moreover, under the terms of the Indenture, any future Subsidiary Guarantors may be able to release their Subsidiary Guarantees and become Non-Guarantor Subsidiaries upon certain conditions. Accordingly, creditors, including trade creditors of the Non-Guarantor Subsidiaries (which at the time of issuance will be all our subsidiaries) and any holders of preferred shares in such entities, would have a claim on the assets of the Non-Guarantor Subsidiaries that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes are structurally subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, including guarantees they may issue in connection with our business operations, and all claims of creditors of our Non-Guarantor Subsidiaries have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to us. In addition, the Notes and the Indenture permit us and the Subsidiary Guarantors (if any) to incur additional indebtedness and issue additional guarantees, subject to certain limitations. We cannot assure you that any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The restrictions under agreements relating to our indebtedness are subject to exceptions.

Although the provisions in agreements relating to our indebtedness, including the indentures governing the Notes, the 2021 Notes and the 2022 Notes, as well as our loan facility agreements contain restrictions that may limit our financial and operating flexibility, these restrictions are subject to important exceptions and qualifications. See “Description of Other Material Indebtedness.” Such exceptions and qualifications may allow us to, among other things, incur additional indebtedness, pledge assets to secure certain indebtedness, make certain investments and/or sell certain of our assets (including capital stock of subsidiaries that hold our assets). As a result of such actions, we may become significantly leveraged, sustain losses on our investments and/or lose revenue streams, any of which could materially and adversely affect our ability to satisfy our obligations under the Notes, the 2021 Notes, the 2022 Notes, our existing loan facilities and other indebtedness.

The Notes and the Subsidiary Guarantees are unsecured obligations of us and our Subsidiary Guarantors.

The Notes and the Subsidiary Guarantees are unsecured obligations of us and our Subsidiary Guarantors, respectively, and will be effectively subordinated to all future secured indebtedness of the Company and the Subsidiary Guarantors. As a result, upon any distribution to creditors in a bankruptcy, liquidation, or similar proceeding relating to us or the Subsidiary Guarantors (if any), the holders of secured indebtedness of us or the Subsidiary Guarantors will be entitled to be paid to the extent of the value of such secured assets before any payment may be made with respect to the Notes or the Subsidiary Guarantees.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our interest-bearing bank and other borrowings as of December 31, 2018, 2019 and 2020 were RMB5,454.5 million, RMB6,143.7 million and RMB1,537.0 million (US\$235.6 million), respectively. We issued the Convertible Bonds on January 15, 2021 to refinance existing indebtedness. See the section entitled “Description of Other Material Indebtedness.” Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds and our PRC subsidiaries’ ability to declare and pay dividends; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating

expenses and to service our debt obligations as they become due. However, we may not be able to generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the indenture governing the Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We might not be able to meet these ratios. Certain of our existing financing arrangements also impose operating and financial restrictions on our business. See the section headed “Description of Other Material Indebtedness.” Such restrictions in the indenture and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business or the general economy. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

Enforcing your rights under the Notes or the Subsidiary Guarantees across multiple jurisdictions may prove difficult.

The Notes are issued by us and guaranteed by the Subsidiary Guarantors. We and our Subsidiary Guarantors are incorporated or may be incorporated, as the case may be, in the Cayman Islands, British Virgin Islands and Hong Kong. The Notes, the Subsidiary Guarantees and the Indenture will be governed by the laws of the State of New York. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the Cayman Islands, the British Virgin Islands and/or Hong Kong. Such multi-jurisdictional proceedings are complex, may be costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Subsidiary Guarantees will be subject to the insolvency and administrative laws of such jurisdiction and there can be no assurance that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings. In addition, the bankruptcy, insolvency, administrative and other laws of the Cayman Islands, British Virgin Islands and Hong Kong may be materially different from, or be in conflict with, each other and those with which you may be familiar, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. See “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees – The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of such Subsidiary Guarantees.”

Some of our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends is subject to, among other things, their distributable earnings and cash flow conditions, restrictions contained in the articles of association and the loan agreements entered into by our subsidiaries and applicable laws. For example, some of our subsidiaries, including certain of our subsidiaries incorporated and operating in the PRC are restricted from distributing dividends until their existing loans are paid off or they start to generate profit, and the pre-tax profit is enough to pay the next due repayment or from distributing dividends exceeding certain percentage of their net income, or from distributing dividends unless certain financial ratios are satisfied. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities may not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

Particularly, PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such accumulated profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of

their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. Dividends paid by our PRC subsidiaries to their non-PRC parent company are generally subject to a 10% withholding tax. As a result of such restrictions, there could be limitations, including timing limitations, on our ability to receive payments from our PRC subsidiaries to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors (if any) and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption. Furthermore, we have had, and may in the future resort to, offshore shareholder loans, rather than equity contributions, to our PRC subsidiaries to finance their operations. In such event, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholder loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay withholding tax at a rate of 10% (or a lower treaty rate, if any) on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the State Administration of Foreign Exchange, or SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

As described under “Description of the Notes – Redemption for Taxation Reasons,” in the event we are required to withhold tax on payments on the Notes and pay additional amounts with respect thereto as a result of future changes in specified tax law or future changes in the existing official position or the stating of an official position regarding the application or interpretation of such tax law, including in the event we are treated as a PRC “resident enterprise” under the New EIT law as defined above, we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may be able to redeem the Notes prior to maturity.

The optional redemption feature of the Notes may limit the market value of Notes. During any period when we may elect to redeem the Notes, the market value of the Notes may not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may also be expected to redeem Notes when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

We may not be able to repurchase the Notes, the 2021 Notes and the 2022 Notes upon a Change of Control Triggering Event.

We must offer to purchase the Notes, the 2021 Notes and the 2022 Notes upon the occurrence of a Change of Control Triggering Event as defined in the relevant indentures, in each case, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes, the 2021 Notes and the 2022 Notes. Our failure to make the offer to purchase or to purchase such notes would constitute an event of default under such notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes, the 2021 Notes and the 2022 Notes and repay the debt. In addition, the financing agreements we enter into in the future may prohibit us from making purchases of such notes upon the occurrence of a Change of Control Triggering Event.

The definition of Change of Control for purposes of the indenture governing the Notes, the 2021 Notes and the 2022 Notes does not necessarily afford protection for the holders of the Notes, the 2021 Notes and the 2022 Notes in the event of some highly-leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control for purposes of the indenture governing the Notes, the 2021 Notes and the 2022 Notes also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law.

Accordingly, our obligation to make an offer to purchase the Notes, the 2021 Notes and the 2022 Notes and the ability of a holder of the Notes, the 2021 Notes and the 2022 Notes to require us to purchase the Notes, the 2021 Notes and the 2022 Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain. Furthermore, the definition of Change of Control in the Indenture is not identical to the definition of the same term in the indentures governing the 2021 Notes and the 2022 Notes. See “Substantial Shareholders” for shareholding information of substantial shareholders as of December 31, 2020.

Our operations are restricted by the terms of the Notes, the 2021 Notes, the 2022 Notes, the Convertible Bonds and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The indentures governing the Notes, the 2021 Notes, the 2022 Notes and the Convertible Bonds, respectively, and our loan facility agreements include a number of significant restrictive covenants. See “Description of Other Material Indebtedness.” These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of the Company or any other Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; effect a consolidation or merger; and
- engage in any business other than businesses permitted by the Indenture.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although we will make an application to the Hong Kong Stock Exchange for listing of the Notes by way of debt issues to Professional Investors only as described in this offering memorandum, we cannot assure you that we will obtain or be able to maintain a listing on the Hong Kong Stock Exchange, or that if listed, a liquid trading market will develop.

We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See the section headed “Transfer Restrictions.” If an active trading market does not develop or is not sustained, the market price and liquidity of the Notes (including the Notes) could be adversely affected.

The rating assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future.

The Notes are expected to be assigned provisional ratings of Caa1 by Moody’s and B- (preliminary) by S&P. The rating addresses our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The rating may not remain for any given period of time and could be lowered or withdrawn entirely by the rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. Our corporate rating and the rating of certain debt securities issued by us have in the recent past been downgraded by certain credit rating agencies.

We have no obligation to inform holders of the Notes of any such revision, suspension or withdrawal. A reduction, suspension or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute “connected transactions” under the Listing Rules of the Hong Kong Stock Exchange will not be subject to the “Limitation on transactions with shareholders and Affiliates” covenant.

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” and that, if the value of such transaction exceeds the applicable de minimis thresholds, will require certain procedural requirements to be completed or approvals from independent shareholders or advice from independent financial advisors to be obtained. The “Limitation on transactions with shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any affiliate of such holder) of 10% or more of the shares of the Company or (y) any affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenants, even though they may be subject to the independent shareholders’ approval or other procedural requirements under the Listing Rules. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions by accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions even though such transactions are regarded as connected transactions and are subject to the independent shareholders’ approval or other approval procedural requirements under the Listing Rules.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, proposals for new investments, strategic alliances and acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. Publicly available information relating to this Group will be more limited after our Shares have been delisted from the Hong Kong Stock Exchange. In addition, the financial information in this offering memorandum has been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, which might be material

to the financial information contained in this offering memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisors for an understanding of the differences between IFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisors.

Certain facts and statistics in this offering memorandum relating to the economy and the car rental industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers, the Trustee, the Registrar, the Paying Agent and Transfer Agent or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

We will follow the applicable disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other jurisdictions.

We will be subject to reporting obligations in respect of the Notes to be listed on the Hong Kong Stock Exchange. The disclosure standards imposed by the Hong Kong Stock Exchange may be different than those imposed by securities exchanges in other jurisdictions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

Our initial Subsidiary Guarantors do not currently have significant operations.

The initial Subsidiary Guarantors that guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes and Subsidiary Guarantees if we are unable to do so. See “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees – We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries that do not guarantee the Notes.”

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of such Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor’s insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of the incurrence of such guarantee;
- was engaged in a business or transaction for which the guarantor’s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration. In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee, subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or holds such guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

United States securities laws restrict the circumstances under which you can transfer the Notes.

We are offering the Notes in reliance upon exemptions from registration under the Securities Act and applicable state securities laws. Therefore, the Notes may be transferred or resold only in transactions registered under, exempt from, or not subject to the registration requirements of the Securities Act and all applicable state securities laws. You should read the discussions under “Plan of Distribution” and “Transfer Restrictions” for further information about these and other transfer restrictions. It is your obligation to ensure that your offers and sales of Notes comply with applicable law.

The Notes will initially be held in book entry form only, and you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream and their respective participants.

Interests in the global notes will trade in book entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or registered holders of Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the registered holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from registered holders of the Notes. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book entry interests, if you own a book entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

If a bankruptcy petition were filed by or against us, holders of the Notes may receive a lesser amount for their claim than they would have been entitled to receive under the indenture governing the Notes.

If a bankruptcy petition were filed by or against us under the U.S. Bankruptcy Code after the issuance of the Notes, the claim by any holder of the Notes for the principal amount of the Notes may be limited to an amount equal to the sum of the original issue price for the Notes. Accordingly, holders of the Notes under these circumstances may receive a lesser amount than they would be entitled to receive under the terms of the indenture, even if sufficient funds are available.

Under local laws and regulations, we may not be able to freely transfer to certain of our subsidiaries proceeds from this offering, which could impair our ability to make timely payments of interest, or even principal, under the Notes.

Our ability to transfer to certain of our subsidiaries proceeds from this offering may be limited under local laws and regulations. For example, according to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be filed with SAFE. Such rules and regulations also provide that the outstanding cross-border financing amount (including loans provided by foreign entities or individuals) of any foreign-invested enterprise may not exceed the upper limit as calculated based on a statutory formula that is linked to the total capital (or net asset) and business type of the borrower and other specified factors. Without having the flexibility to transfer proceeds from this offering to our PRC subsidiaries as loans to fund their operations, we cannot assure you that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

Our PRC subsidiaries may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes partially depends upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval, registration or filing before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of withholding tax at a rate of 10% or a lower tax treaty rate, if any, on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we are incorporated, and future Subsidiary Guarantors may be incorporated, under the laws of the Cayman Islands, an insolvency proceeding relating to us or any such Subsidiary Guarantor, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, future Subsidiary Guarantors may be incorporated in the British Virgin Islands, Hong Kong or other jurisdictions and the insolvency laws of the British Virgin Islands, Hong Kong or such other jurisdictions may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through our PRC subsidiaries. Future Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in the Notes.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries, minority owned joint ventures or any other persons.

We may from time to time consider entering into joint ventures or making minority investments in other persons. Such joint ventures or other persons may not be Restricted Subsidiaries. Although the indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$244.9 million, which we presently plan to use for repayment of existing indebtedness and general corporate purposes.

Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

EXCHANGE RATE INFORMATION

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including but not limited to making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2015.....	6.4778	6.2869	6.4896	6.1870
2016.....	6.9430	6.6549	6.9580	6.9430
2017.....	6.5063	6.7530	6.9575	6.4773
2018.....	6.8755	6.6292	6.9737	6.2649
2019.....	6.9618	6.9014	7.1786	6.6822
2020.....	6.5250	6.8878	7.1348	6.5250
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November	6.5750	6.6044	6.6899	6.5556
December.....	6.5250	6.5393	6.5705	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March (through March 15, 2021).....	6.5081	6.5073	6.5250	6.4932

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(HK per US\$1.00)		
2015.....	7.7507	7.7519	7.7686	7.7495
2016.....	7.7534	7.7618	7.8270	7.7505
2017.....	7.8128	7.7950	7.8267	7.7540
2018.....	7.8305	7.8376	7.8499	7.8043
2019.....	7.7894	7.8335	7.8499	7.7850
2020.....	7.7534	7.7562	7.7927	7.7500
September	7.7500	7.7500	7.7504	7.7499
October	7.7548	7.7503	7.7548	7.7498
November	7.7508	7.7526	7.7552	7.7505
December.....	7.7534	7.7519	7.7539	7.7505
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March (through March 15, 2021).....	7.7656	7.7636	7.7698	7.7600

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term and long-term indebtedness and capitalization as of December 31, 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes after deducting all and any commissions, fees and other estimated expenses payable by us in connection with their respective transactions. The following table should be read in conjunction with the audited consolidated financial statements and related notes included in this offering memorandum.

	As of December 31, 2020			
	Actual		As adjusted	
	RMB	US\$ ⁽²⁾	RMB	US\$ ⁽²⁾
	(in thousands)			
Cash and cash equivalents	2,179,659	334,047	3,777,851	578,981
Short-term debt:				
Interest-bearing bank and other borrowings				
(current portion)	871,294	133,532	871,294	133,532
Senior notes (current portion)	2,699,231	413,675	2,699,231	413,675
Total short-term debt	3,570,525	547,207	3,570,525	547,207
Long-term debt:				
Interest-bearing bank and other borrowings				
(net of current portion)	665,727	102,027	665,727	102,027
Senior notes (net of current portion)	2,424,746	371,609	2,424,746	371,609
The Notes	–	–	1,631,250	250,000
Total long-term debt	3,090,473	473,636	4,721,723	723,636
Equity:				
Share capital	131	20	131	20
Reserves	4,652,156	712,974	4,652,156	712,974
(Accumulated deficits)/retained earnings	(645,817)	(98,976)	(645,817)	(98,976)
Total equity	4,006,470	614,018	4,006,470	614,018
Total capitalization⁽¹⁾	10,667,468	1,634,861	12,298,718	1,884,861

Notes:

(1) Total capitalization equals short-term debt plus long-term debt plus equity.

(2) Calculated at the exchange rate of US\$1.00 = RMB6.5250 on December 31, 2020 as set forth in the H.10 statistical release of the Federal Reserve Board.

On January 15, 2021, we issued the Convertible Bonds in the principal amount of US\$175,000,000. For further details, see the section entitled “Description of Other Material Indebtedness.” The issuance of the Convertible Bonds has not been reflected in the capitalization table above.

In February 2021, we fully repaid the outstanding principal amount together with accrued and due interest under the US\$300 million 6.00% senior notes due 2021 upon maturity. The repayment of such senior notes has not been reflected in the capitalization table above.

Except as disclosed above, there has been no material change in our total capitalization since December 31, 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 has been derived from, and should be read in conjunction with, our audited consolidated financial statements together with the related notes included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with the IFRS.

CONSOLIDATED RESULTS OF OPERATIONS

	Year ended December 31,					
	2018		2019		2020	
	RMB	% of revenue	RMB	% of revenue	RMB	US\$ % of revenue
	(in thousands, except percentages)					
Rental revenue.....	5,340,132	82.9%	5,558,702	72.3%	3,993,779	612,073 65.2%
Sales of used vehicles	1,103,566	17.1%	2,131,958	27.7%	2,130,629	326,533 34.8%
Total revenue	6,443,698	100.0%	7,690,660	100.0%	6,124,408	938,607 100.0%
Depreciation of rental vehicles	(1,494,832)	(23.2%)	(1,835,717)	(23.9%)	(2,011,190)	(308,228) (32.8%)
Direct operating expenses of rental services.....	(1,718,188)	(26.7%)	(1,829,445)	(23.8%)	(1,468,556)	(225,066) (24.0%)
Cost of sales of used vehicles	(1,146,913)	(17.8%)	(2,188,531)	(28.5%)	(2,209,908)	(338,683) (36.1%)
Gross profit	2,083,765	32.3%	1,836,967	23.9%	434,754	66,629 7.1%
Other income and expenses, net.....	(169,965)	(2.6%)	47,914	0.6%	(2,351,180)	(360,334) (38.4%)
Share of (loss)/profit of associates	9,426	0.1%	6,286	0.1%	(4,796)	(735) (0.1%)
Selling and distribution expenses.....	(78,258)	(1.2%)	(27,755)	(0.4%)	(127,892)	(19,600) (2.1%)
Administrative expenses.....	(468,228)	(7.3%)	(607,429)	(7.9%)	(682,494)	(104,597) (11.1%)
Impairment losses on financial and contract assets.....	-	-	-	-	(679,671)	(104,164) (11.1%)
Finance costs	(782,185)	(12.1%)	(983,940)	(12.8%)	(681,197)	(104,398) (11.1%)
(Loss)/profit before tax	594,555	9.2%	272,043	3.5%	(4,092,476)	(627,199) (66.8%)
Income tax expenses	(304,710)	(4.7%)	(241,267)	(3.1%)	(70,675)	(10,831) (1.2%)
(Loss)/profit for the period	289,845	4.5%	30,776	0.4%	(4,163,151)	(638,031) (68.0%)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Non-current assets				
Rental vehicles.....	10,788,372	10,792,336	6,814,459	1,044,362
Others	5,012,491	5,461,390	1,741,652	266,920
Total non-current assets	15,800,863	16,253,726	8,556,111	1,311,281
Current assets				
Cash and cash equivalents	3,186,401	5,360,520	2,179,659	334,047
Others	3,217,645	3,018,785	1,368,119	209,673
Total current assets	6,404,046	8,379,305	3,547,778	543,721
Current liabilities				
Interest-bearing bank and other borrowings	4,699,665	3,554,423	871,294	133,532
Senior notes	–	2,284,546	2,699,231	413,675
Others	1,352,105	1,450,643	1,231,965	188,807
Total current liabilities	6,051,770	7,289,612	4,802,490	736,014
Net current (liabilities) assets.....	352,276	1,089,693	(1,245,712)	(190,914)
Total assets less current liabilities	16,153,139	17,343,419	7,301,399	1,118,988
Non-current liabilities				
Interest-bearing bank and other borrowings	754,846	2,589,269	665,727	102,027
Senior notes.....	6,176,503	5,427,090	2,424,746	371,609
Corporate bonds	1,020,834	1,024,221	–	–
Others	227,928	210,159	204,456	31,334
Total non-current liabilities	8,180,111	9,250,739	3,294,929	504,970
Net assets.....	7,973,028	8,092,680	4,006,470	614,018
Equity				
Equity attributable to owners of the parent				
Share capital.....	131	131	131	20
Reserves and retained profits	7,972,897	8,092,549	4,006,339	613,998
Total equity	7,973,028	8,092,680	4,006,470	614,018

NON-IFRS MEASURES AND KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2018	2019	2020
	(RMB in millions, except percentages and ratios)		
Adjusted EBITDA ⁽¹⁾	3,255	3,464	2,019
Adjusted EBITDA margin ⁽²⁾	60.9%	62.3%	50.6%
Net debt ⁽³⁾	9,214	8,995	4,469
Net debt/Adjusted EBITDA (times)	2.8x	2.6x	2.2x
Adjusted EBITDA/Finance costs (times)	4.2x	3.5x	3.0x
Free cash flow ⁽⁴⁾	(973)	1,516	4,929

Notes:

- (1) We define adjusted EBITDA as our earnings before interest, income tax expenses, depreciation and amortization, impairment of trade receivables, share-based compensation, foreign exchange (gain)/loss, fair value loss from investment in equity shares, fair value changes on derivative instrument-transaction not qualifying as hedges and share of loss/(profit) of associates. For further details and the reconciliation of our adjusted EBITDA, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Non-IFRS Measures.” The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation expense, amortization, income taxes, finance costs, interest income from bank deposits, and share based compensation, among others, have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital and other investing activities should not be considered as a measure of our liquidity. The term adjusted EBITDA is not defined under IFRS, and adjusted EBITDA is not a measure of profit for the year or liquidity presented in accordance with IFRS. Investors should not consider adjusted EBITDA in isolation of, or as a substitute for, measures of our financial performance and liquidity as determined in accordance with IFRS. In addition, the way adjusted EBITDA is calculated and presented in “Summary,” “Selected Consolidated Financial and Other Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” may be different from the way Consolidated EBITDA is defined in “Description of the Notes.”
- (2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by rental revenue.
- (3) Net debt is calculated by total debt less total cash.
- (4) We define free cash flow as our operating cash flow minus net expenditures of other property, plant and equipment, other intangible assets and prepaid lease payments.

KEY OPERATING INFORMATION

The following tables set forth key operating metrics that are critical to our business over the years of 2018 to 2020:

Car rental metrics:

(a) *by year*

	Year ended December 31,		
	2018	2019	2020
Average daily fleet ⁽¹⁾	91,802	111,636	105,769
ADRR ⁽²⁾ (RMB)	218	210	181
Utilization rate ⁽³⁾ (%)	61.5%	57.5%	53.3%
RevPAC ⁽⁴⁾ (RMB)	134	121	97

(b) *by quarter*

	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20
Average daily fleet ⁽¹⁾ ...	80,303	86,160	100,112	100,321	103,384	109,047	118,104	115,799	113,325	108,147	105,382	96,332
ADRR ⁽²⁾ (RMB).....	229	216	222	208	226	208	213	193	176	157	195	196
Utilization rate ⁽³⁾ (%)...	63.0%	61.4%	64.3%	57.7%	60.4%	60.2%	60.0%	50.1%	48.4%	50.0%	56.9%	58.8%
RevPAC ⁽⁴⁾ (RMB).....	144	132	143	120	136	125	128	97	85	79	111	115

Notes:

- (1) Average daily car rental fleet is calculated by dividing the aggregate days of our car rental vehicles in operation in a given period by the aggregate days of that period. "Car rental vehicles in operation" refers to our entire car rental fleet, including those temporarily unavailable for customer use due to repair or maintenance and those that are being transported.
- (2) Average daily rental rate or ADRR is calculated by dividing our car rental revenue in a given period by the rental days in that period. Rental days are the total rental days for all vehicles in our car rental fleet in a given period.
- (3) Utilization rate is calculated by dividing the aggregate days that our vehicles are rented out for car rentals by the aggregate days of our car rental vehicles in operation.
- (4) RevPAC refers to average daily rental revenue per car rental vehicle, which is calculated by multiplying the average daily rental rate in a given period by the car utilization rate in that same period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with consolidated financial statements for 2018, 2019 and 2020, together with the accompanying notes, included elsewhere in this offering memorandum. The financial statements included have been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties some of which are beyond our control. Factors that could cause or contribute to such differences include those described in "Risk Factors" and elsewhere in this offering memorandum.

OVERVIEW

We are the largest car rental company in China in 2020 in terms of car rental revenue, according to market research conducted by iResearch. We mainly engage in offering comprehensive car rental services and are a market leader in terms of fleet size, revenue, network coverage and brand awareness.

Our total fleet comprised 109,688 vehicles (including 5,000 vehicles leased from a financial institution) as of December 31, 2020.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China, supplemented by 211 service locations in 158 small cities operated by our franchisees.

We provide a superior car rental experience by offering our customers a wide vehicle selection, vehicles in decent condition, a "hassle-free" rental process and 24/7 service in almost every city where we operate. We have been steadily advancing our smart mobile platform to enhance the operating efficiency. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Our comprehensive self-served network has been largely in place since end of 2019. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to December 31, 2019. In December 2020, our self-served transactions increased to 91% of total reservations from 88% in December 2019.

As a technology driven company, we have developed an effective, reliable and scalable technology platform. Our technology platform centralizes all aspects of our operational management, including transaction, yield, customer, fleet, staffing and financial management. We utilize our technology platform to collect and analyze a vast amount of transactions and customer data to improve our operational efficiency and customer experience and explore new products and services. We leverage big data analytics and machine learning technology to analyze and predict customer behavior, which enables us to implement dynamic pricing and precise marketing. Reservations from mobile app as a percentage of our total reservations increased from 87% in 2018 to 94% in 2019 and, in the fourth quarter of 2020, 99% of the car rental reservations were made through our mobile app.

Despite the periodic disruption of mobility activities by the outbreak of COVID-19 throughout 2020 and the normal seasonal declines in the fourth quarter, the Company experienced an increasing pace of recovery in the second half of 2020. For the year ended December 31, 2020, the Company recorded a recovered adjusted EBITDA of approximately RMB2,019 million (US\$309.4 million), RMB1,202 million (US\$184.2 million) of which was generated in the second half of 2020, representing an increase of 47.2% as compared with that in the first half of 2020. Rental revenue and revenue from sales of used vehicles also showed a meaningful rebound at the same time. For the six months ended December 31, 2020, rental revenue was RMB2,187 million (US\$335.2 million), representing an increase of 21.1% over the first half of 2020, car rental revenue was RMB2,105 million (US\$322.6 million), representing an increase of 28% over the first half of 2020, and revenue from sales of used vehicles was RMB1,179 million (US\$180.7 million), representing an increase of 23.8% over the first half of

2020. Compared with inflow of free cash flow of RMB1,516 million in 2019, the Company generated a record high inflow of free cash flow of RMB4,929 million (US\$755.4 million) in 2020, safeguarding the Company against the outbreak of the COVID-19 pandemic and temporary financing limitations resulted from evolving shareholding structure at the time. For the six months ended December 31, 2020, free cash flow was an inflow of RMB2,997 million (US\$459.3 million), representing an increase of 55% over the first half of 2020. In addition, we recorded continuing increase for our ADRR, car utilization rate and RevPAC for the last two quarters of 2020. Our ADRR increased to RMB196 (US\$30.0) for the fourth quarter of 2020, as compared with RMB195 (US\$29.9) and RMB157 (US\$24.1) for the third and second quarter of 2020, respectively. Our utilization rate increased to 58.8% for the fourth quarter of 2020, as compared with 56.9% and 50.0% for the third and second quarter of 2020, respectively. Our RevPAC increased to RMB115 (US\$17.6) for the fourth quarter of 2020, as compared with RMB111 (US\$17.0) and RMB79 (US\$12.1) for the third and second quarter of 2020, respectively.

Looking back to the year of 2020, since early 2020, the outbreak of COVID-19 has caused an unprecedented decline in rental demand, which materially affected the Company's business performance, in particular in the first half of 2020. For the year of 2020, the Company's total revenue, which includes rental revenue and revenue from sales of used vehicles, was RMB6,124 million (US\$938.5 million), representing a decrease of 20.4% year-over-year. For the year ended December 31, 2020, the Company recorded a net loss of RMB4,163 million (US\$638.0 million), compared with a net profit of RMB31 million during the year ended December 31, 2019, mainly due to a decrease of 28.2% in rental revenue to RMB3,994 million (US\$612.1 million), mostly attributed to the outbreak of COVID-19, the significant impairments of (a) the equity investment in UCAR of approximately RMB2,801 million (US\$429.3 million); (b) trade receivables from related parties and other customers, who were mostly customers leasing vehicles from the Company, of approximately RMB593 million (US\$90.9 million); (c) the prepayment of the subscription price of the shares and convertible bonds to be issued by FDG of approximately RMB86 million (US\$13.2 million); and (d) adjustment of approximately RMB499 million (US\$76.5 million) of the residual values of all vehicles manufactured by Borgward. While our ADRR decreased by 13.8% year-over-year to RMB181 (US\$27.7) in 2020, as a result of pricing initiatives to stimulate demand, our ADRR recovered to RMB195 (US\$29.9) and RMB196 (US\$30.0) in the third quarter and fourth quarter of 2020, respectively, compared to RMB213 and RMB193 in the third quarter and fourth quarter of 2019, respectively. Our utilization rate was 53.3% in 2020 due to weak demand as a result of the outbreak of COVID-19. Such utilization rate recovered to 56.9% and 58.8% in the third quarter and fourth quarter of 2020, respectively, compared to 60.0% and 50.1% in the third quarter and fourth quarter of 2019, respectively.

In 2020, the Company repaid all interests and maturities on time, and proactively communicated with lenders from time to time to prepay loans before maturities in a controlled manner to relieve lenders' concerns in order to support long term relationship. For the year ended December 31, 2020, the Company repaid a total of over RMB8 billion (US\$1.2 billion) to lenders. Our net debt to adjusted EBITDA lowered to 2.2x as of December 31, 2020 from 2.6x as of December 31, 2019.

Our rental revenue increased from RMB5,340.1 million in 2018 to RMB5,558.7 million in 2019. Our fleet size increased from 135,191 vehicles as of December 31, 2018 to 148,894 vehicles as of December 31, 2019 and decreased to 109,688 as of December 31, 2020. Due to decreased car rental demand and the ability to obtain financing resulted from the outbreak of COVID-19, we strategically limited our car purchase in 2020 and we disposed of 38,378 used vehicles in 2020, compared with 29,203 used vehicles in 2019. Cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020. The average price for disposed vehicle in 2020 was lower as a result of (i) fewer higher priced ride hailing vehicles and (ii) the disposal of certain vehicle models with lower sales prices. Leveraging our leading market position, sound brand recognition, advantage in terms of fleet size and digital services, we will expand our business in a market with good prospect of recovery.

Looking into 2021, we are committed to continuing recovery, restoring growing business performance, and improving profitability.

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Non-IFRS Measures." The way adjusted EBITDA is calculated and presented in "Summary," "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" may be different from the way Consolidated EBITDA is defined in "Description of the Notes."

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set forth below.

Scale of our business

The scale of our business, including our fleet size, network coverage and our customer base, has a significant impact on our revenue and cost structures. Our fleet size increased from 135,191 vehicles as of December 31, 2018 to 148,894 vehicles as of December 31, 2019 and decreased to 109,688 as of December 31, 2020. We expanded our geographic coverage from 1,098 directly operated service locations (including 416 stores and 682 pick-up points) in 118 cities as of December 31, 2018 to 2,619 directly operated service locations (including 443 stores and 2,176 self-served locations) in 170 cities as of December 31, 2019 and further to 2,560 directly operated service locations (including 439 stores and 2,121 self-served locations) in 172 major cities in all provinces in China as of December 31, 2020. Our customer base grew steadily for past years. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to 2019. Our large scale in terms of fleet size, network coverage and customer base has enabled us to increase our revenue as well as take substantial cost advantages by lowering our procurement costs, average fixed costs and expenses as a percentage of our rental revenue. Our scale has also allowed us to expand our business rapidly, provide more products and services, and offer competitive prices to our customers, which we believe form a flywheel and will continuously strengthen our market leadership.

Operational efficiency

Our ability to achieve higher operational efficiency is key to our business growth and results of operations. We have developed an effective, reliable and scalable technology platform, which centralizes all aspects of our operational management, including transaction, yield, customer, fleet and financial management. Our technology platform empowers us to improve our operational efficiency in various aspects, including analyzing future demand, implementing dynamic pricing, and monitoring and analyzing operational and financial performance, which in turn enhances our revenue and lowers our costs. Taking advantage of our technology platform, our direct operating expenses as a percentage of our rental revenue remains relatively stable in the range of 32.2% to 32.9% during our expansion of our business from 2018 to 2019. Total direct operating expenses decreased by 19.7% year-over-year to RMB1,468.6 million (US\$225.1 million) for the year ended December 31, 2020. The decrease was mainly due to the reduction of the social security contributions under the government's COVID-19 relief policy, reduced insurance fees and less repair and maintenance costs due to the outbreak of COVID-19. Total direct operating expenses as a percentage of rental revenue increased as a result of the decrease in car rental RevPAC due to the outbreak of COVID-19. As we will continue to optimize our technology platform, we believe we will be able to continuously take advantage of our technology platform to further improve our operational efficiency.

Pricing

Our car rental charges include basic rental rates, cost of basic insurance coverage, handling fees and fees for optional value-added services, if applicable. Our fleet rental charges are negotiated on a case by case basis with each corporate customer. Our pricing is based on, among other things, our market demand, target margin, competition, rental period, and other applicable factors at the time.

Our cost advantages as a result of large scale and operational efficiency enable us to offer competitive rental rates, while our high brand recognition, extensive network and broad vehicle selection enable us to achieve premium pricing. In addition, we have implemented a dynamic pricing system, which enables us to adjust our car rental rates based on market demand, inventory level, rental term, location, timing of booking, competitor rates and our target margin. We believe our dynamic pricing system enables us to more efficiently price our products and services to satisfy different customer needs and maximize our revenue.

Our average daily rental rate (ADRR) reflects our pricing. ADRR is calculated by dividing car rental revenue in a given period by the total rental days of the fleet in that period. Our ADRR decreased from RMB218 in 2018 to RMB210 in 2019, primarily because we implemented discount pricing strategies to rapidly grow our scale and defend competitors from inside and outside of the industry. Our ADRR decreased from RMB210 in 2019 to RMB181 (US\$27.7) in 2020 as a result of the introduction of discounted rental packages with longer rental term and discount coupons especially in the first half of 2020 to stimulate demand which was significantly impacted by COVID-19. The ADRR recovered from RMB157 (US\$24.1) for the second quarter of 2020 to RMB195 (US\$29.9) and RMB196 (US\$30.0) in the third quarter and fourth quarter of 2020, respectively.

Vehicle acquisition and disposition

Vehicle acquisition and disposition affects our revenue, liquidity and depreciation of rental vehicles.

We have expanded our fleet rapidly since our inception until the end of 2019. Our vehicle acquisition costs amounted to RMB5,117.5 million and RMB4,034.0 million, respectively, in 2018 and 2019. We have focused on optimizing our vehicle acquisition costs by leveraging our large scale and market leading position to obtain favorable purchase terms for our core vehicle models. Our vehicle acquisition costs decreased to RMB14.2 million (US\$2.2 million) in 2020. The decrease is mainly due to our adoption of mitigation action to the negative impact on car rental demand by COVID-19 and satisfying the goal of maintaining cash during such a business environment with significant uncertainties. To satisfy our anticipated car rental demand in 2021, we will consider restoring our fleet growth, subject to adjustment based on further development of COVID-19 and consumer demand change.

The depreciation of rental vehicles constitutes a significant portion of our cost of revenue. We bear the risk of effective depreciation when disposing of our rental vehicles. Our depreciation of rental vehicles was 28.0%, 33.0% and 50.4%, respectively, of our rental revenue in 2018, 2019 and 2020. Depreciation expenses increased by 9.6% to RMB2,011.2 million (US\$308.2 million) for the year ended December 31, 2020, mainly due to the decrease in the residual values of Borgward. The depreciation expenses as a percentage of rental revenue increased mainly as a result of (i) the decrease in car rental RevPAC due to the outbreak of COVID-19 and (ii) the decreased residual values of Borgward and a few other car models. We determine depreciation of rental vehicles by primarily estimating residual values at the expected time of disposal, which is approximately three years on average. We make periodic reviews and adjustments to the estimated residual values in response to the latest market conditions and their effect on residual values and our historical disposal prices.

Used vehicle disposition is a crucial part of car rental business. In order to maintain a relatively young fleet to ensure high customer satisfaction, we dispose of our vehicles after they reach a certain holding period. We must also maintain adequate liquidity to timely replenish our fleet. Timely vehicle disposition at maximum prices is critical to meet both requirements. In addition, used vehicle disposition directly impacts the depreciation of rental vehicles due to the periodic reviews and adjustments we make to the residual values. We disposed of our used vehicles primarily through used car sales dealers, supplemented by online and offline bidding and auction platforms and other marketplaces. This disposition mechanism provides a systematic and cost-efficient way for us to sell our used vehicles to end users, dealers and franchisees. In 2018, 2019 and 2020, we disposed of 12,596, 29,203, 38,378 rental vehicles, respectively. Our revenue from sales of used vehicles was RMB1,103.6 million, RMB2,132.0 million and RMB2,130.6 million (US\$326.5 million) in 2018, 2019 and 2020, respectively. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Description of Selected Income Statement Line Items – Revenue” for a detailed analysis on the changes in our revenue from sales of used vehicles.

Finance costs

The car rental business requires a large amount of capital. Our large scale and market leading position enable us to fund the rapid expansion of our business through diversified financing sources, including bond issuances, bank loans and other borrowings and financial leasing. We issued the 2021 Notes in April 2018, the 2022 Notes in May 2019 and the Convertible Bonds in January 2021 and have obtained various onshore and offshore loan facilities from time to time, except in 2020 when the financing ability was limited by the resulting economic conditions from COVID-19 and uncertain shareholding structure. We enjoy generally favorable financing terms from major banks and lending institutions due to our scale and healthy financial position. Our ability to secure debt financing at commercially reasonable interest rates significantly impacts our interest expenses and results of operations. However, we cannot assure you that we are always able to obtain favorable commercial terms. Our finance costs were 14.6%, 17.7% and 17.1% of our rental revenue, respectively, in 2018, 2019 and 2020, respectively.

Seasonality

We generally experience effects of seasonality primarily due to increases in leisure travel during certain periods in China such as the Chinese New Year, Labor Day and National Day holidays. Our business is also affected by weather and geographic behavior.

Other external events

Other external events including outbreak of pandemic virus (such as COVID-19) and travel restrictions may also have a significant impact on the car rental demand and our business. See “Risk Factors – Risks Related to Our Business and Industry – COVID-19 has disrupted, and may continue to disrupt, our business and financial performance.”

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The preparation of our consolidated financial information requires selecting accounting policies and making estimates and assumptions that affect items reported in the consolidated financial information. The determination of these accounting policies is fundamental to our consolidated results of operations and financial position and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial position, results of operations or cash flows. For more information regarding our summary of significant accounting policies and the significant accounting judgments and estimates, see Note 2.4 and Note 3 to the Accountants’ Report included elsewhere in this offering memorandum.

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) *Operating lease rental income*

Rental revenue derived from operating lease contracts is classified as car rental revenue and fleet rental revenue base on the business natures. The minimum lease payment is recognized as revenue over the lease period on a straight-line basis.

Customer loyalty award credits granted in the rendering of operating leases services are accounted for as a separate component of the lease transaction in which they are granted. The consideration received in the lease transaction is allocated between the loyalty award credits and the other components of the lease. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

(b) *Finance lease income*

The Group records revenue attributable to finance leases over the lease term on a systematic and rational basis so as to produce a constant rate of return on the net investment in the finance lease.

(c) *Sales of used rental vehicles*

Revenue from the sales of used rental vehicles is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the used rental vehicles.

(d) *Royalty and franchise income*

Royalty and franchise income are recognized on an accrual basis in accordance with the terms of the relevant agreements.

(e) ***Interest income***

Interest income is recognized on a time proportion basis using the effective interest method.

(f) ***Other service income***

Other service income is generally derived from auto repair and maintenance services, leasing of parking spaces, advertisement income and referral fee from other vehicle rental companies, and is recognized upon the provision of services.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the year 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.

Rental vehicles

Rental vehicles are stated at cost, net of accumulated depreciation.

Certain rental vehicles were acquired under repurchase programs, pursuant to which the Group has the option to require the car dealer to repurchase vehicles at a specified price and date, subject to certain vehicle condition and mileage. The Group plans to execute the repurchase option and depreciates vehicles over the holding period with an amount equal to the difference of the initial purchase payment and the contractual repurchase price, thereby minimizing any gain or loss.

Rental vehicles acquired outside of repurchase programs are depreciated over the estimated holding year on a straight-line basis. The initial estimated number of holding years of such rental vehicles is generally about 3 years. The Group also estimates the residual value of the rental vehicles acquired outside of repurchase programs at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values are based on factors including model, usage, age, mileage and location. Quarterly adjustments are made by the Group to the depreciation rates of such rental vehicles in response to the latest market conditions and their effect on residual values as well as the estimated time of disposal. Such adjustments are accounted for as changes in accounting estimates. During 2020, rental vehicles acquired outside of repurchase programs were depreciated at rates ranging from 3.0% to 25.8% per annum.

When an item of rental vehicles is classified as held for sale, it is not depreciated and is accounted for as held for sale, as further explained in the accounting policy for "Inventories" under Note 2.4 to the Accountants' Report as of and for the year ended December 31, 2020 included elsewhere in this offering memorandum.

Other property, plant and equipment

Other property, plant and equipment primarily include buildings, office furniture and equipment, and certain in-car accessories that can be separated from rental vehicles and leasehold improvements.

Depreciation is calculated on the straight-line basis to write off the cost of each item of other property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

In-car accessories.....	15.83% to 33.33%
Leasehold improvements.....	20% to 100%
Office furniture and equipment	15.83% to 33.33%
Buildings.....	1.8% to 4.74%

Where parts of an item of other 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 other 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 the statement of 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 a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction 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.

Cash and cash equivalents

For the purpose of the consolidated statement 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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 for the current and prior periods 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:

- (a) 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
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, 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, and 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:

- (a) 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, 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 each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Share-based payments

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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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.

Useful lives and residual values of rental vehicles acquired outside of repurchase programs

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's rental vehicles. This estimate is based on the estimated holding period of such rental vehicles. Management will increase the depreciation charge where useful lives are less than previously estimated, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. Actual holding period may differ from estimated useful lives. Periodic review could result in a change in useful lives and residual values which impact depreciation charges in the future periods.

The Group's management determines the estimated residual values at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values for rental vehicles are based on factors including model, age, mileage and location. Management will increase the depreciation charge where residual values are less than previously estimated values, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. Actual value at the time of disposal may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation charge in the future periods. The net carrying value of rental vehicles was RMB6,814 million (US\$1,044.3 million) as of December 31, 2020.

SELECTED RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated statements of comprehensive income for the years ended December 31, 2018, 2019 and 2020.

Description of Selected Income Statement Line Items

Revenue

Our revenue represents our gross revenue from operations, net of business taxes and related surcharges. We derive our revenue from (i) rental business and (ii) sales of used vehicles. We recorded fluctuations in revenue of RMB6,443.7 million, RMB7,690.7 million and RMB6,124.4 million (US\$938.6 million) in 2018, 2019 and 2020, respectively, primarily as a result of the changes in revenue from sales of used vehicles in these years due to changes in strategy to sustain business growth and the outbreak of COVID-19 for 2020.

The following table sets forth our revenue by service type in absolute amounts and as percentages of our revenue for the periods presented:

	Year ended December 31,					
	2018		2019		2020	
	RMB	% of revenue	RMB	% of revenue	RMB	US\$ % of revenue
	(in thousands, except percentages)					
Revenue from rental business.....	5,340,132	82.9%	5,558,702	72.3%	3,993,779	612,073 65.2%
Revenue from sales of used vehicles...	1,103,566	17.1%	2,131,958	27.7%	2,130,629	326,533 34.8%
Total revenue.....	6,443,698	100.0%	7,690,660	100.0%	6,124,408	938,607 100.0%

Rental business

Our revenue from rental business increased from RMB5,340.1 million in 2018 to RMB5,558.7 million in 2019 and then decreased to RMB3,993.8 million (US\$612.1 million) for 2020.

Sales of used vehicles

Revenue from sales of used vehicles represents the revenue generated from the sales of our used vehicles. Our revenue from sales of used vehicles were RMB1,103.6 million, RMB2,132.0 million and RMB2,130.6 (US\$326.5 million), respectively, for the years ended December 31, 2018, 2019 and 2020.

We disposed of 12,596, 29,203 and 38,378 vehicles for the years ended December 31, 2018, 2019 and 2020, respectively. Cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020, compared with 102.7% for the year ended December 31, 2019 and 103.9% for the year ended December 31, 2018.

Costs of rental business

Our costs of rental business primarily consist of depreciation of rental vehicles and direct operating expenses, which mainly include payroll costs, store expenses, insurance fees, repair and maintenance fees, fuel expenses and others.

The following table sets forth the components of our costs of rental business for the periods presented:

	Year ended December 31,						
	2018		2019		2020		
	RMB	% of rental revenue	RMB	% of rental revenue	RMB	US\$	% of rental revenue
	(in thousands, except percentages)						
Costs of rental business							
Depreciation of rental vehicles	1,494,832	28.0%	1,835,717	33.0%	2,011,190	308,228	50.4%
Direct operating expenses							
Payroll costs	523,441	9.8%	501,314	9.0%	388,201	59,494	9.7%
Store expenses	289,422	5.4%	339,297	6.1%	298,234	45,706	7.5%
Insurance fees	218,762	4.1%	272,502	4.9%	193,188	29,607	4.8%
Repair and maintenance fees	263,011	4.9%	264,598	4.8%	211,506	32,415	5.3%
Fuel and transportation expenses	112,207	2.1%	124,602	2.2%	96,041	14,719	2.4%
Others	311,345	5.8%	327,132	5.9%	281,386	43,124	7.0%
Total direct operating Expenses	1,718,188	32.2%	1,829,445	32.9%	1,468,556	225,066	36.8%
Total costs of rental business	3,213,020	60.2%	3,665,162	65.9%	3,479,746	533,294	87.1%

Depreciation of rental vehicles. A major component of our costs of rental business is depreciation of rental vehicles. Our depreciation of rental vehicles accounted for 28.0%, 33.0% and 50.4% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively. The increase in 2019 was primarily driven by (i) reduced estimations of the residual values for most of the vehicle models to promote used vehicles sales except models which are subject to the repurchase agreement; and (ii) decrease in car rental RevPAC. The increase in 2020 is mainly as a result of (i) the decrease in car rental RevPAC due to the outbreak of COVID-19; and (ii) the decreased residual value of Borgward. The average purchase price of vehicles changed mainly due to changing fleet mix.

Direct operating expenses. Our direct operating expenses mainly include payroll costs, store expenses, insurance fees, repair and maintenance fees, fuel and transportation expense, and others.

- (a) Payroll costs. Our payroll costs were 9.8%, 9.0% and 9.7% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.
- (b) Store expenses. Our store expenses consist of our rental expenses with respect to our directly operated service locations, parking fees and other store related expenses. Our store expenses were 5.4%, 6.1% and 7.5% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.
- (c) Insurance fees. Our vehicle insurance fees were 4.1%, 4.9% and 4.8% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.
- (d) Repair and maintenance fees. Our repair and maintenance fees were 4.9%, 4.8% and 5.3% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.
- (e) Fuel and transportation expenses. Our fuel expenses mainly represent our costs associated with the fuel consumed by our customers. Transportation expenses mainly refers to the cost generated by dispatching vehicles to various cities in order to match the car demand of various regions. Our fuel and transportation expenses were 2.1%, 2.2% and 2.4% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.
- (f) Others. Other costs primarily include credit card fees, car wash expenses, vehicle usage tax, depreciation and amortization of office equipment, and other miscellaneous expenses. Our other costs were 5.8%, 5.9% and 7.0% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.

Gross profit

Gross profit represents the excess of revenue over depreciation of rental vehicles, direct operating expenses and cost of sales of used vehicles. The following table sets out our gross profit and gross profit margin for the periods indicated:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands, except percentages)			
Gross profit of rental business	2,127,112	1,893,540	514,033	78,779
Gross profit margin of rental business	39.8%	34.1%	12.9%	–
Gross loss of sales of used vehicles	(43,347)	(56,573)	(79,279)	(12,150)
Gross loss margin of sales of used vehicles	(3.9%)	(2.7%)	(3.7%)	–
Total gross profit/(loss)	2,083,765	1,836,967	434,754	66,629
Total gross profit/(loss) margin as a % of rental revenue	39.0%	33.0%	10.9%	–

Total gross profit margin as a percentage of rental revenue was 10.9% for the year ended December 31, 2020, compared with 33.0% for the year ended December 31, 2019, mainly due to the decrease in rental revenue as a result of the outbreak of COVID-19 and the increased depreciation as a result of the adjustment of residual values of Borgward vehicles, offset by decreased direct operating expenses.

Our total gross profit margin as a percentage of rental revenue decreased to 33.0% for the year ended December 31, 2019 from 39.0% for the year ended December 31, 2018, mainly due to the increase in depreciation costs and loss from the sales of used vehicles.

Selling and distribution expenses

Our selling and distribution expenses are related to our car rental business, which mainly consist of advertising expenses, payroll costs related to our sales personnel and share-based compensation.

The following table sets forth our selling and distribution expenses for the periods indicated:

	Year ended December 31,					
	2018		2019		2020	
	RMB	% of rental revenue	RMB	% of rental revenue	RMB	US\$
	(in thousands, except percentages)					
Advertising expenses	19,289	0.4%	2,341	0.0%	93,765	14,370
Payroll costs	1,182	0.0%	1,350	0.0%	6,899	1,057
Share-based compensation ...	–	–	146	0.0%	22	3
Others	57,787	1.1%	23,918	0.5%	27,206	4,170
Total	78,258	1.5%	27,755	0.5%	127,892	19,600
Total excluding share-based compensation	78,258	1.5%	27,609	0.5%	127,870	19,597

Our selling and distribution expenses of our rental revenue increased to 3.2% for the year ended December 31, 2020 from 0.5% for the year ended December 31, 2019 mainly due to increased advertising and promotion activities to stimulate rental demand, including marketing on short video sharing platform, search engine marketing, etc, and increased payroll costs as a result of more marketing support needs.

Our selling and distribution expenses of our rental revenue decreased to 0.5% for the year ended December 31, 2019 from 1.5% for the year ended December 31, 2018, mainly due to the decreased commissions paid for the disposal of our used vehicles due to change of disposal channels and decrease in advertising expenses due to higher brand recognition.

Administrative expenses

Our administrative expenses primarily consist of salaries and benefits for our administrative and management personnel, office expenses and office rental expenses, share-based compensation and other miscellaneous expenses.

The following table sets forth our administrative expenses for the periods indicated:

	Year ended December 31,						
	2018		2019		2020		
	RMB	% of rental revenue	RMB	% of rental revenue	RMB	US\$	
	(in thousands, except percentages)						
Payroll costs.....	299,048	5.6%	345,965	6.2%	354,397	54,314	8.9%
Office expenses.....	50,760	1.0%	47,960	0.9%	74,099	11,356	1.9%
Rental expenses.....	25,046	0.5%	26,462	0.5%	30,675	4,701	0.8%
Share-based compensation	1,655	0.0%	84,351	1.5%	71,047	10,888	1.8%
Others	91,719	1.7%	102,691	1.8%	831,947	127,501	20.8%
Total	468,228	8.8%	607,429	10.9%	1,362,165	208,761	34.1%
Total excluding share-based compensation	466,573	8.7%	523,078	9.4%	1,291,118	197,872	32.3%

Our administrative expenses were 8.8%, 10.9% and 34.1% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.

As a percentage of rental revenue, our administrative expenses increased to 34.1% for the year ended December 31, 2020 as compared to 10.9% in 2019 mainly due to the increase in other expenses, which include a total impairments of approximately RMB679.7 million (US\$104.2 million) on the trade receivables from UCAR and other customers, finance lease receivables, prepayment of the subscription price of the shares and convertible bonds to be issued by FDG.

Our administrative expenses of our rental revenue increased to 10.9% for the year ended December 31, 2019 from 8.8% for the year ended December 31, 2018, mainly due to the increase in share-based compensation to incentivize growth.

Excluding share-based compensation, our administrative expenses were 8.7%, 9.4% and 32.3% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.

Other income and expenses, net

Our other income and expenses, net primarily consist of interest income from bank deposits, exchange gain or loss, fair value gain or loss on investment in equity shares and redeemable preference shares, fair value changes on derivative instrument transactions not qualifying as hedges, gain on disposal of investment in redeemable preference shares, gain on disposal of subsidiaries, government grants, loss on disposal of items of other property, plant and equipment, donations, default income and other miscellaneous income and expenses.

The following table sets forth our other income and expenses, net, for the periods indicated:

	Year ended December 31			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
			(in thousands)	
Interest income	89,888	81,449	48,352	7,410
Foreign exchange gain/(loss).....	(374,137)	(158,245)	354,541	54,336
Government grants	114,246	69,417	63,191	9,684
Fair value changes on derivative instrument transaction not qualifying as hedges.....	(26,750)	56,588	(3,666)	(562)
Fair value gain/(loss) on investment in equity shares	2,397	(9,000)	(2,800,641)	(429,217)
Loss on disposal of items of other property, plant and equipment.....	(1,249)	(275)	(1,329)	(204)
Others	25,640	7,980	(11,628)	(1,782)
Total	<u>(169,965)</u>	<u>47,914</u>	<u>(2,351,180)</u>	<u>(360,334)</u>

Our net loss was RMB2,351.2 million (US\$360.3 million) for the year ended December 31, 2020, compared with a net gain of RMB47.9 million for the year ended December 31, 2019. The net loss for the year of 2020 was mainly due to the fair value loss from equity investment in UCAR but offset by the unrealized exchange gain related to USD-denominated liabilities due to appreciation of RMB.

Our net gain was RMB47.9 million for the year ended December 31, 2019. The net gain for the year of 2019 was mainly due to the decrease in exchange loss related to USD-denominated liabilities.

Our net loss was RMB170.0 million for the year ended December 31, 2018. The loss during the year ended December 31, 2018 was mainly due to the unrealized foreign exchange loss related to USD-denominated liabilities due to RMB depreciation.

Finance costs

Finance costs are related to our car rental business, which includes primarily interest on bank and other loans and interest on senior notes.

Our finance costs were 14.6%, 17.7% and 17.1% of our rental revenue for the years ended December 31, 2018, 2019 and 2020, respectively.

Our finance costs decreased by 30.8% to RMB681.2 million (US\$104.4 million) for the year ended December 31, 2020 mainly due to decreased debt.

Our finance costs increased by 25.8% to RMB983.9 million for the year ended December 31, 2019 from RMB782.2 million for the year ended December 31, 2018, primarily due to the costs for the exchange offer for the USD-denominated senior notes due 2020 and the Company's higher cash position to prepare for the repayment of the USD-denominated senior notes due 2020.

Income tax

Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Under the current laws of the British Virgin Islands, our British Virgin Islands subsidiary is not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the British Virgin Islands

Hong Kong

Our wholly owned Hong Kong subsidiary, China Auto Rental Limited (神州租車(中國)有限公司), is subject to Hong Kong profit tax on its activities conducted in Hong Kong. Dividends from our Hong Kong subsidiary to us are exempt from withholding tax.

PRC

In March 2007, the National People's Congress of the PRC enacted the EIT Law, as recently amended on February 24, 2017, and promulgated the related regulation Implementation Regulations for the PRC Enterprise Income Tax Law. Both of the above law and regulation came into effect on January 1, 2008. The New EIT Law applies a uniform EIT rate of 25% to all domestic enterprises and foreign-invested enterprises and defines new tax incentives for qualifying entities. Our other PRC subsidiaries are subject to an EIT rate of 25%. Haike Pingtan is qualified as a promising industry company established in the comprehensive experimentation area in Pingtan, Fujian Province, and therefore is entitled a preferential corporate income tax rate of 15% pursuant to CaiShui [2014] No. 26 issued by the Ministry of Finance of the People's Republic of China. We continue to explore options to increase our tax efficiency and are in preliminary stages of a tax review and potential tax restructuring. From 2018 through 2020, except for certain of our PRC subsidiaries, who were profitable and paid income tax, our other PRC subsidiaries did not pay any income tax due to loss making or loss carry over from previous years.

In addition, the EIT Law treats enterprises established outside China that have “de facto management bodies” located in China as PRC resident enterprises for PRC tax purposes. A “de facto management body” is defined as a management body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. We currently do not believe that we or our Hong Kong subsidiaries are PRC resident enterprises because we do not believe that we or our Hong Kong subsidiary meet all of the conditions described in Circular 82 for determining whether the “de facto management body” of an enterprise registered outside the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC but there is no assurance in this regard. If we are considered a “PRC resident enterprise” for PRC tax purposes, we would be subject to the PRC enterprise income tax on our global income. See “Risk Factors – Risks Related to Doing Business in the PRC – We may be classified as a ‘PRC resident enterprise’ for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax.” Pursuant to the EIT Law and its implementation rules, dividends paid to non-PRC resident enterprise investors that are considered derived from sources within the PRC are subject to a 10% withholding tax. Under the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, a qualified Hong Kong tax resident which is determined by the competent PRC tax authority to have satisfied relevant requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws is entitled to a reduced withholding tax rate of 5%.

Net profit/loss

We recorded a net profit of RMB289.8 million, RMB30.8 million and a net loss of RMB4,163.2 million (US\$638.0 million) for the years ended December 31, 2018, 2019 and 2020, respectively.

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net (loss) profit and adjusted EBITDA as additional financial measures. We present these financial measures because they are used by our management to evaluate our operating performance. We also believe that these financial measures provide useful information to investors and others 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 (loss) profit

We define adjusted net (loss) profit as earnings before finance costs of senior notes exchange offer, share-based compensation, foreign exchange (gain)/loss, fair value loss from investment in equity shares, fair value changes on derivative instrument-transaction not qualifying as hedges and share of loss/(profit) of associates and impairment on investment in an associate.

The term of adjusted net (loss) profit is not defined under IFRS. The use of adjusted net (loss) profit has material limitations as an analytical tool, as adjusted net (loss) profit does not include all items that impact our net loss or profit for the period.

Adjusted EBITDA

We define adjusted EBITDA as our earnings before interest, income tax expenses, depreciation and amortization, impairment of trade receivables, share-based compensation, foreign exchange (gain)/loss, fair value loss from investment in equity shares, fair value changes on derivative instrument-transaction not qualifying as hedges and share of loss/(profit) of associates.

The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation expense, amortization, income taxes, finance costs, interest income from bank deposits, and share based compensation, among others, have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital and other investing activities and should not be considered as a measure of our liquidity. The term adjusted EBITDA is not defined under IFRS, and adjusted EBITDA is not a measure of profit for the year or liquidity presented in accordance with IFRS.

In addition, the way adjusted EBITDA is calculated and presented in “Summary”, “Selected Consolidated Financial and Other Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” may be different from the way Consolidated EBITDA is defined in “Description of the Notes.”

Calculation of non-IFRS measures

We compensate for the limitations of the non-IFRS measures by reconciling the non-IFRS financial measures to the nearest IFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our adjusted net loss (profit) and adjusted EBITDA in the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit:

A. Adjusted net (loss)/profit

	Year ended December 31			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands, except percentages)			
Net (loss)/profit	289,845	30,776	(4,163,151)	(638,031)
Adjusted for:				
Share-based compensation	1,655	87,606	74,124	11,360
Fair value changes on derivative instrument transaction not qualifying as hedges	26,750	(56,588)	3,666	562
Fair value (gain)/loss on investment in equity shares	(2,397)	9,000	2,800,641	429,217
Share of loss/(profit) of associates	(9,426)	(6,286)	4,796	735
Foreign exchange (gain)/loss	374,137	158,245	(354,541)	(54,336)
Finance costs (Senior notes exchange offer)	–	69,513	–	–
Impairment on investment in an associate	–	–	8,306	1,273
Adjusted net (loss)/profit	<u>680,564</u>	<u>292,266</u>	<u>(1,626,159)</u>	<u>(249,220)</u>
Adjusted net (loss)/profit margin (as a percentage of rental revenue)	12.7%	5.3%	(40.7%)	(40.7%)

B. Adjusted EBITDA

	Year ended December 31			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands, except percentages)			
Reported EBITDA calculation				
(Loss)/profit before tax	594,555	272,043	(4,092,476)	(627,199)
Adjusted for:				
Finance costs	782,185	983,940	681,197	104,398
Interest income from bank deposits	(89,888)	(50,278)	(30,605)	(4,690)
Depreciation of rental vehicles	1,494,832	1,835,717	2,011,190	308,228
Depreciation of other property, plant and equipment	69,770	64,728	53,932	8,265
Depreciation of right-of-use assets/amortization of prepaid land lease payment	1,614	158,840	144,018	22,072
Amortization of other intangible assets	5,698	3,118	2,374	364
Impairments on trade receivables	5,146	4,231	55,800	8,552
Impairment of amount due from a related party	–	–	410,402	62,897
Impairment of prepayments	–	–	86,280	13,223
Impairment of finance lease receivables	–	–	127,189	19,493
Impairment of rental vehicle	–	–	33,023	5,061
Reported EBITDA	<u>2,863,912</u>	<u>3,272,339</u>	<u>(517,676)</u>	<u>(79,337)</u>

	Year ended December 31			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands, except percentages)			
Adjusted EBITDA calculation				
Reported EBITDA	2,863,912	3,272,339	(517,676)	(79,337)
Adjusted for:				
Share-based compensation	1,655	87,606	74,124	11,360
Fair value loss/(gain) from investment in equity share	(2,397)	9,000	2,800,641	429,217
Fair value changes on derivative instrument transaction not qualifying as hedges	26,750	(56,588)	3,666	562
Share of loss/(profit) of associates	(9,426)	(6,286)	4,796	735
Impairment on investment in an associate	–	–	8,306	1,273
Foreign exchange (gain)/loss	374,137	158,245	(354,541)	(54,336)
Adjusted EBITDA	<u>3,254,631</u>	<u>3,464,316</u>	<u>2,019,316</u>	<u>309,474</u>
Adjusted EBITDA margin (as a percentage of rental revenue)	<u>60.9%</u>	<u>62.3%</u>	<u>50.6%</u>	<u>50.6%</u>

In light of the foregoing limitations for non-IFRS measures, when assessing our operating and financial performance, you should not consider adjusted net (loss) profit and adjusted EBITDA in isolation or as a substitute for our (loss) profit for the year, operating net (loss) profit or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these measures may not be calculated in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies.

YEAR ENDED DECEMBER 31, 2020 COMPARED TO YEAR ENDED DECEMBER 31, 2019

Revenue. Our total revenue decreased by 20.4% from RMB7,690.7 million in 2019 to RMB6,124.4 million (US\$938.6 million) in 2020.

Revenue from rental business. Our revenue from the rental business decreased 28.2% from RMB5,558.7 million in 2019 to RMB3,993.8 million (US\$612.1 million) in 2020. The following table sets forth our revenue from the rental business by service type in absolute amounts and as percentages of our rental revenue for the periods presented:

	Year ended December 31,				
	2019		2020		
	RMB	% of rental revenue	RMB	US\$	% of rental revenue
	(in thousands, except percentages)				
Rental Revenue					
Car rental revenue.....	4,916,440	88.4%	3,755,109	575,496	94.0%
Fleet rental & other revenue	642,262	11.6%	238,670	36,578	6.0%
Total rental revenue	<u>5,558,702</u>	<u>100.0%</u>	<u>3,993,779</u>	<u>612,073</u>	<u>100.0%</u>

Car rentals. Our revenue from car rentals decreased by 23.6% year-over-year to RMB3,755.1 million (US\$575.5 million) for the year ended December 31, 2020, mainly due to the decrease in RevPAC as a result of the outbreak of COVID-19. The car utilization rate was 53.3%, compared with 57.5% for the year ended December 31, 2019, mainly due to the sharp decline in rental demand in the first half of 2020, which recovered steadily in the second half of the year. During the year ended December 31, 2020, the average daily fleet decreased by 5.3% year-over-year to 105,769.

Fleet rentals and others. Our revenue from fleet rentals and others decreased by 62.8% year-over-year to RMB238.7 million (US\$36.6 million) for the year ended December 31, 2020, mainly due to the decrease in fleet rented by UCAR.

Sales of used vehicles. We disposed of 38,378 used vehicles for the year ended December 31, 2020, compared with 29,203 for the year ended December 31, 2019.

Costs of rental business.

- (a) **Depreciation of rental vehicle.** As a percentage of rental revenue, our depreciation expenses increased by 9.6% to RMB2,011.2 million (US\$308.2 million) for the year ended December 31, 2020, mainly due to the decrease in the residual values of Borgward. The depreciation expenses as a percentage of rental revenue increased mainly as a result of (i) the decrease in car rental RevPAC due to the outbreak of COVID-19; and (ii) the decreased residual value of Borgward.
- (b) **Direct operating expenses of rental services.** As a percentage of rental revenue, our direct operating expenses decreased by 19.7% year-over-year to RMB1,468.6 million (US\$225.1 million) for the year ended December 31, 2020. The decrease was mainly due to the reduction of the social security contributions under the government's COVID-19 relief policy, reduced insurance fees and less repair and maintenance costs due to the outbreak of COVID-19. Total direct operating expenses as a percentage of rental revenue increased as a result of the decrease in car rental RevPAC due to the outbreak of COVID-19.

Cost of sales of used vehicles. Our cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020, compared with 102.7% for the year ended December 31, 2019.

Gross profit. Our gross profit margin as a percentage of rental revenue was 10.9% for the year ended December 31, 2020, compared with 33.0% for the year ended December 31, 2019, mainly due to the decrease in rental revenue as a result of the outbreak of COVID-19 and the increased depreciation as a result of the adjustment of residual values of Borgward vehicles, offset by decreased direct operating expenses.

Selling and distribution expenses. Our selling and distribution expenses increased considerably to RMB127.9 million (US\$19.6 million) for the year ended December 31, 2020. As a percentage of rental revenue, selling and distribution expenses were 3.2% for the year ended December 31, 2020. The increase was mainly due to increased advertising and promotion activities to stimulate rental demand, including marketing on short video sharing platform, search engine marketing, etc, and increased payroll costs as a result of more marketing support needs.

Administrative expenses. Our expenses was RMB1,362.2 million (US\$208.8 million) for the year ended December 31, 2020. As a percentage of rental revenue, administrative expenses increased by 23.2 percentage points year-over-year to 34.1%. The increase was mainly due to increased other expenses, including a total impairments of approximately RMB679.7 million (US\$104.2 million) on the trade receivables from UCAR and other customers, finance lease receivables, prepayment of the subscription price of the shares and convertible bonds to be issued by FDG.

Other income and expenses, net. Our net loss was RMB2,351.2 million (US\$360.3 million) for the year ended December 31, 2020, compared with a net gain of RMB47.9 million for the year ended December 31, 2019. The net loss for the year of 2020 was mainly due to the fair value loss from equity investment in UCAR but offset by the unrealized exchange gain related to USD-denominated liabilities due to appreciation of RMB.

Finance costs. Our finance costs decreased by 30.8% to RMB681.2 million (US\$104.4 million) for the year ended December 31, 2020 mainly due to decreased debt.

Loss before tax. Our loss before tax was RMB4,092.5 million (US\$627.2 million) for the year ended December 31, 2020, compared with a profit before tax of RMB272.0 million for the year ended December 31, 2019. It was mainly due to the decreased car rental revenue as a result of the outbreak of COVID-19 and fair value loss from equity investment in UCAR.

Income tax expenses. Our income tax expenses was RMB70.7 million (US\$10.8 million) for the year ended December 31, 2020, compared with RMB241.3 million for the year ended December 31, 2019.

Net loss. Our net loss was RMB4,163.2 million (US\$638.0 million) for the year ended December 31, 2020, compared with a net profit of RMB30.8 million for the year ended December 31, 2019.

Adjusted net profit. Our adjusted net loss was RMB1,626.2 million (US\$249.2 million) for the year ended December 31, 2020, compared with a net profit of RMB292.3 million for the year ended December 31, 2019.

Adjusted EBITDA. Our adjusted EBITDA was RMB2,019.3 million (US\$309.5 million) for the year ended December 31, 2020, and the adjusted EBITDA margin was 50.6% for the year ended December 31, 2020.

YEAR ENDED DECEMBER 31, 2019 COMPARED TO YEAR ENDED DECEMBER 31, 2018

Revenue. Our total revenue increased by 19.4% from RMB6,443.7 million in 2018 to RMB7,690.7 million in 2019.

Revenue from rental business. Our revenue from the rental business increased 4.1% from RMB5,340.1 million in 2018 to RMB5,558.7 million in 2019. The following table sets forth our revenue from the rental business by service type in absolute amounts and as percentages of our rental revenue for the periods presented:

	Year ended December 31,			
	2018		2019	
	RMB	% of rental revenue	RMB	% of rental revenue
	(in thousands, except percentages)			
Rental Revenue				
Car rental revenue.....	4,484,784	84.0%	4,916,440	88.4%
Fleet rental revenue.....	756,605	14.2%	434,391	7.8%
Other revenue	98,743	1.8%	207,871	3.8%
Total rental revenue	<u>5,340,132</u>	<u>100.0%</u>	<u>5,558,702</u>	<u>100.0%</u>

Car rentals. Our revenue from car rentals increased by 9.6% year-over-year to RMB4,916.4 million for the year ended December 31, 2019, mainly driven by 14% rental days growth and offset by the decrease in RevPAC. The RevPAC decrease was mainly driven by lower car utilization rate. The car utilization rate was 57.5%, which was lower than last year due to the weaker demand in tourist cities and enlarged fleet.

Fleet rentals and others. Our revenue from fleet rentals and others decreased by 24.9% year-over-year to RMB642.3 million for the year ended December 31, 2019, mainly due to the decrease in fleet rented by UCAR.

Sales of used vehicles. We disposed of 29,203 used vehicles for the year ended December 31, 2019, compared with 12,596 for the year ended December 31, 2018.

Costs of rental business.

- (a) **Depreciation of rental vehicle.** As a percentage of rental revenue, our depreciation expenses increased to 33.0% for the year ended December 31, 2019 from 28.0% for the year ended December 31, 2018. The increase was primarily driven by (i) reduced estimations of the residual values for most of the vehicle models to promote used vehicles sales except models which are subject to the repurchase agreement; and (ii) decrease in car rental RevPAC.
- (b) **Direct operating expenses of rental services.** As a percentage of rental revenue, our direct operating expenses increased slightly to 32.9% for the year ended December 31, 2019 from 32.2% for the year ended December 31, 2018. The increase was driven by the increase in parking costs as a result of the increased number of self-served service locations to increase network density but offset by savings in payroll after the application of the Smart Assistant management system.

Cost of sales of used vehicles. Our cost of sales of used vehicles was 102.7% of revenue from the sales of used vehicles for the year ended December 31, 2019, compared with 103.9% for the year ended December 31, 2018, due to further adjustment of estimated residual values as an effort to dispose more used vehicles, resulting in a higher depreciation cost.

Gross profit. Our gross profit of rental business decreased by 11.0% to RMB1,893.5 million for the year ended December 31, 2019, mainly due to the increase in depreciation costs to dispose more used vehicles. Total gross profit margin as a percentage of rental revenue decreased to 33.0% for the year ended December 31, 2019 from 39.0% for the same period last year, mainly due to the increase in depreciation costs and loss from the sales of used vehicles.

Selling and distribution expenses. Our selling and distribution expenses decreased by 64.5% to RMB27.8 million from RMB78.3 million. As a percentage of rental revenue, selling and distribution expenses were 0.5% for the year ended December 31, 2019. This was mainly due to the decreased commissions paid for the disposal of the Company's used vehicles and decrease in advertising expenses due to higher brand recognition.

Administrative expenses. Our administrative expenses increased by 29.7% year-over-year to RMB607.4 million for the year ended December 31, 2019. As a percentage of rental revenue, administrative expenses increased by 2.1 percentage points year-over-year to 10.9%. The increase was mainly due to the increase in share-based compensation to incentivize growth.

Other income and expenses, net. Our net gain was RMB47.9 million for the year ended December 31, 2019, compared with a net loss of RMB170.0 million for the year ended December 31, 2018. The net gain for the year of 2019 was mainly due to the decrease in exchange loss related to USD-denominated liabilities.

Finance costs. Our finance costs increased by 25.8% to RMB983.9 million for the year ended December 31, 2019, primarily due to the costs for the exchange offer for the USD-denominated senior notes due 2020 and the Company's higher cash position to prepare for the repayment of the USD-denominated senior notes due 2020. The costs for the exchange offer were primarily the difference between the original carrying amount of the exchanged notes and the present value of the future cash flow.

Profit before tax. Our profit before tax decreased by 54.3% year-over-year to RMB272.0 million for the year ended December 31, 2019.

Income tax expenses. Our income tax expenses decreased by 20.8% year-over-year to RMB241.3 million for the year ended December 31, 2019.

Net profit. Our net profit decreased by 89.3% year-over-year to RMB30.8 million for the year ended December 31, 2019.

Adjusted net profit. Our adjusted net profit decreased by 57.1% year-over-year to RMB292.3 million for the year ended December 31, 2019. Adjusted net profit margin decreased by 7.4 percentage points to 5.3% for the year ended December 31, 2019.

Adjusted EBITDA. Our adjusted EBITDA increased by 6.4% year-over-year to RMB3,464.3 million for the year ended December 31, 2019. Adjusted EBITDA margin increased by 1.4 percentage points year-over-year to 62.3% for the year ended December 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

We require a substantial amount of capital to fund our vehicle acquisitions and business expansion. Our operations and growth have primarily been financed by cash received from our customers and borrowings from financial institutions.

Cash Flow

The following table presents selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash flows generated from/(used in) operating activities.....	(793,188)	1,676,026	5,013,914	768,416
Net cash flows (used in)/generated from investing activities.....	(845,712)	370,757	(5,728)	(878)
Net cash flows (used in)/generated from financing activities.....	(4,464)	126,986	(8,182,389)	(1,254,006)
Net (decrease)/increase in cash and cash equivalents at end of year	(1,643,364)	2,173,769	(3,174,203)	(486,468)

Net cash flows generated from/(used in) operating activities

We had net cash generated from operating activities of RMB5,013.9 million (US\$768.4 million) in 2020, which was primarily attributable to (i) a loss before tax of RMB4,092.5 million (US\$627.2 million), (ii) adjusted for certain non-cash or non-operating items, mainly including fair value loss from investment in equity shares of RMB2,800.6 million (US\$429.2 million), depreciation of rental vehicles of RMB2,011.2 million (US\$308.2 million), finance costs of RMB681.2 million (US\$104.4 million) and impairment of amounts due from a related party of RMB410.4 million (US\$62.9 million), and (iii) adjusted for changes in certain working capital items that positively impact the cash flow from operating activities, mainly including a decrease in rental vehicles of RMB1,937.2 million (US\$296.9 million), decrease in prepayments, other receivables and other assets of RMB579.1 million (US\$88.8 million) and decrease in finance lease receivables of RMB585.4 million (US\$89.7 million).

We had net cash generated from operating activities of RMB1,676.0 million in 2019, which was primarily attributable to (i) a profit before tax of RMB272.0 million, (ii) adjusted for certain non-cash or non-operating items, mainly including depreciation of rental vehicles of RMB1,835.7 million, and finance costs of RMB983.9 million, and (iii) adjusted for changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase in rental vehicles of RMB1,839.7 million.

We had net cash used in operating activities of RMB793.2 million in 2018, which was primarily attributable to (i) a profit before tax of RMB594.6 million, (ii) adjusted for certain non-cash or non-operating items, mainly including depreciation of rental vehicles of RMB1,494.8 million, and finance costs of RMB782.2 million, (iii) adjusted for changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase in rental vehicles of RMB2,744.4 million and an increase in finance lease receivables of RMB1,146.7 million, and (iv) offset by changes in certain working capital items that positively impact the cash flow from operating activities, mainly a decrease in amounts due from related parties of RMB398.8 million.

Net cash flows (used in)/generated from investing activities

We had net cash used in investing activities of RMB5.7 million (US\$0.9 million) in 2020.

We had net cash generated from investing activities of RMB370.8 million in 2019, which was primarily attributable to (i) the decrease in other current financial assets of RMB522.5 million and (ii) the purchases of items of other property, plant and equipment of RMB151.0 million.

We had net cash used in investing activities of RMB845.7 million in 2018, which was primarily attributable to (i) the increase in other current financial assets of RMB522.5 million and (ii) the settlement of derivative financial instruments of RMB199.9 million.

Net cash flows (used in)/generated from financing activities

We had net cash used in financing activities of RMB8,182.4 million (US\$1,254.0 million) in 2020, which was primarily attributable to repayments of bank and other borrowings of RMB4,886.0 million (US\$748.8 million), repayments of senior notes of RMB2,256.1 million (US\$345.8 million) and repayments of corporate bonds of RMB1,030.0 million (US\$157.9 million).

We had net cash generated from financing activities of RMB127.0 million in 2019, which was primarily attributable to proceeds from bank and other borrowings of RMB5,155.7 million and proceeds from issuance of senior notes of RMB1,338.7 million, which was partially offset by repayments of bank and other borrowings of RMB5,045.9 million.

We had net cash used in financing activities of RMB4.5 million in 2018, which was primarily attributable to repayments of bank and other borrowings of RMB3,371.3 million, which was partially offset by proceeds from bank and other borrowings of RMB2,969.8 million.

Capital and Operating Lease Commitments

Commitments

The table below sets out details relating to our capital commitments for property, plant and equipment, including rental vehicles.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
			(in thousands)	
Contracted, but not provided for:				
Rental vehicles	37,457	–	–	–
Buildings	201,858	90,573	91,186	13,974.9
Capital Commitments	239,315	90,573	91,186	13,974.9

Operating Lease Commitments

We lease certain of our office properties, stores, parking lots and vehicles under operating lease arrangements. Leases for office properties, stores, parking lots and vehicles are negotiated for terms ranging from one to six years.

INDEBTEDNESS

Interest-Bearing Bank and Other Borrowings

The following table sets forth our outstanding interest-bearing bank and other borrowings as of the dates indicated:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Current				
Short-term loans				
– guaranteed.....	524,483	359,286	–	–
– unsecured and unguaranteed	672,588	1,330,040	–	–
– pledged	199,742	522,953	–	–
Current portion of sale and leaseback obligations				
– secured	97,306	669,122	77,166	11,826
Current portion of long-term bank loans				
– guaranteed.....	1,889,254	219,407	348,412	53,396
– unsecured and unguaranteed	616,292	150,000	–	–
Current portion of long-term other loans				
– guaranteed.....	700,000	100,000	290,000	44,444
Current lease liabilities.....	–	203,615	155,716	23,865
Total interest-bearing bank and other borrowings – current.....	4,699,665	3,554,423	871,294	133,532
Non-current				
Bank loans				
– guaranteed.....	736,374	1,141,746	181,201	27,770
– unsecured and unguaranteed	–	75,000	–	–
Other loans				
– guaranteed.....	–	800,000	320,000	49,042
Sale and leaseback obligations				
– secured	18,472	294,097	–	–
Non-current lease liabilities	–	278,426	164,526	25,215
Total interest-bearing bank and other borrowings – non current.....	754,846	2,589,269	665,727	102,027
Total.....	5,454,511	6,143,692	1,537,021	235,559

Our interest-bearing bank and other borrowings as of December 31, 2018, 2019 and 2020 were RMB5,454.5 million, RMB6,143.7 million and RMB1,537.0 million (US\$235.6 million), respectively. The decreases in interest-bearing bank and other borrowings from 2019 to 2020 was primarily due to our repayment of indebtedness.

The following table sets forth the maturity profile of our interest-bearing bank and other borrowings as of each of the dates indicated:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Bank loans repayable:				
Within one year or on demand.....	3,902,359	2,581,686	348,412	53,396
In the second year	223,404	522,726	–	–
In the third to fifth years, inclusive	512,970	694,020	181,201	27,770
	<u>4,638,733</u>	<u>3,798,432</u>	<u>529,613</u>	<u>81,167</u>
Other loans repayable:				
Within one year or on demand.....	700,000	100,000	290,000	44,444
In the second year	–	100,000	320,000	49,042
In the third to fifth years, inclusive	–	700,000	–	–
	<u>700,000</u>	<u>900,000</u>	<u>610,000</u>	<u>93,487</u>
Sale and leaseback obligations:				
Within one year or on demand.....	97,306	669,122	77,166	11,826
In the second year	18,472	283,832	–	–
In the third to fifth years, inclusive	–	10,265	–	–
	<u>115,778</u>	<u>963,219</u>	<u>77,166</u>	<u>11,826</u>
Lease liabilities:				
Within one year or on demand.....	–	203,615	155,716	23,865
In the second year	–	154,583	89,440	13,707
In the third to fifth years.....	–	111,388	59,107	9,059
Above five years, inclusive	–	12,455	15,979	2,449
	<u>–</u>	<u>482,041</u>	<u>320,242</u>	<u>49,079</u>
Total.....	<u><u>5,454,511</u></u>	<u><u>6,143,692</u></u>	<u><u>1,537,021</u></u>	<u><u>235,559</u></u>

As of December 31, 2020, the Group's overdraft bank facilities amounted to RMB2,606.5 million (US\$399.5 million), of which RMB2,156.5 million (US\$330.5 million) was utilized. As of December 31, 2019, the Group had overdraft bank facilities amounting to RMB6,032.4 million, of which RMB5,083.6 million were utilized. As of December 31, 2018, the Group had overdraft bank facilities amounting to RMB8,822.8 million, of which RMB6,175.9 million were utilized.

The following table sets forth the effective interest rates for our interest-bearing bank and other borrowings as of each of the dates indicated:

	As of December 31,		
	2018	2019	2020
	%	%	%
Current			
Short-term loans			
– guaranteed.....	3.15-5.00	4.43-5.53	–
– unsecured and unguaranteed	4.61-5.94	4.35-6.15	–
– pledged	0.31	3.10	–
Current portion of sale and leaseback obligations			
– secured	6.03-6.20	3.09-7.38	2.85-6.40
Current portion of long-term bank loans			
– guaranteed.....	4.75-6.00	5.30-5.92	3.49-4.14
– unsecured and unguaranteed	4.99-6.18	6.41	–
Current portion of long-term other loans			
– secured	–	–	–
– guaranteed.....	5.8	6.85	6.85
– unsecured and unguaranteed	–	–	–
Lease liabilities.....	–	6.3	6.3
Non-current			
Sale and leaseback obligations			
– secured	6.20	3.09-7.38	–
Bank loans			
– guaranteed.....	4.91-6.23	5.30	3.49
– unsecured and unguaranteed	–	6.41	–
Other loans			
– guaranteed.....	–	6.85	6.85
Lease liabilities.....	–	6.3	6.3

CONTINGENT LIABILITIES

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated. As of December 31, 2020, we had no material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any off-balance sheet transactions, arrangements and obligations, including but not limited to, financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements.

MARKET RISK DISCLOSURE

Our activities expose us to a variety of risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

INTEREST RATE RISK

Our exposure to the risk of changes in market interest rates relates primarily to our interest-bearing bank loans and loans from related parties with a floating interest rate. We do not use derivative financial instruments to hedge our interest rate risk.

FOREIGN CURRENCY RISK

We have transactional currency exposures. Such exposures mainly arise from borrowings by operating units in currencies other than the functional currencies of the units.

CREDIT RISK

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which comprise cash and cash equivalents, financial lease receivables, amounts due from a related party, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

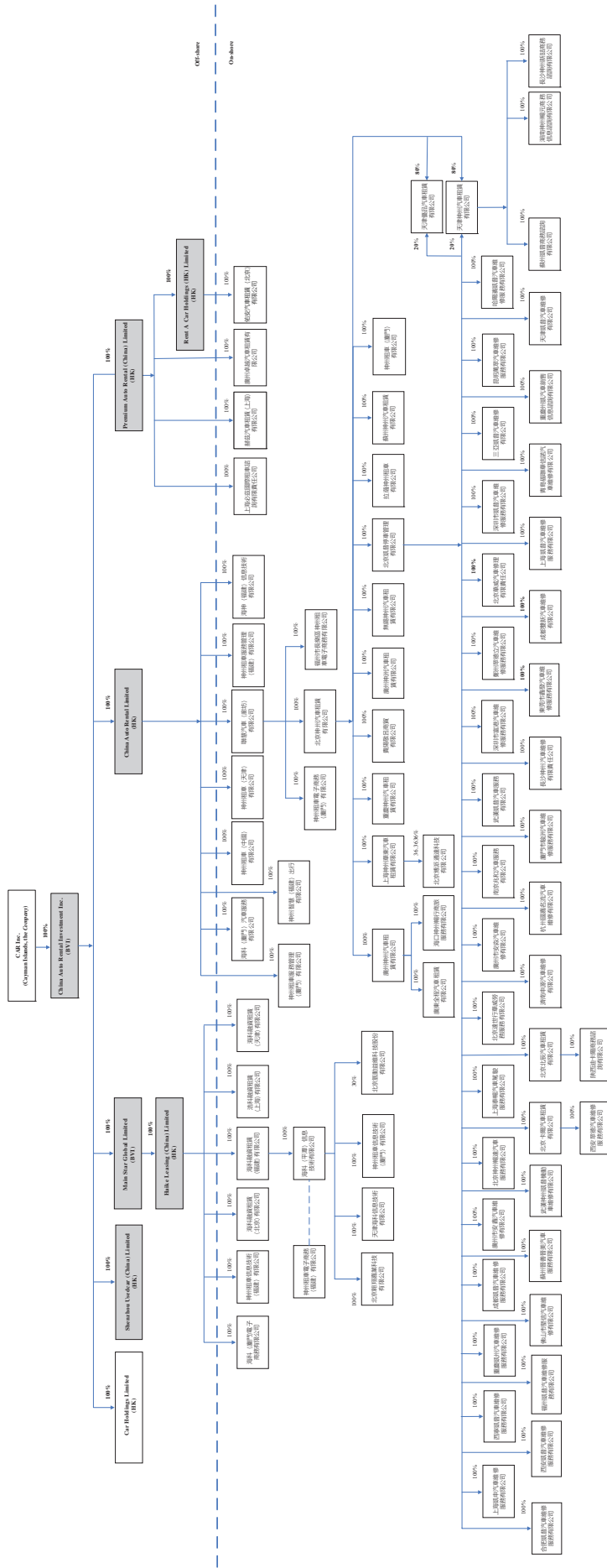
LIQUIDITY RISK

We monitor our cash flow positions on a regular basis to ensure that our cash flows are positive and closely controlled. We aim to maintain flexibility in funding by obtaining sufficient committed credit lines, and obtaining borrowing loans, issuing bonds, convertible notes and funding from other channels.

OUR CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

The following chart⁽¹⁾ shows our corporate structure as of the date of this offering memorandum:



Subsidiary Guarantors

Note:

(1) The corporate chart is an abbreviated version of the actual corporate structure.

BUSINESS

OVERVIEW

We are the largest car rental company in China in 2020 in terms of car rental revenue, according to market research conducted by iResearch. We mainly engage in offering comprehensive car rental services and are a market leader in terms of fleet size, revenue, network coverage and brand awareness.

Our total fleet comprised 109,688 vehicles (including 5,000 vehicles leased from a financial institution) as of December 31, 2020.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China, supplemented by 211 service locations in 158 small cities operated by our franchisees.

We provide a superior car rental experience by offering our customers a wide vehicle selection, vehicles in decent condition, a “hassle-free” rental process and 24/7 service in almost every city where we operate. We have been steadily advancing our smart mobile platform to enhance the operating efficiency. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Our comprehensive self-served network has been largely in place since the end of 2019. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to December 31, 2019. In December 2020, our self-served transactions increased to 91% of total reservations from 88% in December 2019.

As a technology driven company, we have developed an effective, reliable and scalable technology platform. Our technology platform centralizes all aspects of our operational management, including transaction, yield, customer, fleet, staffing and financial management. We utilize our technology platform to collect and analyze a vast amount of transactions and customer data to improve our operational efficiency and customer experience and explore new products and services. We leverage big data analytics and machine learning technology to analyze and predict customer behavior, which enables us to implement dynamic pricing and precise marketing. Reservations from mobile app as a percentage of our total reservations increased from 87% in 2018 to 94% in 2019 and, in the fourth quarter of 2020, 99% of the car rental reservations were made through our mobile app.

Despite the periodic disruption of mobility activities by the outbreak of COVID-19 throughout 2020 and the normal seasonal declines in the fourth quarter, the Company experienced an increasing pace of recovery in the second half of 2020. For the year ended December 31, 2020, the Company recorded a recovered adjusted EBITDA of approximately RMB2,019 million (US\$309.4 million), RMB1,202 million (US\$184.2 million) of which was generated in the second half of 2020, representing an increase of 47.2% as compared with that in the first half of 2020. Rental revenue and revenue from sales of used vehicles also showed a meaningful rebound at the same time. For the six months ended December 31, 2020, rental revenue was RMB2,187 million (US\$335.2 million), representing an increase of 21.1% over the first half of 2020, car rental revenue was RMB2,105 million (US\$322.6 million), representing an increase of 28% over the first half of 2020, and revenue from sales of used vehicles was RMB1,179 million (US\$180.7 million), representing an increase of 23.8% over the first half of 2020. Compared with inflow of free cash flow of RMB1,516 million in 2019, the Company generated a record high inflow of free cash flow of RMB4,929 million (US\$755.4 million) in 2020, safeguarding the Company against the outbreak of the COVID-19 pandemic and temporary financing limitations resulted from evolving shareholding structure at the time. For the six months ended December 31, 2020, free cash flow was an inflow of RMB2,997 million (US\$459.3 million), representing an increase of 55% over the first half of 2020. In addition, we recorded continuing increase for our ADRR, car utilization rate and RevPAC for the last two quarters of 2020. Our ADRR increased to RMB196 (US\$30.0) for the fourth quarter of 2020, as compared with RMB195 (US\$29.9) and RMB157 (US\$24.1) for the third and second quarter of 2020, respectively. Our utilization rate increased to 58.8% for the fourth quarter of 2020, as compared with 56.9% and 50.0% for the third and second quarter of 2020, respectively. Our RevPAC increased to RMB115 (US\$17.6) for the fourth quarter of 2020, as compared with RMB111 (US\$17.0) and RMB79 (US\$12.1) for the third and second quarter of 2020, respectively.

Looking back to the year of 2020, since early 2020, the outbreak of COVID-19 has caused an unprecedented decline in rental demand, which materially affected the Company's business performance, in particular in the first half of 2020. For the year of 2020, the Company's total revenue, which includes rental revenue and revenue from sales of used vehicles, was RMB6,124 million (US\$938.5 million), representing a decrease of 20.4% year-over-year. For the year ended December 31, 2020, the Company recorded a net loss of RMB4,163 million (US\$638.0 million), compared with a net profit of RMB31 million during the year ended December 31, 2019, mainly due to a decrease of 28.2% in rental revenue to RMB3,994 million (US\$612.1 million), mostly attributed to the outbreak of COVID-19, the significant impairments of (a) the equity investment in UCAR of approximately RMB2,801 million (US\$429.3 million); (b) trade receivables from related parties and other customers, who were mostly customers leasing vehicles from the Company, of approximately RMB593 million (US\$90.9 million); (c) the prepayment of the subscription price of the shares and convertible bonds to be issued by FDG of approximately RMB86 million (US\$13.2 million); and (d) adjustment of approximately RMB499 million (US\$76.5 million) of the residual values of all vehicles manufactured by Borgward. While our ADRR decreased by 13.8% year-over-year to RMB181 (US\$27.7) in 2020, as a result of pricing initiatives to stimulate demand, our ADRR recovered to RMB195 (US\$29.9) and RMB196 (US\$30.0) in the third quarter and fourth quarter of 2020, respectively, compared to RMB213 and RMB193 in the third quarter and fourth quarter of 2019, respectively. Our utilization rate was 53.3% in 2020 due to weak demand as a result of the outbreak of COVID-19. Such utilization rate recovered to 56.9% and 58.8% in the third quarter and fourth quarter of 2020, respectively, compared to 60.0% and 50.1% in the third quarter and fourth quarter of 2019, respectively.

In 2020, the Company repaid all interests and maturities on time, and proactively communicated with lenders from time to time to prepay loans before maturities in a controlled manner to relieve lenders' concerns in order to support long term relationship. For the year ended December 31, 2020, the Company repaid a total of over RMB8 billion (US\$1.2 billion) to lenders. Our net debt to adjusted EBITDA lowered to 2.2x as of December 31, 2020 from 2.6x as of December 31, 2019.

Our rental revenue increased from RMB5,340.1 million in 2018 to RMB5,558.7 million in 2019. Our fleet size increased from 135,191 vehicles as of December 31, 2018 to 148,894 vehicles as of December 31, 2019 and decreased to 109,688 as of December 31, 2020. Due to decreased car rental demand and the ability to obtain financing resulted from the outbreak of COVID-19, we strategically limited our car purchase in 2020 and we disposed of 38,378 used vehicles in 2020, compared with 29,203 used vehicles in 2019. Cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020. The average price for disposed vehicle in 2020 was lower as a result of (i) fewer higher priced ride hailing vehicles and (ii) the disposal of certain vehicle models with lower sales prices. Leveraging our leading market position, sound brand recognition, advantage in terms of fleet size and digital services, we will expand our business in a market with good prospect of recovery.

Looking into 2021, we are committed to continuing recovery, restoring growing business performance, and improving profitability.

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Non-IFRS Measures." The way adjusted EBITDA is calculated and presented in "Summary," "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" may be different from the way Consolidated EBITDA is defined in "Description of the Notes."

Industry and Competition

We commissioned iResearch, an independent market research consulting firm, to conduct an analysis of the car rental market, and produce industry information and data for this offering memorandum.

iResearch mainly provides independent and objective services on data collection, industry research, market research and competition research.

Certain information and statistics set out in this section are extracted from the industry information and data produced in January 2021 by iResearch's analysts who have specific knowledge of the PRC car rental industry, and the forecasts and major assumptions were based on iResearch's analysis of historical data and trends. Such information was obtained by iResearch from a variety of official industry sources, including relevant PRC Government departments and established PRC industry organizations such as the National Bureau of Statistics of the PRC. iResearch has conducted interviews with market participants and industry experts in order to support, verify and cross check the consistency of relevant data and estimates.

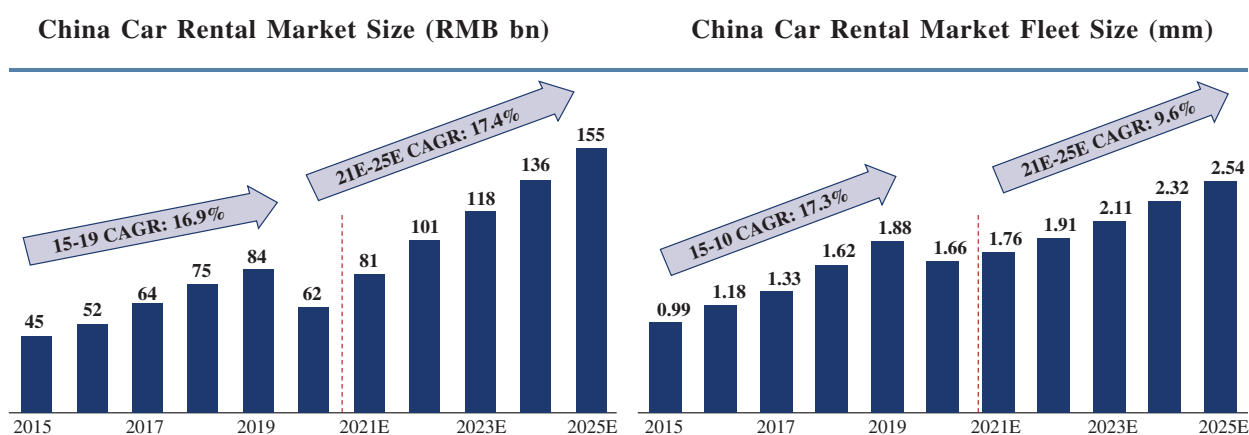
We paid to iResearch for producing the industry information and data. Except for iResearch’s industry information and data produced in March 2021, we did not commission any other customized research report or data in connection with the offering memorandum.

The car rental industry in China is characterized by robust growth and high level of fragmentation. As the most populated country and second largest economy in the world, China is expected to witness the size and penetration rate of its car rental industry to catch up with those of developed countries and to become only second to the United States in 2025. The fundamental growth drivers for the sector include the large discrepancy between the number of licensed drivers and the number of passenger vehicles as well as the market fragmentation, which provide ample opportunities for large and well-capitalized players to scale and expand market share.

The COVID-19 pandemic has had a profound and long-lasting impact on the car rental industry in China, and the Company is expected to solidify its position as the clear market leader in terms of fleet size, revenue, network coverage and brand awareness.

As a major segment of the car rental market, the short-term car rental market in China is also expected to experience robust growth as a result of the lifting of the lockdown and climbing number of tourists, especially domestic ones, in China, as well as aforementioned factors.

China’s car rental industry is at an early stage of development and has experienced substantial growth in recent years. According to iResearch, the total size of China’s car rental market, as measured by revenues, grew from approximately RMB44.7 billion in 2015 to approximately RMB83.6 billion in 2019, representing a CAGR of 16.9%. The U.S. market size, as measured by revenues, was approximately US\$32.0 billion in 2019, according to iResearch. Due to impact of outbreak of COVID-19, the total size of China’s car rental market, as measured by revenues, decreased to RMB61.6 billion in 2020. According to iResearch, the total market size, in terms of revenue, will continue to grow at a CAGR of 17.4% from 2021 to approximately RMB154.6 billion by 2025, second to U.S. market size of US\$36.5 billion then, and the total fleet size in China’s car rental market is expected to grow to approximately 2,540,000 vehicles in 2025.



Source: iResearch

According to iResearch, China’s short-term car rental market has significant growth potential. The size of China’s short-term car rental market, as measured by rental revenues, grew at a CAGR of 21.6% from RMB27.1 billion in 2015 to RMB59.2 billion in 2019. The size decreased to RMB41.5 billion in 2020. It is expected to grow at an accelerated CAGR of approximately 17.6% from RMB55.2 billion in 2021 to RMB105.6 billion in 2025.

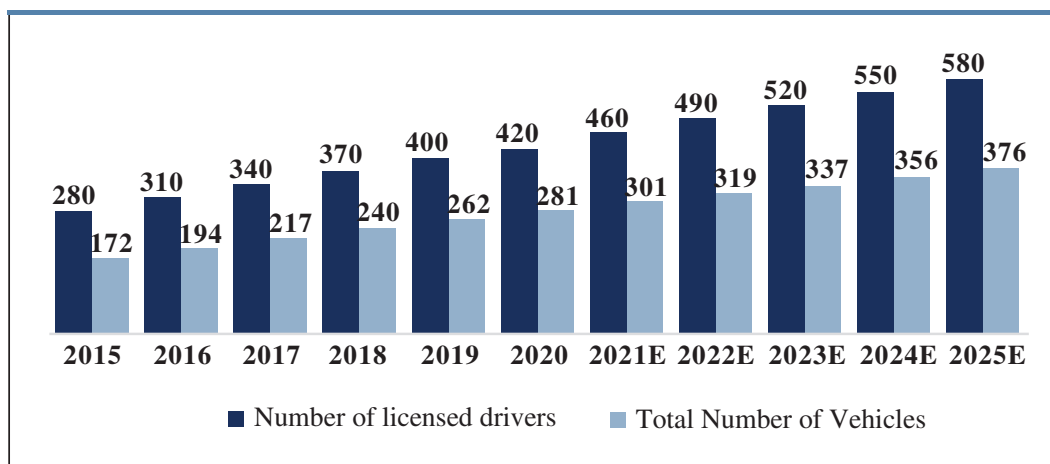
According to iResearch, the car rental penetration rate, defined as the number of rental vehicles as a percentage of the total number of passenger vehicles, is still fairly low in China compared to developed markets such as the United States and European countries. In 2019, the car rental penetration rate in China was 0.72%, compared to 2.43% in the United States. In 2020, the car rental penetration rate in China was 0.59%.

The following factors have driven, and are expected to continue to drive, the fast growth and market potential for leading players of China’s car rental industry.

Growing gap between the numbers of licensed drivers and private passenger vehicles

Compared to other countries, the growing gap between the numbers of licensed drivers and private cars is a phenomenon unique in China. In 2020, the number of licensed drivers exceeded the number of passenger vehicles by approximately 139 million, due to license plate quota in some top tier cities and high ownership costs. This large gap functions as a powerful driver for China’s car rental market.

Comparing Number of Licensed Drivers and Car Ownership from 2015-2025E

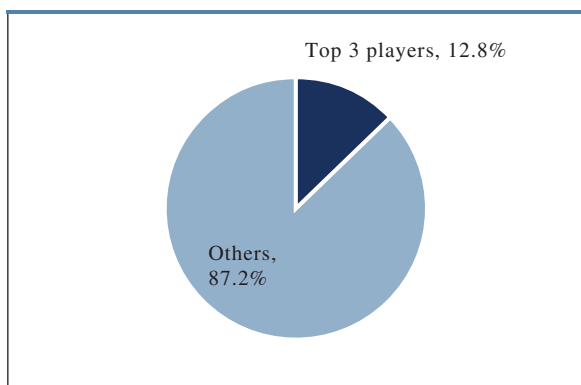


Source: iResearch

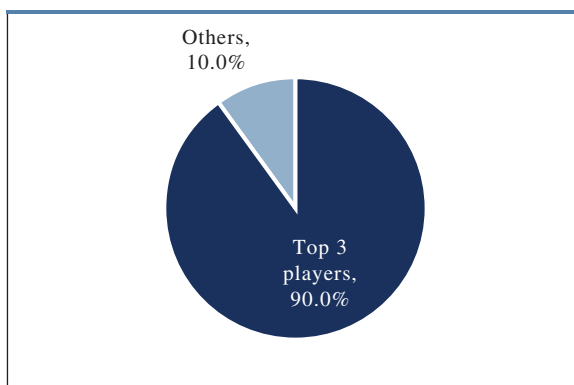
Fragmentation and future consolidation in China’s car rental market

China’s car rental market is highly fragmented compared to more developed markets. Only two players in China have more than 5% of market share in 2020 in terms of revenue, according to iResearch. Compared to 90.0% in the United States, the top three car rental companies in aggregate accounted for approximately 12.8% of China’s car rental market in 2019 in terms of revenue, which increased to 15.9% in 2020, according to iResearch.

China Car Rental Market Segmentation in 2019



U.S. Car Rental Market Segmentation in 2019



Source: iResearch

The COVID-19 pandemic has significantly changed the market landscape. According to iResearch, the cash constraints in 2020 have caused a large number of small players in the car rental industry to exit the market. Although most of the leading companies have reduced the size of their fleet in 2020, they are more resilient than the tail companies. In the second half of 2020, revenue, unit price and utilization rate have recovered gradually. Under the background of eliminating cash flow pressure and increasing demand in the car rental market, it is expected that in 2021, leading companies will steadily expand their fleet size facilitated by capital injection, and their market shares will increase given expected market consolidation. As the market further matures post the pandemic, iResearch expects the concentration to further improve towards levels in developed markets.

The Company is a leader in the car rental industry, with operations in most of the first and second tier cities in China, supplemented by a wide franchised network in the lower tier cities. Competition among car rental companies is primarily based on, among other things, fleet size, brand recognition, network coverage, price, variety and condition of the vehicles, variety of service offerings and quality of customer service. In the sense that other car transportation services also divert consumers from car rental in general, car rental companies in China also compete marginally with companies that offer car transportation solutions, such as car sharing services, chauffeured service or taxi-related service. However, such services address different customer needs for rental terms, prices and purposes and are not considered substitutes of car rental services.

The impact of the epidemic on various car rental companies has been mainly concentrated in the lockdown period before April 2020. The lifting of the lockdown in many places since May 2020 and the suspension of international tourism have driven the demand for domestic tourism. The demand for large-scale holiday car rentals such as Labor Day (May 1st) and National Day (October 1st) has been relatively vigorous, operations of leading car rental companies have returned to the normal level prior to COVID-19. However, the business shutdown in the first half of 2020 put cash flow pressure on the industry, so most car rental companies have reduced their vehicle fleets to certain extents in 2020. In the context of the successful research and development of domestic COVID-19 vaccines and the effectiveness of domestic pandemic control, iResearch expects business travel and leisure demand will be further released in 2021 and subsequently the car rental market will further improve due to car rental demand surge, particularly during the holidays.

OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors.

We are a leader in a fragmented and underpenetrated market with highly attractive outlook

As an early mover in the highly fragmented car rental market in China, we have established and have been continuously strengthening our market leadership. We are one of the market leaders in China's car rental industry in terms of fleet size, network coverage, brand awareness and revenue. According to iResearch, we ranked first among all car rental companies in terms of car rental revenue in 2020.

China's car rental industry is at an early stage of development and has experienced substantial growth in recent years. According to iResearch, the total size of China's car rental market, as measured by revenues, grew at a CAGR of 16.9% from approximately RMB44.7 billion in 2015 to approximately RMB83.6 billion in 2019, compared to U.S. market size, as measured by revenues, of approximately US\$32.0 billion in 2019. Due to impact of outbreak of COVID-19, the total size of China's car rental market, as measured by revenues, decreased to RMB61.6 billion in 2020, according to iResearch.

China's car rental market is highly fragmented compared to more developed markets. Compared to 90.0% in the United States, the top three car rental companies in aggregate accounted for approximately 12.8% of China's car rental market in 2019 in terms of revenue, which increased to 15.9% in 2020, according to iResearch. As the top player, the Company accounted for approximately 6.7% of China's car rental market in 2020 in terms of revenue, according to iResearch.

According to iResearch, the car rental penetration rate, defined as the number of rental vehicles as a percentage of the total number of passenger vehicles, is still fairly low in China compared to developed markets such as the United States and European countries. In 2019, the car rental penetration rate in China was 0.72%, compared to 2.43% in the United States. In 2020, the car rental penetration rate in China was 0.59%.

Compared to other countries, the growing gap between the numbers of licensed drivers and private cars is a phenomenon unique in China. In 2020, the number of licensed drivers exceeded the number of passenger vehicles by approximately 139 million, due to license plate quota in some top tier cities and high ownership costs. This large gap functions as a powerful driver for China's car rental market. According to iResearch, the total size of China's car rental market, as measured by revenues, is expected to grow at an accelerated CAGR of approximately 17.4% from RMB81.3 billion in 2021 to RMB154.6 billion in 2025.

The COVID-19 pandemic has significantly changed the market landscape. According to iResearch, the cash constraints in 2020 have caused a large number of small players in the car rental industry to exit the market.

As the market further matures post the pandemic, iResearch expects the concentration to further improve towards levels in developed markets. Leveraging our leading market position, sound brand recognition, advantage in terms of fleet size and diversified business portfolio, we will expand our business in a market with good prospect of recovery and solidify our market leader position.

We established a defensible business model with high entry barrier

Our clear and sustained market leading position provides us with unique competitive advantages including strong economies of scale, dedication to technology development and secured licenses and our recognized and trusted brand, which in turn sets a high entry barrier and will strengthen our market leader position.

Strong economies of scale. We enjoy substantial procurement and operational cost advantages as a result of our business scale. We believe we have become one of the largest purchasers of passenger vehicles in China since 2011. We are able to leverage our purchasing power to obtain substantial discounts from our vehicle suppliers. We have also entered into cooperative initiatives with our business partners, including insurance companies and self operated repair and maintenance outlets, to lower other costs. Furthermore, our economies of scale allow us to achieve significant operational efficiency by lowering our average fixed costs and expenses such as marketing and overhead expenses as a percentage of revenue. We enjoy financial flexibility and reliable and stable cashflow through our flexible asset base in the acquisition, operation and disposal of our vehicles. In addition, our scale and market leading position provide us with unique access to diversified credit sources, including major commercial banks, capital leasing companies, bond market and automobile manufacturer at more favorable financing terms as compared to small car rental companies.

Technology advantages. As a technology-driven company, we have developed an effective, reliable and scalable technology platform. We believe that our early focus on technology provides us with a strong competitive advantage. Our industry-leading and highly automatic app-based customer and staff management systems empower us to improve our operational efficiency while continuously enhancing our customer experience. We provide efficient self-served pick-up and return services across the country, and our well established contactless service enables us to own barriers to competition after the outbreak of COVID-19. In addition, we can leverage our big data platform to drive operational performance. With data and experience accumulated over past 13 years on fleet management, customer behavior, operation efficiency, geographic differentiation and trend projection, we are able to implement dynamic pricing and precise marketing to maximize yield.

License plate advantages. Regulatory restrictions on license plates create a significant constraint on fleet expansion for car rental companies. Several of China's largest cities, including Beijing, Shanghai, Guangzhou, Tianjin, Hangzhou and Shenzhen, and Hainan province, have implemented restrictions on the issuance of new license plates, the transfer of old license plates between different vehicle owners, and entry to downtown areas by cars with non-local license plates. Please see "Regulations Overview" for more details.

These restrictions make it highly difficult to obtain license plates, which in turn prevents fleet expansion by existing and new participants in China's car rental market. As an early mover with a large scale, we have, by purchasing a large number of vehicles, secured sufficient number of license plates to accommodate our growth in the foreseeable future in cities with license plate restrictions as well as those expected to implement similar restrictions. We currently do not need as many vehicles in cities with restrictive policies on license plates to meet the market demand in such cities, therefore we deploy excess vehicles to other cities where the local rules or regulations allow rental operations using vehicles with non-local license plates. For example, we deploy a portion of our Beijing-registered vehicles to neighboring cities for rental operations. If market demand in cities with restrictive policies on license plates increases, we have the flexibility to re-deploy those vehicles back and capture the growth in these cities. We can acquire additional vehicles in cities which have no restrictive policies on license plates but are likely to launch restrictions, to continue our rental operations in those cities. In some cities, a six-month period is required between deregistration of the used vehicles and registration of the new vehicle of the same license plate. However, as our market leading operational scale enables us to regularly replenish our fleet, we have not experienced any difficulty in re-registering our existing license plates from disposed vehicles to new vehicles within the timeframe permitted by local policies in cities with license plate restrictions. We have not had and do not expect the re-registration process of existing license plates to new vehicles to have any significant negative impact on our financial position or results of operation.

Most recognized and trusted brand. Our brand has become the most recognized and trusted car rental brand in China. Since the Ministry of Industry and Information Technology launched its China Brand Power Index in 2011, our brand was named one of the three most recognized car rental brands among Chinese customers for eight consecutive years. Our strong brand allows us to achieve premium pricing and lower our customer acquisition costs. Our dedication to offering the best rental experience is rewarded with a large, loyal and rapidly growing customer base. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to 2019.

We believe these competitive advantages form a virtuous cycle and will continuously strengthen our market leadership.

We have wide geographic coverage and strong fleet management capabilities

With our wide geographic coverage and strong fleet management capabilities, we can be more easily reachable to our customers, obtain substantial discounts from our vehicle suppliers and dispose a large number of used cars at more favourable price as compared to our peers.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations, including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China, supplemented by franchised service locations in 158 lower tier cities, which enables us to be more easily reachable to customers from market outlook.

We have a diversified and balanced business spread in terms of geographic coverage. As of December 31, 2020, approximately 45% of our rental revenues was from top ten of those cities where we have operation. In addition, our extensive nationwide network is supplemented by service locations in smaller cities operated by our franchisees. We have established dense geographic coverage with service locations near transportation hubs, business districts, residential communities and tourist destinations in many major cities, which are generally less susceptible to seasonality changes in demand compared to airport service locations. In 2020, revenues from our off-airport locations represented approximately 79% of our rental revenues.

The epidemic has popularized the concept of contactless services in various industries. Leading car rental companies will also further promote self-service collection and return services, which simplify the process of user pick up and return and cater to users' contactless needs in the epidemic. Users are more inclined to choose companies with self-service pick up and return services under same price level. Self-service collection and return services require enterprises to have strong platform operation capabilities, convenient parking spaces to support users for self-service pick up. Capability of self-service collection and return services create a certain barrier to competition for leading companies, according to iResearch. We provide efficient self-served pick-up and return services across the country, and launched contactless service shortly after the outbreak of COVID-19, which enables us to own barriers to competition.

Our total fleet comprised 109,688 vehicles (including 5,000 vehicles leased from a financial institution) as of December 31, 2020. Our large scale in terms of fleet size and network coverage has enabled us to take substantial cost advantages by lowering our procurement costs, fixed costs and expenses and we have strong bargaining power against the OEMs. As of December 31, 2020, approximately 87% of our fleet are served by our self-operated repair and maintenance facilities.

In addition, we have developed a diversified used car sales dealer network so we can dispose a large number of used cars efficiently through a fast disposal mechanism.

Our insights from big data platform drive superior performance

As a technology-driven company, we have developed an effective, reliable and scalable technology platform. We believe that our early focus on technology provides us with a strong competitive advantage. Our app-based customer and staff management systems empower us to improve our operational efficiency while continuously enhancing our customer experience. In addition, we can leverage our big data platform to drive operational performance. With data and experience accumulated over past 13 years on fleet management, customer behavior, operation efficiency, geographic differentiation and trend projection, we are able to implement dynamic pricing and precise marketing to maximize yield.

Our technology platform centralizes all aspects of our operational management, including transaction, yield, customer, fleet, staffing and financial management. Our technology platform enables us to:

- (a) *maximize yield with dynamic pricing.* By conducting supply/demand analysis of historical data and anticipate future demand, our big data platform provides critical information for our dynamic pricing, fleet deployment as well as long-term strategic decisions. Our technology enables us to implement dynamic pricing and provide reasonable and competitive service offerings to customers based on market demand, inventory level, rental term, location, timing of booking, competitor rates and our target margin.
- (b) *enhance customer experience with new service and technology.* We have developed industry-leading mobile apps and website, all of which are fully integrated with our technology platform and capable of handling the entire transaction process from booking to payment and other car rental service related matters including handling insurance claim and traffic violation. Leveraging location-based service feature, our mobile app enables customers to locate the nearest service location and enjoy built-in GPS navigation service. In addition, customers can conduct advanced check-in and make payment on their mobile devices. Self-served transactions accounted for 91% of the total number of transactions in December 2020, as compared to 88% of the total number of transactions in December 2019. Our comprehensive self-served network has been fundamentally in place since the end of 2019. Our big data platform can also record and analyze customer data to better understand their rental habits and more effectively engage them in our promotional activities. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to 2019.
- (c) *increase staff and store productivity.* We manage the entire transaction process on technology platform to ensure smooth execution and effective risk control. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Through our technology platform, we can track and analyze each vehicle's key data, such as location, fleet age, number of rentals, insurance claims and maintenance record, etc., to more effectively manage our expenditures and future vehicle acquisitions and we can analyze our financial performance by store, branch office, region, product type, cost type or time period, enabling our management to make more informed decisions in budgeting, cost control, hiring, vehicle acquisitions and store openings.

We have financial flexibility and sustainable cashflow and leverage profile built up over the past few years

Our flexible asset base and asset-light business network with easy access provide us with financial flexibility, which enables us to have significant control over our capital expenditure, enjoy strong and steady cash flow, and quickly adjust our operations in response to changing market conditions.

We enjoy financial flexibility and reliable and stable cashflow through our flexible asset base in the acquisition, operation and disposal of our vehicles.

Acquisition. Our vehicle purchase decisions, including the number of vehicles, the timing for purchase, and the suppliers to purchase from, are typically based on our business needs and strategies with limited purchase commitments to suppliers. Once we decide to purchase vehicles, the purchase orders are fulfilled promptly and the vehicles are placed into operation and are prepared to begin to generate operating cash flow within a short period of time. This short lead time between our decision to purchase vehicles and cash inflow from operation enables us to quickly respond to changing market conditions, and further enhances our financial flexibility.

Operation. Our rental operation generates strong cash flow on a daily basis, which contributes to our strong liquidity and reduces our reliance on external financing. In addition we can, and do, from time to time readjust the deployment of our fleet to better serve regional market demand, which increases both the amount and steadiness of our cash flow from operations.

Disposal. We have a strong track record of efficiently disposing of our used vehicles at desirable prices, which is critical to our ability to maintain strong liquidity. First, a large number of our vehicles are from well-established brands and models with an active resale market which facilitates our timely and efficient vehicle disposal. Second, we have established diversified and effective channels for used car disposal, including used car dealers network, online bidding and auction platforms, offline auction companies and other offline sales. Third, we also leverage our extensive franchisee network and large customer base to facilitate our used car sales. Lastly, most of our vehicles are free and clear of any legal encumbrances, which allows us to dispose of them expediently without having to satisfy any additional conditions and to use the sale proceeds in our complete discretion. As a result, we have been able to dispose of our used cars timely when needed. In 2018, 2019 and 2020, we disposed of 12,596, 29,203, 38,378 used cars, respectively. We have also been able to dispose of used cars close to our booked prices, which was evidenced by our ability to achieve gross profit or loss margins for our used car sales within approximately +/-5% since 2016.

We also enjoy significant financial flexibility and become less vulnerable to market fluctuations in the management of our asset-light network of service locations. Our directly-operated nation-wide network of service locations consist of stores and self-served locations, supplemented by service locations operated by our franchisees.

Our stores are on leased properties, some of which have physical storefronts with parking facilities. As opposed to self-owned properties, operating on leased properties considerably lowers our capital expenditures on network. The leases for our stores typically have a term of one to three years, affording us sufficient flexibility to relocate or downsize if necessary.

Self-served locations are parking facilities with a simple service stand without a full storefront or typical store facilities. Our self-served locations are inherently asset-light, which provides us with great financial flexibility in upsizing, downsizing and redeploying our network in response to changing market conditions in any region. In addition, as it is generally easy to secure the parking facilities for a simple service stand, pick-up points provide our customers with easy access to our services, and thereby enable us to enhance customer experience, acquire more customers and increase our yield. As of December 31, 2020, we had 2,560 directly operated service locations, of which 2,121 were self-served locations, and we intend to carry out our future network expansion primarily through self-served locations.

We maintained a strong liquidity position for the past years while external adverse impact including COVID-19 pandemic and uncertain shareholding structure created significant pressure on our business performance and liquidity for 2020. Despite the challenges, compared with inflow of free cash flow of RMB1,516 million in 2019, the Company generated a record high inflow of free cash flow of RMB4,929 million (US\$755.4 million) in 2020. As of June 30, 2020 and December 31, 2020, our cash balance (including cash and cash equivalents and restricted cash) were RMB928.5 million and RMB2,191.6 million (US\$335.9 million), respectively. Our total debt (including interest-bearing bank and other borrowings and senior notes) declined 55% from RMB14,879.5 million as of December 31, 2019 to RMB6,660.9 million (US\$1,020.8 million) as of December 31, 2020. Our net debt to adjusted EBITDA lowered to 2.2x as of December 31, 2020 from 2.6x as of December 31, 2019. The Company was able to sustain the business steadily and maintain healthy cashflow through extra commitment to promote business in difficult times, close communication with creditors and increasing used car sales. We believe a strong and solid financial position built up over the past few years is critical for the sustainability of our business in the prolonged weakened economic cycle.

We have predictable business prospect with support from a solid and stable shareholder base

From 2020 to 2021, the Company eventually brought in a reputable shareholder and subsequently raised a sizeable funding to strengthen liquidity. In December 2020, MBK Partners, through its affiliate Indigo Glamour Company Limited, completed the acquisition of approximately 20.9% of the total then issued share capital of the Company. Indigo Glamour Company Limited, as the Offeror, launched a pre-conditional VGO at offer price of HK\$4 for each Share in November 2020 and a formal VGO in February 2021. The purchase price implies an equity valuation of approximately HK\$8.5 billion (US\$1.1 billion) for the Company.

On March 4, 2021, the Offeror had received valid acceptances in respect of 1,556,617,734 shares under the Share Offer resulting in the Offeror holding in Shares in aggregate representing approximately 94% of the issued share capital and voting rights of the Company. The Offeror will privatise the Company by exercising its rights to compulsorily acquire those offer Shares not already acquired by the Offeror under the Share Offer on the same terms as the Share Offer. After the compulsory acquisition completes, the Company will become a wholly owned subsidiary of the Offeror. An application will be made to the Hong Kong Stock Exchange for the withdrawal of listing of the Shares from the Hong Kong Stock Exchange under Rule 6.15(1) of the Listing Rules, which is currently expected to be in around July 2021. See “Summary – Recent Development – VGO.”

MBK Partners is one of the largest private equity funds in Asia with over US\$22.0 billion of capital under management. MBK Partners focuses on North Asia and has developed expertise in various industries, including consumer and retail, telecommunications and media, financial services, healthcare, logistics and industrials. MBK Partners typically has a long term investment horizon and partners with management to grow and create value in its portfolio companies. In addition, MBK Partners is experienced in car rental industry by investing in certain Korean and PRC rental companies.

We believe MBK Partners’ investment will: (a) bring stability to the Company’s shareholding base, which in turn will help stabilise the Company’s business operations and support positive views on the Company’s outlook and ability to meet its obligations, which were negatively impacted by movements in the shareholding structure of the Company in 2020; and (b) through MBK Partners’ strong industry expertise and strong financial position, allow the Company to be well-positioned to benefit from the long-term growth trends in the PRC.

In addition, with solid and stable shareholding base, we expect to have sufficient liquidity and funding access in the future to restore our business growth.

We have an experienced management team

We believe that excelling in the car rental business in China requires in-depth industry expertise, extensive local know-how and strong execution capability. Our management team has accumulated extensive knowledge of China’s consumer, automobile and technology sectors. Ms. Yifan Song, our Chief Executive Officer, founding member and Executive Director, has over 21 years in automobile-related businesses. Under Ms. Song’s leadership, a majority of the senior members of our management team have worked together for over ten years and our management team’s extensive experience has greatly contributed to our institutional knowledge.

Our core management team includes:

- Mr. Guangyu Cao, our Chief Financial Officer and founding member, has over 19 years experience in automobile-related industry. Mr. Cao oversees financing strategies, tax planning and accounting of the Group.
- Ms. Zhe Zhao, our vice president who is mainly responsible for yield enhancement, marketing strategies and operation management of the rental business, has over 14 years industry experience.
- Mr. Yijun Zhang, our Chief Technology Officer who oversees digitalization and information and intelligence development, has over 15 years industry experience.
- Mr. Pingxin Xu, our vice president who is responsible for used car management, including marketing strategies, channel development, and used car assessment, has over 15 years industry experience.
- Mr. Huijun Zhao, our vice president who is responsible for fleet management, including repair and maintenance and insurance, has over 13 years industry experience.
- Mr. Yandong Zeng, our vice president who is mainly responsible for strategic cooperation, including resources management and business partner relationships, has over 22 years automobile-related industry experience and worked 12 years at the Company.

OUR STRATEGIES

We, as a leader of the car rental market in China, are committed to staying focused on our core car rental business by delivering superior experience and services to our clients and to maintaining a healthy and stable growth in the future. We believe our market leading position, defensible business model, wide geographic coverage and strong fleet management capabilities, insights from big data platform, financial flexibility, predictable business prospect and experienced management team have laid a strong foundation for us to achieve our goal as a leading car rental group and successfully navigated us through uncertainty caused by outbreak of COVID-19.

Since the outbreak of COVID-19 in early 2020, the PRC government has continued to implement a variety of measures to contain the spread of COVID-19, including travel restrictions, quarantine advisories, required closure of business units, practice of social distancing, etc. The strain of COVID-19 and the resulting economic conditions, coupled by financing constrains and uncertain shareholding structure, have placed the Company into a difficult start of 2020. By forming a stable shareholding structure of the Company and effective control of COVID-19 spread by PRC governments and development of vaccines, now most of the key challenges in 2020 have been addressed or alleviated to certain extent and the Company is ready to move into a new year.

Sustaining the business through 2020 has proven that efficient asset management is a crucial protection to the Company. The proven track record of strong operation capability and cost discipline allowed the Company to react swiftly to different market conditions. Looking into 2021, the Company is committed to continuing recovery, restoring growing business performance, and improving profitability by implementing the following strategies:

Enhance our revenue by more effective customer engagement and lead generation tools, smart dynamic pricing and more value-added services and better product offerings catering to different use cases

We will continue to more effectively engage our existing customers in our promotional activities by analyzing customer data and understanding their rental habits and provide bespoke offering package including “safe commuting package”, different time-period of rental products and more value-added services such as accident coverage packages, 24/7 roadside assistance, vehicle delivery and one-way rentals. We also provide promotion package for existing customers to recommend new users of our car rental services, and offer competitive price to attract long-term rental car user. For example, we will continue to articulate pricing strategy of “the earlier, the cheaper; the longer, the less costly”. In addition, we will continue to upgrade our mobile apps to improve customer’s experience of our services and efficiency of the allocation of fleet to our customers. We will launch a new plan of membership to reward frequent customers and enhance the loyalty of consumers to the brands of CAR.

Through digital advertising, diversified marketing and crossover cooperation with different parties including travel agents, we will continue to carry out targeted promotional campaigns to core groups including business travelers, college and university students, carless license holders, and local white-collar workers, to enhance brand recognition and conversion.

We will continue to keep the health and safety of customers as our priority by providing cleanliness and disinfection of rental facilities and vehicles and return of cars through our nationwide service network.

We will optimize our pricing mechanism based on market demand, inventory level, rental term, location, timing of booking, competitor rates and our target margin. We will try to identify different types of customers and set different pricing strategy to enhance our revenue and profitability.

Improve our fleet efficiency by higher fleet utilization rate and upgrade of inventory and used car sales model

In order to improve our fleet efficiency, we will dynamically adjust our prices based on demand and our current inventory level to increase our fleet utilization. We will also optimize our fleet network redeployment based on market demand. We will allocate our vehicles across cities based on the pattern of usage differences between different demand seasons by sending idle cars from cities with less demand to cities with more demand by means of hitch ride, mass transportation, and repricing of drop-offs in cities away from the one where the car is picked up. We will balance demand and supply by allocating vehicles across different service locations in one city based on their let rates and matching the radius of supply with that of demand.

In addition, we will upgrade our inventory and used car sales model. By tracking and analyzing key data of vehicle uses and demand trends for different type of cars, we will set effective purchase and sales plan to optimize our fleet inventory by age, model and brand. We will also build more channels for our used car sales to increase the efficiency of sales at comparatively favourable price.

Improve profitability by optimizing cost structure and enhancing staff-less operations

We will expand the geographical footprint while putting a strong focus on providing more intelligent and convenient services to customers. Staff-less operation will continue to deepen through the increasing installations of self-service equipment. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Our service locations will be more widespread and hence closer to the customers with the support of the Smart Assistant system. Our comprehensive self-served network has been largely in place since the end of 2019. Our goal is to maintain over 90% coverage of staff-less operation on all car rental fleet.

Enhance customer experience by fleet mix optimization through adding popular car models and achieving younger fleet age

Our large fleet includes sedans, SUVs, and MPVs of over 100 popular models in China to satisfy the diverse needs of our customers. We will determine our new vehicle purchase based on market and business developments (mainly demand and ADRR recovery). Due to outbreak of COVID-19, we limited the acquisition of new vehicles in 2020. In 2021, we expect to expand our fleet size and optimize the fleet portfolio in terms of age and model to satisfy the broadest scope customers' needs.

We will also monitor our combination of different types and levels of car models, assess market trend leveraging our big data technology and adjust our service car offerings in a timely manner.

OUR PRODUCTS AND SERVICES

Since 2017, we have reclassified our rental revenue and operating fleet to better align with new developments in our business and customer needs.

In addition, we offer various value-added services such as accident coverage packages, free GPS navigation support, 24/7 roadside assistance, vehicle delivery and one-way rentals.

Car Rental

We categorize rentals to individuals through our mobile app, website, call centers and rental locations and delivery services as car rentals. Our car rental services are generally standard with standard fleets and pricing. Our car rental customers include individuals and corporations who rent cars to meet their leisure and business needs.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China. With our geographically extensive and easily accessible network of service locations, we believe we are well positioned to capture growth opportunities in both the business and the leisure segments for car rentals.

Our car rental fleet had over 100 popular models covering most vehicle classes and major brands available in the market as of December 31, 2020. We offer sedans, SUVs and MPVs to meet different rental needs.

There is a growing demand from individuals for car rentals in China. Chinese consumers increasingly utilize car travel for both business and leisure purposes, which creates a growing demand for car rentals. In particular, the large and growing group of Chinese licensed drivers who desire the convenience of car travel but do not own a car represent a strong and sustainable demand for car rentals. Insurance companies and automobile dealerships in China have a growing demand for car rentals as they begin to offer replacement rentals to their

customers. Further, the Chinese government has issued policies to encourage car rental as a more environment-friendly means of transportation. In addition, recent reforms to reduce government car ownership in China have led to government agencies utilizing car rental services for business purposes, which represents another growing demand for car rentals. Our car rentals meet the needs of individual customers by offering a cost-effective and convenient alternative to car ownership.

We charge our car rental customers basic rental rates, basic handling fees, cleaning fees and fees for value-added services. We implement dynamic pricing on our car rental rates, which vary based on market demand, inventory level, rental terms, location, timing of booking, competitor rates and our target margin. Our customers are responsible for the cost of gasoline consumed during the rental period. We also offer various value-added services such as accident coverage packages, GPS navigation systems, 24/7 roadside assistance, vehicle delivery and one-way rentals.

A first-time customer must register as a member and provide government-issued identification and a valid Chinese driver's license for our verification. Our members can make reservations for car rentals through our website at www.zuche.com, our mobile app for all major operating systems and our 24/7 call centers, or by walk-in at any of our stores, all of which are supported by our fully integrated technology platform. In the fourth quarter of 2020, 99% of the car rental reservations were made through our mobile app.

Our increasing installations of self-service equipment continues to maintain over 90% coverage of staff-less operation on all car rental fleet. Based on our capability to deliver self-served services across the country, we provided contactless service during and after the outbreak of COVID-19 to provide our customers with worry-free travels.

Prior to picking up a rental car, car rental customers are required to sign our rental agreement and be pre-authorized, to prepay or deposit a required amount on a credit or debit card or through third-party online payment services such as Wechat Payment and Alipay. During the return process, our staff or customers follow standard procedures, including inspection of vehicle condition, gasoline level, damage assessment, if applicable. Payment will be made cashless in general. We do not allow cash payment, which helps us maintain strict control over payment collection. We also retain a preset amount through debit deduction or credit preauthorization for up to 30 days as a deposit against liabilities, such as traffic tickets, caused by the customer.

Our car rental business has grown significantly over past years prior to the outbreak of COVID-19. As a result of the substantial growth in rental volume, our revenue from car rental grew from RMB4,484.8 million in 2018 to RMB4,916.4 million in 2019. Revenues from car rentals accounted for 84.0% and 88.4% of our rental revenues for 2018 and 2019, respectively.

Our revenue from car rentals decreased by 23.6% year-over-year to RMB3,755.1 million (US\$575.5 million) for the year ended December 31, 2020, mainly due to the decrease in RevPAC as a result of the outbreak of COVID-19.

Fleet Rentals and Other

We categorize customized fleet management services provided to corporations under framework agreements with tailor made items as fleet rentals. Our fleet rental services include fleet rentals with various length of rental period and our fleet is more customized in terms of models, colors and bands. Our fleet rental customers include primarily institutional customers such as multinational corporations, state-owned enterprises and small and medium sized enterprises.

We leverage our car rental fleet to provide temporary replacement rentals to institutional customers whose fleet rental vehicles are unavailable due to repair or maintenance. In terms of vehicle selection, we in general offer a new vehicle of a make and model specified by the customer whose rental term exceeds 24 months, and a new vehicle from the makes and models of our car rental fleet for customers whose rental term is between 12 and 24 months. Customers whose rental term is less than 12 months may choose an existing vehicle from our car rental fleet.

We provide fleet rentals under individually negotiated contracts. Terms of fleet rental contracts vary based on rental length, vehicle type, locations and other factors. Fleet rental rates typically include basic rental fees, cost of basic insurance coverage, costs for repair and maintenance and cost of contract drivers, if applicable. We offer optional valued-added services such as accident coverage packages and 24/7 roadside assistance. We generally bill our fleet customers monthly. The payment term is in general more than 90 days.

Our fleet rental and other revenue decreased from RMB855.3 million in 2018 to RMB642.3 million in 2019 and further to RMB238.7 million (US\$36.6 million) in 2020. Our fleet rental and other revenue accounted for 16.0%, 11.6% and 6.0% of our rental revenue for 2018, 2019 and 2020, respectively.

Sales of used vehicles

Revenue from sales of used vehicles represents the revenue generated from the sales of our used vehicles. Our revenue from sales of used vehicles were RMB1,103.6 million, RMB2,132.0 million and RMB2,130.6 million (US\$326.5 million), respectively, for the years ended December 31, 2018, 2019 and 2020.

We disposed of 12,596, 29,203 and 38,378 vehicles for the years ended December 31, 2018, 2019 and 2020, respectively. Cost of sales of used vehicles was 103.7% of revenue from the sales of used vehicles for the year ended December 31, 2020, compared with 102.7% for the year ended December 31, 2019 and 103.9% for the year ended December 31, 2018.

Leasing

We offer leasing to customers which differs from our fleet rentals in that at the end of the leasing period, customers has the option to purchase the leased car with a payment agreed upon at the beginning of the leasing arrangement. Our leasing terms usually range from 18 to 48 months. Our revenue from leasing recorded RMB84.6 million, RMB173.5 million and RMB118.0 million (US\$18.1 million) in 2018, 2019 and 2020, respectively.

OUR SERVICE NETWORK

Our nationwide service network covers all provinces in China. Our service network comprises of directly operated and franchised service locations. As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China, supplemented by 211 service locations in 158 small cities operated by its franchises.

We do not admit franchisees in cities where we have directly operated service locations.

Our Directly Operated Service Locations

In 2019, we launched self-served services across the country, and optimized the distribution of service locations. The cities where we have the self-served business has covered all major tier 1 and tier 2 cities as well as key tourist destinations. We have also set up self-served points in some tier 3 and tier 4 cities with rapid economic development. As of the end of 2019, the comprehensive self-served network is fundamentally in place.

We have strategically located our service locations to provide customers convenient access to our vehicles. Our service locations are generally located at or near airports, train stations, subway stations and other transportation hubs, major business districts, residential communities and tourist destinations.

A part of our service locations is on leased properties, some of which have physical storefronts with parking facilities. Stores in the same city share all of our vehicle inventory in that city, thereby improving vehicle availability and selection to our customers. Revenue potential, cost, accessibility and parking availability are the key factors we consider when we select sites for new stores.

Our self-served locations, on the other hand, are parking facilities with a simple service stand as opposed to a full storefront. After placing their rental orders on our mobile app or other channels, customers can pick up their rental car at their selected self-served locations. Our self-served locations are located at easily identifiable and accessible locations. We establish self-served locations in strategically selected locations where there is a fair amount of customer demand and to increase network density to provide shorter distance to customers. Self-served locations complement our stores and provide a flexible, cost-effective way to extend our network coverage. We are increasing the proportion of self-served locations to shorten the distance with our customers and provide higher operational efficiency.

Our new unmanned self-served mode was well-received by customers. Compared with the traditional and complicated service locations pick-up and return procedures, the self-served function greatly shortens the time for users to pick up the car, and queuing at service locations during the peak period has been alleviated. Meanwhile, the unmanned mode reduces labor cost and vehicle scheduling process.

We remain the mission to provide best-in-class smart and convenient mobility solutions to customers, providing a “better experience” and “more choices” to our customers. In 2019, the Company continued to expand the physical network and improve and optimize customer experience by launching the self-served services at multiple service locations, launching test drive business and optimizing functions of car rental application to allocate operating resources flexibly, so that customers can enjoy car rental services more conveniently. Through the addition of functions such as real-life map, arrears reminder and payment, and change of service locations for returning vehicles, we have enhanced the online and offline linkage to optimize user experiences of our mobile app.

We have at least one service location in almost every city where we operate are open 24/7. Our non-24/7 stores typically stay open until 9 p.m. every day.

Our Franchise Service Locations

Our franchise service locations are an important supplement to our extensive service network. We commenced our franchising activities in December 2013. As of December 31, 2020, we had 211 franchised service locations in 158 small cities where we do not directly operate any store. Our franchised service network currently comprises of stores only. Please see “Business – Our Franchise Arrangements” for more information on our franchise arrangements.

OUR CUSTOMERS

We have a large, rapidly growing and loyal customer base consisting of individual and institutional customers.

Our individual customers for our car rental business consist primarily of Chinese urban consumers who are licensed Chinese drivers who do not own cars or travelers out of their residing cities.

As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to 2019.

Our institutional customers utilize our fleet rentals and leasing services.

OUR CUSTOMER SERVICE

Our “4 Any” service philosophy of “anyone, anytime, any car and anywhere” demonstrates our commitment to delivering superior customer service, which we believe is critical to our business.

We offer 24/7 service in at least one service location in almost every city where we operate and at all of our airport service locations in major Chinese airports, including the largest airports in China. Our customer service team maintains regular communication with our customers to address complaints and answer inquiries through emails, text messages and various social media platforms. We also provide nationwide 24/7 roadside assistance to our customers. In particular, we have a dynamic and popular corporate account on each of Weibo

and Wechat, two highly popular social media platforms in China. We also operate a powerful mobile app that features a wide range of functions. Our customers can complete the entire reservation process for car rentals, from car selection to order confirmation and payment and to handle insurance claim and traffic violation, on our mobile app. Our mobile app also features location-based services that list out service locations nearest to the customer's location, enabling them to pick up or return cars to a location most convenient to them.

To meet the needs of customers for the resumption of operations, we have offered a number of incentives for the corporate customers by providing additional services such as deposit-free function, exclusive discounts. Furthermore, to address healthcare concerns during the pandemic, all vehicles are sterilized regularly. The vehicle will be ready for use within 30 minutes for a worry-free travel. We will continue to optimize the service plans by providing customers with more choices and better consumer experience.

BRAND, SALES AND MARKETING

Brand

We have successfully established our brand in China's car rental market through a combination of targeted marketing campaigns, direct sales and customer recommendations. Our strategy is to have our brand represent enjoyable and reliable car rental services to customers. We also strive to associate our brand with a keen awareness of corporate social responsibility. Our strong brand allows us to achieve premium pricing and lower our customer acquisition costs.

We believe our brand “,” or “CAR Inc.” is one of the most recognized and trusted car rental brands in China.

We have won numerous awards which underscore our strong brand recognition and reputation.

- (a) In 2020, we were awarded China Top 30 Best Practices of Human Resources Informatization in 2020 by Mochahrd of 2020 China Human Resources SIRIUS.
- (b) In 2019, we were awarded 1st place of 2019 C-BPI Brand Value Award for Auto Rental Franchise in China, CHNBRAND 2019 C-CSI Customers Most Satisfactory Brand Award for Auto Rental Franchise in China by China Brand Research Center, Beyond imagination innovation competitiveness selection – Best User Experience Award and 2019 Daily Economic News Most growth of China-Concept technology listed companies.
- (c) In 2018, we were awarded 2018 Golden C-BPI Brand Value Award for Auto Rental Franchise in China by China Brand Research Center as well as 2018 China TBV Brand Value Management Award by Global Brand Innovation Summit.
- (d) In 2018, we were awarded 2018 Golden C-BPI Brand Value Award for Auto Rental Franchise in China by China Brand Research Center as well as 2018 China TBV Brand Value Management Award by Global Brand Innovation Summit.
- (e) In 2017, we were awarded 2017 Golden C-BPI Brand Value Award and the C-CSI Customers Most Satisfactory Brand Award for Auto Rental Franchise in China by China Brand Research Center as well as 2017 Best Automobile Industrial Manufacturing Companies by Golden Hong Kong Stocks Annual Awards.
- (f) In 2016, we were awarded 2016 Southern 3C Billboard's Annual Smart Travel App by Nanfang Daily.
- (g) In 2015, we were awarded Outstanding Fleet Lessor of the Year by DUXES Solutions Powered by Innovation, 2015 Best Brand Image by the 4th Finance China Forum Committee and Best Personal Car Rental Brand by 21CN.
- (h) In 2014, we were awarded the Low-Carbon Emission Model Enterprise of China 2014 by The Economic Observer, Best Brand in Car Rental Industry by BQ Group and 2014 Company of Integrity in Beijing Car Rental Industry by the Beijing Taxi and Automobile Leasing Association.

- (i) In 2013, we were awarded the No. 1 C-BPI Brand Value Award for Auto Rental Franchise in China (中國汽車租賃連鎖店行業C-BPI品牌力第一名) by China Brand Research Center.
- (j) In 2012, we were named one of the Companies of Highest Credibility in China's E-commerce industry (中國互聯網電子商務誠信示範企業) by the China Electronic Commerce Association.
- (k) In 2011, we received the Best Practice Golden Award granted by Harvard Business Review, the 2011 Best Car Rental Company in China by National Geographic Traveler magazine and the Best Service Award in the 2011 China Brand Awards jointly granted by Brand China Industry Union and the China Chamber of International Commerce. We were also included in the Forbes Magazine's 2009 China High-Potential Enterprises List and served as one of the official VIP car service providers for the 2008 Beijing Summer Olympics.

Sales and marketing

Leveraging our market leadership position and strong brand, we bypass most third-party intermediaries and market directly to our customers. Our highly targeted marketing initiatives include digital and traditional advertising as well as customer loyalty programs. We believe that through direct marketing efforts, we are able to not only channel our cost savings to our customers in the form of more competitive prices, but also strengthen our brand recognition with the customers and enhance our customer loyalty, all of which contributes to a stronger relationship with our customers.

Our marketing initiatives are mainly associated with direct rebates to customers; and the increased use of more cost-efficient and reachable mobile social platform for point-to-point marketing. We also have comprehensive loyalty programs to retain customers. We offer five tiers of membership – basic, silver, gold, platinum and diamond. Members are granted rewards, which can be applied to future rental fees with us. Higher tiers of membership offer more rewards, priority treatment in the rental process, and better vehicle upgrade opportunities. Customers can enroll in our basic membership program at no charge. Membership upgrades are based on the total number of rewards earned.

In addition, we have benefited from word-of-mouth recommendations by the large number of customers who were pleased with our services. We intend to continue improving our services to encourage more recommendations and referrals, which we believe is an effective and cost-efficient way to promote our business.

In 2018, 2019 and 2020, our selling and distribution expenses were RMB78.3 million, RMB27.8 million and RMB127.9 million (US\$19.6 million), respectively.

OUR FLEET MANAGEMENT AND OPERATIONS

Fleet size and composition

As of December 31, 2020, we had a total fleet of 109,688 vehicles. Our fleet size does not include those operated by our franchisees.

As of December 31, 2018, 2019 and 2020, we had 103,009, 116,448 and 92,907 vehicles for car rentals, respectively. Our vehicles are of various classes, such as economy, standard and luxury, and body types, such as sedans, SUVs and MPVs. The average purchase price of vehicles has not materially changed from 2017. As of December 31, 2020, our car rental fleet had over 100 models, among which the top ten models by vehicle number represented more than 80% of our fleet.

From time to time, there may be a difference in the number of vehicles between our total fleet and operating fleet, and such difference can be attributed to: (i) retired vehicles awaiting sale, and (ii) retired vehicles that have been sold but subject to completion of title transfer.

In the past few years, we have deliberately balance our operating metrics among our strategic goals, including (a) to significantly increase our fleet size in a short period of time to become the clear market leader in the PRC car rental market by fleet size, (b) to secure sufficient number of license plates in large cities with potential to launch license plate restrictions, (c) to ensure good customer experience by avoiding any shortage of available rental vehicles for our customers, and (d) to maintain healthy liquidity. As part of our growth strategy, we intend to increases our car utilization rate gradually to increase fleet efficiency. As the market leader in China's car rental industry, we intend to expand our fleet size to capture the growth opportunities and maintain our market leading position.

We intend to use cash generated from our operations and additional borrowings to fund such vehicle acquisition. However, our vehicle acquisition costs cannot be categorized as capital expenditures according to IFRS. Vehicle acquisitions costs are recognized in the account of rental vehicles in our balance sheet. We generally pay the vehicle suppliers upon signing of the contract. Prepayment for rental vehicles is recorded when payment is made before the delivery of the purchased vehicles. Upon receipt of the purchased vehicles and the completion of vehicle registration, the purchased vehicles would be transferred out of prepayment and recorded as addition to rental vehicles. Although vehicle acquisitions costs are not presented as capital expenditures under investing activities in the statement of cash flows according to IFRS, their accounting treatment and recognition are similar to general fixed asset capital expenditure.

Vehicle acquisition

We believe we are one of the largest purchasers of passenger vehicles in China since 2011. Leveraging our large scale and market leadership position, we have established strong relationships with automobile manufacturers of major brand. We determine the variety and mix of makes and models of our fleet based on a broad analysis taking into account customer preference, expected disposition price, and acquisition cost.

We negotiate our purchasing terms, including price and delivery terms, directly with automobile manufacturers, who then direct us to designated automobile dealerships for purchase and after-sales services. We generally do not make long-term or short-term purchase commitments to the suppliers. Our large purchase volume allows us to secure favorable terms from these manufacturers for substantially all of our vehicle acquisitions. Our cost savings from favorable purchasing terms enable us to offer customers competitive rental prices, which in turn help us attract more customers and build a more prominent brand. As our scale grows, we expect to continue to leverage our strong purchasing power and enjoy cost savings.

Vehicle financing

We require a substantial amount of capital to fund our vehicle acquisition and business expansion. We work with major commercial banks and capital leasing companies in China for our vehicle financing. We believe our ability to obtain strong credit support is an important competitive advantage and will continue to strengthen our market leadership position.

We have met our financing needs mainly through our operating cash flow, senior notes and corporate bonds and bank loans and other borrowings. As of December 31, 2020, senior notes accounted for approximately 63.3% and bank loans and other borrowings accounted for approximately 19.0% our total liabilities.

Vehicle maintenance

We repair and maintain our fleet primarily through our own vehicle maintenance facilities located in 48 cities across our network. We believe our own repair and maintenance services help ensure the service quality while reducing our costs. As of December 31, 2020, fleet in cities where we have our own repair and maintenance facilities covering approximately 87% of our operating fleet. We also outsource a small portion of our repair and maintenance work to third-party service providers. We select automotive service providers based on assessments by our local teams, subject to review and approval by our headquarters. We periodically review the service quality of our automotive service providers to ensure that they have quality diagnostic and repair equipment, experienced mechanics, and good customer service to meet our safety requirements.

Vehicle disposition

The Company strategically expedited vehicle replacement to enhance fleet condition. We disposed of 12,596, 29,203 and 38,378 vehicles for the years ended December 31, 2018, 2019 and 2020, respectively. The cost-to-sales ratio was 103.7% in 2020. In 2020, the depreciation as a percentage of rental revenue was 50.4%, compared with 33.0% in 2019.

OUR FRANCHISE ARRANGEMENTS

We commenced our franchise arrangements in December 2013. As of December 31, 2020, we had entered into franchise agreements with franchisees who operated 211 franchised service locations in 158 small cities. We admit franchisees only in small cities where we do not have directly operated service locations. Our franchisee network has expanded to cover over 158 small cities since commencing our franchise arrangements. We manage the expansion of our franchisee network carefully with a focus on improving our franchisees' management and services skills and expanding their products and services lines in the near future to ensure effective quality control and good customer experience.

We believe that our franchise arrangements enable us to:

- (a) satisfy our customers' need for high quality car rental services in a broader network;
- (b) enhance our brand recognition throughout the PRC, which helps expand our customer base and in turn increase our revenue and facilitate our further expansion; and
- (c) dispose of our used vehicles efficiently.

We believe that our franchisees benefit from the franchise arrangements in the following aspects:

- (a) our strong brand and reputation greatly facilitate their customer acquisition and business growth;
- (b) our franchisees share our reservation system, which makes their service available to all of our customers; and
- (c) our training support helps improve their service quality.

We provide our franchisees with various types of operational support, including service training and technical assistance both in person and over the phone and sharing of our IT platform.

All of our franchising arrangements are based on our standard franchise agreement with a term of one year. Each franchise agreement specifies, among other things, geographic region of the exclusive franchise arrangement, number of authorized franchise stores, number of cars the franchisee would acquire from us in order to meet our criteria for fleet size and composition, minimum square footage of each store, use of our logo, representations and warranties of the franchisee, fees and charges, customer service requirements, exclusivity, intellectual property rights, and default provisions. Our franchisees may choose to acquire cars from us either through direct purchase or capital leasing, or they may also acquire or lease cars from their own suppliers. Our franchisees do not compete with each other due to the exclusive geographic coverage provided in the franchise agreement.

We charge our franchisees an upfront franchise fee and certain other miscellaneous fees. We also receive installment payments from our franchisees if they decide to acquire cars from us through capital leasing, which typically provides an installment payment schedule. Our franchisees are authorized to operate under a “CAR Inc. – Business Partner” brand. They are also required to ensure comply with our standards in respect of, among other things, store location, decoration, displays, marketing activities, pricing and daily operations as decided by us from time to time. If a franchisee fails to comply with certain material clauses in the relevant franchise agreement, we have the right to terminate the agreement.

Our customers can make reservations for our franchisees’ car rental products through our mobile app, website and call centers. Car rental services provided by our franchisees are clearly identified and distinguished from our directly operated business. In our reservation system, a clear sign/icon appears when our customers make reservations with our franchisees to inform them that they will be receiving the car rental services from our franchisees rather than directly from us. Our franchisees do not share with each other the rental vehicles operated by them.

We place great importance on quality control with respect to our franchisees. We provide upfront and continuing training to our franchisees. We have a dedicated team to monitor the performance of our franchisees. Each franchisee is subject to our periodic or unscheduled review on vehicle condition, compliance with our procedures and service standards as well as customer satisfaction. Customers can file complaints against our franchisees on our website or mobile app or through our call centers or official accounts on social media. Pursuant to the franchise agreement, we have the right to terminate the franchise arrangement if the franchisee fails our review and fails to remedy the deficiencies within a specified period of time.

OUR TECHNOLOGY PLATFORM

As a technology driven company, we have developed an effective, reliable and scalable technology platform. As our business continues to grow, we intend to continue to invest in our technology platform.

Our technology platform consists of a web-based operating environment connecting our central data center, management systems, and customer interface terminals. It enables us to effectively manage our operations and enhance our customer experience in the following regards:

- (a) *Transaction management.* Manages the entire transaction process, including booking, amendment and cancellation of reservations, vehicle pick up and return and payment, to ensure smooth execution and effective risk control.
- (b) *Yield management.* Improves our yield management through supply/demand analysis, dynamic pricing and efficient fleet deployment:
 - we track and analyze each vehicle’s rental information, and such analysis enables us to anticipate future demand in a certain market and provides critical information for our dynamic pricing, fleet deployment as well as long-term strategic decisions;
 - we implement dynamic pricing based on market demand, inventory level, rental term, location, timing of booking, competitor rates and our target margin; and
 - based on our forecast of market demand, we reallocate our rental vehicles between cities or service locations to meet customer needs and optimize our vehicle utilization.
- (c) *Customer management.* Records and analyzes transaction information about each customer, which enables us to better understand the customers’ rental habits and more effectively engage them in our promotional activities.
- (d) *Fleet management.* Tracks and analyzes key data such as mileage, rental number, insurance coverage and maintenance record about each rental vehicle from acquisition to disposition, and such data and analysis enable us to effectively manage our insurance and maintenance expenditures while providing information for our future vehicle acquisition decisions.

- (e) *Staffing management.* Our Smart Assistant System automatically schedules staff responsibilities based on demand, locations, capacity and various factors, enabling us to widen our service locations and get closer to the customers, and further elevate our operating efficiency. In the future, we will gradually convert our rental outlets into fully automated staff-less locations, to maximize the efficiency of our human capital.
- (f) *Financial management.* Centrally and securely processes rental payments to ensure effective risk control; also enables our management to monitor and analyze our financial performance and budget control by store, branch office, region, product type, cost type or time period.

We have four types of customer interface terminals, namely, our website, mobile app, call centers and stores, all of which can handle search, reservation and account management. We have developed industry-leading mobile app, which is fully integrated with our technology platform and capable of handling the entire transaction process. Leveraging the location-based service feature, our mobile app contributes to a superior customer experience throughout the rental process:

- (a) for reservation, customers can easily locate the nearest service location and make reservations through the mobile app;
- (b) for vehicle pick-up, the mobile app provides GPS guide from the customer's location to their selected service location, and it also offers customers advance check-in to further shorten the time for pick-up;
- (c) for driving, the mobile app provides built-in GPS navigation service;
- (d) for vehicle return, customers can use the mobile app to easily locate the nearest service location for drop-off;
- (e) for payment, customers can make payment on the mobile app through a credit card or debit card, or a third-party payment service provider, such as Wechat or Alipay;
- (f) for comments and feedback, customers can rate our services or provide feedback through the mobile app after each rental experience; and
- (g) in general, our customers can easily manage information in their membership accounts, including rental orders, reward points and credit card information, through the mobile app.

We have been steadily advancing our smart mobile platform to enhance the operating efficiency. In 2019, initial success was achieved in launching the trial Smart Assistant management system (beta version), which automatically allocates responsibilities of the staff based on various factors, such as service requirement, location and workload, to improve workflow and provide customers with more convenience. Our comprehensive self-served network has been largely in place since end of 2019. As of December 31, 2020, our customer base increased by 15% and registered members increased by 70% as compared to December 31, 2019. In December 2020, our self-served transactions increased to 91% of total reservations from 88% in December 2019.

We strive to ensure the reliability and security of our technology platform. We maintain back-up units for our key operational equipment and back-up our operational data at least once a day to ensure that our normal operations would not be disrupted. To ensure security, our operational systems are sectioned off and each section is accessible only by designated personnel with the proper authorization. We implement a series of sophisticated anti-hacking measures that provide constant monitoring, real-time alerts and automatic firewall reactions. We also retain third-party Internet security consultants to conduct periodic tests on our technology platform to ensure and reinforce its security.

Our technology platform is highly scalable. It has supported our rapid expansion in the past few years. We believe that our technology platform is capable of scaling up to accommodate our business expansion in the next few years. We intend to continue to enhance our technology platform.


RESEARCH AND DEVELOPMENT

Our engineering and software development team develops and maintains a significant portion of our software and computer systems, and we license certain software programs from third-party software providers.

We also enter into cooperation agreements with third parties for the development of certain material IT systems like GPS tracking and monitoring platform. Under these cooperation agreements, we are required to make advance payments which accounts for a certain percentage of the service fees to the third-party developers, and pay the remainder of the service fees upon the delivery and acceptance of the software developed. In addition, we also own all the rights and benefits related to the software developed under these cooperation agreements. These cooperation agreements do not provide any cost-, profit- or loss-sharing clauses.

Intellectual Property

Our copyrights, trademarks, trade secrets and similar intellectual property are critical to our success. We rely on copyright and trademark law, trade secret protection, as well as noncompetition and confidentiality and/or license agreements with our employees, suppliers and other business partners, to protect our proprietary rights.

As of December 31, 2020, we registered the trademark for our “ 神州租车,” brand and other trademarks in the PRC, Taiwan, Hong Kong and trademarks in Macau. We have also registered a number of domain names, including www.zuche.com, which contains the phonetic spelling of “rent a car” in Chinese. Our mobile app enables our customers to access our rental services and complete the rental reservation online. According to King & Wood Mallesons, our PRC legal advisor, PRC laws and regulations do not prohibit foreign invested enterprises or their subsidiaries from registering and owning domain names and mobile apps. As advised by our PRC legal advisor, our operation of our websites and mobile app does not constitute offering value-added telecommunication services and is in compliance with PRC laws and regulations.

As of December 31, 2020, we are not involved in any material dispute regarding our intellectual property with any third party.

OUR SUPPLIERS

We rely on third-party suppliers for our vehicles and some of our technology-related needs. Vehicle manufacturers and their authorized dealerships are our most important suppliers in terms of both purchase amount and product purchased.

We typically negotiate our purchase terms, including price and delivery terms, directly with automobile manufacturers, with whom we enter into a framework agreement to memorialize the key terms of the purchase. The automobile manufacturers would then direct us to place individual purchase orders under such framework agreements with their authorized dealerships. Although the purchase terms vary from supplier to supplier, we strive to enter into generally standardized framework agreements and purchase orders with automobile manufacturers and dealerships. The key terms of a typical framework agreement generally include:

Designated dealerships. Automobile manufacturers would designate certain authorized dealerships from which we purchase vehicles by placing individual orders.

Purchase targets. The framework agreement would set out an estimated number of vehicle we would purchase from each of the designated dealerships; however, these purchase targets are not binding and do not require us to make any minimum purchase commitments.

Discounts. Automobile manufacturers offer certain discounts in purchase price at progressive rates as our purchase reaches a series of pre-set thresholds. The automobile manufacturers have the right to adjust the discount rate or to cancel the discounts available to us if we commit a material breach of the agreement.

Access to information. Automobile manufacturers have the right to review invoices and other relevant documentations, and inspect the vehicles purchased under the framework agreement.

Termination. The automobile manufacturers have the right to terminate relevant framework agreements upon our material breach of such agreements.

Duration. The typical term of the framework agreements is one year.

We place orders with individual vehicle dealerships to implement the framework agreements. A standardized purchase order generally specifies the amount, purchase price and discounts for the purchase, the specifications of the vehicles as well as relevant after-sale warranties and services to be provided by the vehicle dealerships.

We generally place bulk orders for vehicles for our car rental fleet. We typically pay 30% of the purchase price when we place the order and 70% when we receive the invoice from the dealerships, which indicates that the vehicles are available for delivery. For non-bulk orders of vehicles, which are usually for our fleet rental customers who specify the model and make of the rental vehicles, we generally pay 100% of the purchase price upon delivery of the vehicles.

We generally make our payment online or by wire transfer. For more information on our vehicle suppliers and our vehicle purchases, please see “Business – Our Fleet Management and Operations – Vehicle acquisition.” We also utilize a number of third-party suppliers for some of our IT needs, such as maintenance of our call center equipment and development of our GPS fleet tracking system as well as insurance needs and repair and maintenance needs. We select most of our IT suppliers through a bidding process. Our suppliers also include insurance companies, such as China Life P&C Insurance Company Ltd., People’s Insurance Company of China, Taiping General Insurance Co., Ltd. and Guoren Property and Casualty Insurance Co., Ltd., and repair and maintenance service providers in cities where we do not have self-operated repair and maintenance facilities. The terms of our IT, insurance, and repair and maintenance agreements are generally subject to our needs and commercial negotiations.

For the years ended December 31, 2018, 2019 and 2020, our five largest suppliers collectively accounted for approximately 31.5%, 84.0% and 18.2%, respectively, of our total vehicle purchases in terms of purchase amount, and our single largest supplier accounted for approximately 8.7%, 60.53% and 5.1%, respectively, of our total vehicle purchases in terms of purchase amount.

OUR PERSONNEL

As of December 31, 2018, 2019 and 2020, we had 6,910 5,914 and 5,132 employees, respectively.

Our ability to attract, retain and motivate qualified personnel is critical to our success. We believe that we offer our employees competitive compensation, so that we are able to attract and retain qualified personnel and to maintain a stable core management team. We have not experienced any significant disputes with our employees. As of December 31, 2020, none of our employees was represented by any labor union that engages in collective bargaining.

We invest significant resources in the training and development of our employees to retain and motivate qualified personnel and to fulfill our commitment to providing the best customer service in the industry. The Shenzhou Institute, our in-house training organization located at our headquarters, is responsible for overseeing the implementation of our multi-tier training system, training internal instructors and improving training programs. Our regional offices and corporate subsidiaries have dedicated human resource specialists and instructors to carry out the training programs. Our training curriculums are tailored to new employees, current employees and management members based on their roles and skill level. In addition to functional development, we aim to instill in our employees a dynamic and open corporate culture. We regularly engage our employees in team-building exercises, and we continuously educate our employees about environmental initiatives and corporate social responsibility through training courses and other activities.

PROPERTIES

We operate our business primarily through leases with government-owned enterprises, privately owned enterprises and individuals for all of our stores and parking facilities throughout our network in the PRC. These leases generally have terms between one and six years and leased properties are primarily used as stores and parking facilities.

Our leased properties can be divided primarily into two types:

- For our offices, stores and some of our parking facilities, the rent is primarily calculated based on the square footage.
- For some of our parking facilities, the rent is primarily calculated based on the number of parking spots we actually use on a daily or monthly basis as opposed to square footage.

As of December 31, 2020, the lessors of some of our leased properties have not provided us with relevant title certificates.

We believe that the fact we have not received the legal certificates for some of our leases, or other lease deficiencies, will not have a material adverse effect on our business, financial condition and results of operations primarily because (i) we can easily lease other properties with valid title certificates in the event that we can no longer use any of the lease deficiencies; (ii) as of December 31, 2020, no government authority or third party has made any claims or imposed any penalty against us with respect to the lease deficiencies; (iii) the fact that some of our lessors have not provided us with relevant title certificates does not have any adverse impact on the safety conditions of the lease deficiencies; (iv) compared with similar buildings and parking facilities in vicinity, we believe that there is no material difference in rental payment in relation to the lease deficiencies arising from the fact that some of our lessors have not provided us with relevant title certificates; and (v) we believe in the event that we are required to terminate our leases with lease deficiencies: (vi) alternative premises for the lease deficiencies are readily available, (vii) the estimated time and cost for relocation would not be material, and (viii) our operations located on the lease deficiencies could be relocated to new properties without material interruption to our business operations, and our financial condition would not be materially affected considering their usage. We will strive to reduce legal defects in our leased properties by prompting relevant lessors to provide us with proper title certificates and/or complete the registration of our leases, and taking into account the lessors' willingness to provide assistance in registering our leases when renewing our leases or entering into new leases. Please also see "Risk Factors – Risks Related to Our Business and Industry – If our rights to lease certain properties are challenged, our business operations may be adversely affected." Even if we are required to relocate all of our operations affected by lease deficiencies, which we believe is unlikely to happen, we estimate that the aggregate relocation cost for relocating all of our operations affected by lease deficiencies to be immaterial.

In addition, as of December 31, 2020, the lessors of some of our leased properties had not registered such leases with competent government authorities.

King & Wood Mallesons, our PRC legal advisor, has advised that the non-registration as disclosed above will not affect the validity of the lease agreements. Pursuant to applicable PRC laws and regulations, registration of the lease agreement shall be made, failing which the parties to the lease agreement are subject to a fine ranging from RMB1,000 to RMB10,000 per lease agreement.

SAFETY AND ENVIRONMENT

Safety

Safety is one of our highest priorities. We place significant emphasis on our management of workplace safety, driver safety and customer safety.

We have various teams dedicated to the safety management of our assets, employees and customers. For example, our Insurance Management Department is responsible for directing the procurement of insurance and developing loss prevention programs, our Asset Management Department is responsible for fleet tracking and emergency response, and our Repair and Maintenance Management Department is responsible for formulating and implementing repair and maintenance procedures to address various safety issues. These departments' primary focus is on the protection of our customers, employees and assets, as well as protecting us from liability for accidental loss.

We are dedicated to providing training and development opportunities to our employees. We have also maintained close cooperative relationships with our vehicle suppliers to address safety issues of our rental vehicles, including, among others, manufacturers safety recalls.

As of December 31, 2020, we had not received any notification for any material violation of safety related laws and regulations or claims from any government entities or third parties.

Environment

Our core operations, namely our car rental business, do not involve significant environmental risks. However, our self-operated vehicle repair and maintenance services use and store a small amount of hazardous chemical materials and dispose of solid and hazardous waste and wastewater. We place great emphasis on environmental protection and are dedicated to environmental protection in our operations. Our environmental protection measures include:

- (a) formulating and implementing internal procedures and policies to regulate our repair and maintenance operations and reduce water, atmospheric, solid waste and noise pollution;
- (b) designating specific personnel to oversee our environmental protection efforts;
- (c) continuously assessing and monitoring the environmental impact of our repair and maintenance operations;
- (d) disposing of pollutants discharged from our repair and maintenance operations in accordance with the national and local environmental protection standards and recycling wastes where possible; and
- (e) choosing equipment and products that comply with national and local environmental protection standards and encouraging the use of natural and clean resources.

We have made, and will continue to make, expenditures to stay in compliance with applicable environmental laws and regulations. As of December 31, 2020, we have not received any administrative penalties for any material violation of environmental protection laws and regulations or claims from any government entities or third parties in the PRC.

INSURANCE

We are required by applicable Chinese laws to maintain insurance coverage against liabilities for third-party bodily injuries, death and property damage resulting from accidents involving our rental vehicles. We satisfy this statutory requirement by maintaining insurance policies for all of our vehicles in operation at amounts stipulated by law with national carriers such as China Life P&C Insurance Company Ltd., People's Insurance Company of China, Taiping General Insurance Co., Ltd. and Guoren Property and Casualty Insurance Co., Ltd.

We also purchase additional commercial insurance coverage to supplement the mandatory insurance against liabilities to third parties as well as other risks and liabilities arising from our operations.

We do not maintain insurance coverage for our office equipment or premises. Consistent with customary practice in China. See "Risk Factors – Risks Related to Our Business and Industry – We could be negatively impacted if our insurance coverage proves to be limited or inadequate."

We believe that the amount and nature of our insurance coverage are adequate in light of the risks involved. We consider our insurance coverage to be in line with the commercial practice in China's car rental industry. Our insurance expenditures amounted to RMB218.8 million, RMB272.5 million and RMB193.2 million (US\$29.6 million), respectively, for the years ended December 31, 2018, 2019 and 2020.

LEGAL PROCEEDINGS AND COMPLIANCE

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. We are not a party to, and we are not aware of any threat of, any legal, arbitral or administrative proceeding that, in our opinion, is likely to have a material and adverse effect on our business, financial condition or results of operations, nor have we experienced any incident of non-compliance which, in our opinion, is likely to materially and adversely affect our business, financial condition or results of operations.

As of December 31, 2020, none of our directors or senior management was involved in any material litigation, arbitration or administrative proceeding.

From 2018 through the date of this offering memorandum, we have complied with applicable PRC laws and regulations in all material respects and have not been subject to any material administrative proceedings or penalties for any non-compliance under PRC law.

REGULATIONS OVERVIEW

This section summarizes the principal PRC laws and regulations currently in effect that are relevant to our business and operations.

CORPORATE LAWS AND FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC, or the Company Law, effective in 1994 and amended in 1999, 2004, 2005, 2013 and 2018. The Company Law is applicable to all of our PRC subsidiaries, including both domestic companies and foreign-invested companies.

The direct or indirect investment activities of a foreign investor shall be governed by the Foreign Investment Law of the PRC, or the Foreign Investment Law, promulgated on March 15, 2019 and took effect on January 1, 2020, and the Regulation for Implementing the Foreign Investment Law of the PRC, or the Implementation Rules, effective on January 1, 2020. The Foreign Investment Law and its Implementation Rules replaced the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the PRC Wholly Foreign-owned Enterprise Law and their respective Implementation Rules.

The Foreign Investment Law implements the administrative system of pre-entry national treatment along with a negative list for foreign investments, and establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition. Pursuant to the Foreign Investment Law and the Implementation Rules, the State Council shall promulgate or approve a list of special administrative measures for access of foreign investments, or the Negative List. The Foreign Investment Law and the Implementation Rules provides that foreign investors shall not invest in the “prohibited” industries, and shall meet certain requirements on the shareholding percentage or requirements on the composition of board or senior management as stipulated under the Negative List for making investment in “restricted” industries.

On June 23, 2020, as approved by the State Council, MOFCOM and NDRC promulgated the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 version), or the Negative List, which took effect on July 23, 2020. In addition, the NDRC and the MOFCOM promulgated the Catalogue of Industries for Encouraging Foreign Investment ([2020] version), or the [2020] Encouraged Industry Catalogue, effective on January 27, 2020. Foreign investment in the car rental business and financial leasing is permitted since these two businesses are not listed on the Negative List.

Foreign investment in value-added telecommunications services (except for e-commerce, domestic conferencing, store-and-forward, and call center services) falls within the Negative List and the ultimate foreign equity ownership shall not exceed 50%. Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council in December 2001 and most recently amended in February 2016, or the FITE Regulations, for a foreign investor contemplating to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. To comply with PRC laws and regulations, we rely on contractual arrangements with our VIE to operate our VATS business in China.

Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises promulgated by MOFCOM on October 8, 2016 and amended on July 30, 2017 and June 29, 2018, establishment and changes of foreign investment enterprises not subject to the approval under the special entry management measures shall be filed with the relevant commerce authorities. However, as the PRC Foreign Investment Law has taken effect, the MOFCOM and the State Administration for Market Regulation jointly approved the Foreign Investment Information Report Measures, or the Information Report Measures, on December 19, 2019, which has taken effect since January 1, 2020. According to the Information Report Measures, which repealed the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises, foreign investors or foreign invested enterprises shall report their investment related information to the competent local counterpart of the MOFCOM through Enterprise Registration System and National Enterprise Credit Information Notification System.

DOMESTIC INVESTMENT OF FOREIGN-INVESTED ENTERPRISES

The Ministry of Foreign Trade and Economic Cooperation, the predecessor of MOFCOM, and the State Administration for Industry and Commerce, or SAIC, jointly promulgated the Interim Provisions on the Domestic Investment of Foreign-Invested Enterprises, or the Investment Provisions, on July 25, 2000, which became effective from September 1, 2000 and amended on October 28, 2015. The Investment Provisions apply to investments in the PRC by foreign-invested enterprises established in the PRC, or FIEs, including sino-foreign equity joint ventures, sino-foreign cooperative joint ventures and wholly foreign-owned enterprises, by means of establishing an enterprise in China or purchasing the equity interest of an existing enterprise in China. According to the Investment Provisions, investments made by FIEs must comply with PRC laws and regulations, and in particular the [2020] Encouraged Industry Catalogue. Under the Investment Provisions, (i) FIEs may not invest in any prohibited industries, (ii) in the event that an FIE invests in any encouraged or permitted industry to establish a company, the FIE only needs to file an application with the company registration authority of the locale in which the company to be incorporated by the FIE is located; and (iii) in the event an FIE intends to invest in a restricted industry, or any company incorporated by the FIE intends to change its business scope to engage in a restricted industry, the FIE must file an application with and obtain the approval from the local counterpart of MOFCOM at the place where the investee company is located before filing an application with the competent company registration authority.

CAR Beijing China Auto Rental E-Commerce (Xiamen) Co., Ltd. and Fuzhou Changle China Auto Rental E-Commerce Co., Ltd. are indirectly owned by us through Lianhui Langfang, and Haike (Pingtan) Information Technology Co., Ltd. is indirectly owned by us through Haike Leasing (Fujian) Limited. Each of Lianhui Langfang, and Haike Leasing (Fujian) Limited is a wholly foreign-invested enterprise, thus CAR Beijing, China Auto Rental (Xiamen) Co., Ltd., Fuzhou Changle China Auto Rental E-Commerce Co., Ltd. and Haike (Pingtan) Information Technology Co., Ltd. are enterprises invested by FIEs.

CAR Beijing has been operating a car rental business, which is a permitted industry, since its establishment, and therefore no approval with respect to the investment by Lianhui Langfang in CAR Beijing from the local counterpart of MOFCOM is required. In addition, CAR Beijing obtained an approval from the Beijing branch of MOFCOM in April 2011 to add financial leasing business into its business scope. The E-Commerce businesses of China Auto Rental E-Commerce (Xiamen) Co., Ltd. and Fuzhou Changle China Auto Rental E-Commerce Co., Ltd. fall into the permitted or encouraged industry, therefore no approval with respect to the investment by Lianhui Langfang in this company from local counterpart of MOFCOM is required.

The information system development, data processing and other businesses of Haike (Pingtan) Information Technology Co., Ltd. fall into the permitted or encouraged industry, therefore no approval with respect to the investment by Haike Leasing (Fujian) Limited in this company from local counterpart of MOFCOM is required.

REGULATIONS RELATING TO ENTERPRISES ENGAGING IN CAR RENTAL BUSINESS

General regulations on automotive vehicles

Regulations applicable to the automotive vehicles generally apply to rental vehicles as well. According to the Road Traffic Safety Law promulgated by the Nation People's Congress Standing Committee in October 2003 and amended in 2007 and 2011, or Road Traffic Safety Law, all automotive vehicles must be registered with relevant local administration authorities. Vehicle registration certificates, vehicle license plates and vehicle licenses must be obtained from the same authorities, and compulsory traffic accident insurance must be purchased for each vehicle.

According to the Provisions on the Registration of Motor Vehicles promulgated by the Ministry of Public Security, or MPS, in May 2008 and amended in September 2012, or the Registration Provisions, the owner of a motor vehicle shall register his/her title to such motor vehicle and apply for a driver's license with the motor vehicle authority. In addition, the creation, alteration, transfer or termination of the title of any motor vehicle may not challenge any bona fide third party if it is not registered with the competent governmental authority pursuant to Civil Code adopted by National People's Congress in 2020 and effective on Jan 1, 2021.

Regulations on limitation of use and purchase of automotive vehicles

Governmental authorities in certain cities of China issued local regulations in order to control traffic and reduce the number of automobiles in those cities. For example, Beijing governmental authorities jointly adopted the Interim Provisions on Adjusting and Controlling the Quantity of Cars of Beijing and its implementing rules in December 2010 to limit the total number of license plates issued to new automobile purchases in Beijing each year. The foregoing Interim Provisions were amended in December 2017 and October 2020, and the implementing rules were amended in December 2011, November 2013, January 2018 and December 2020. Guangzhou governmental authorities also announced similar regulations, which came into effect in August 2012 and amended in June 2018 and November, 2019. There are similar policies that restrict the issuance of new passenger car plates in Shanghai, Tianjin, Hangzhou and Shenzhen. In addition, some cities in China such as Beijing, Shanghai, Chengdu, Hangzhou, Changchun, Lanzhou, Guangzhou, Wuhan and Tianjin also implemented traffic control measures banning cars with certain license plate numbers from traveling on road on certain days in these cities from time to time. For instance, according to the Circular on implement no-driving transportation management measures in regional rush hours on working days (關於實施工作日高峰時段區域限行交通管理措施的通告) adopted by Beijing Municipal People's Government on May 29, 2020, it is decided to divide all the tail plate numbers of no-driving vehicles in regional rush hours on working days from June 1, 2020 to April 4, 2021, into five groups. It is forbidden to drive the no-driving vehicles with restricted tail plate within five rings road (excluding the fifth ring road) during 7:00 am to 20:00 pm each workday, and the vehicles with the other cities' license plate shall also be subject to such restrictions.

Regulations on car rental business

As the car rental industry is at an early stage of development in China, regulations governing it continue to evolve. The Ministry of Transport, or MOT, and the National Planning Committee, the predecessor of NDRC, promulgated the Interim Rules on Administration of Car Rental Industry in 1998, which were abolished in 2007. Since then, there have been no national laws and regulations in place to specifically regulate the car rental industry in China until the Circular on Promoting the Health Development of Car Rental Industry promulgated by MOT in April 2011, which sets forth guidelines for the car rental industry, including, among others, encouraging large car rental enterprises to establish a national or regional car rental network.

According to the April 2011 MOT circular, local government authorities are required by the MOT to (i) promulgate local rules and regulations to improve and develop the regulatory environment of the car rental industry, (ii) promptly bring forth local development plans for the car rental industry, (iii) encourage large and reputable car rental companies with sound management to set up branches and establish national or regional networks, and provide simplified branch office registration process and better service for companies with a fleet of more than 1,000 cars, (iv) enhance the administration and management of the car rental industry, including requirements to obtain and carry a valid permit or license for each rental car, and prohibitions of car rental companies from engaging in road passenger transportation services without having the requisite business license for these services, (v) encourage car rental companies to develop various types of services through advanced technologies, (vi) create a favorable development environment for car rental companies, and (vii) enhance the administration of the car rental industry.

In August 2017, the Guidance on Promotion of Development of Car Rental Business, or the August 2017 Guidance, was jointly promulgated by the MOT and the Ministry of Housing and Urban-Rural Development, or the Ministry of Housing and Urban-Rural Development. According to the August 2017 Guidance, the operators of the car rental business shall (i) register title of the cars with competent governmental authority and purchase relevant insurances in accordance with requirements of laws and regulations; and (ii) improve the identity-check system to collect and report relevant information as requested. Also, the operators of the car rental business are encouraged to (i) use the Internet or APP for reservation, pick-up and drop-off of the cars as well as online payment; (ii) increase scale of business by mergers and acquisition, joint venture and joint cooperation, initial public offering and financing, etc.; and (iii) develop and promote time-sharing car rental business.

The car rental industry is primarily regulated by government authorities at local levels, where regulatory requirements on operating entities and vehicles vary from one locale to another.

Set forth below is a summary of local rules and regulatory requirements in different provinces and cities in China regarding the provision of car rental services.

- (a) Some provinces and cities do not have any specific local rules regulating car rental services and we are unaware of the operation of car rental businesses being prohibited or restricted by local rules or regulations in these provinces or cities.
- (b) Some local authorities have promulgated local rules specifically regulating car rental business. For example, the relevant local authority in Beijing has promulgated specific local rules for car rental operations, such as requiring car rental service providers in Beijing to file with the local transportation authority before commencing business and make subsequent filings with the authorities for any changes in the number of vehicles for rental and other related matters; while local authorities in cities such as Shanghai and Shijiazhuang require car rental service providers to obtain road transportation permits before registering with local counterpart of SAIC and commencing business. Some of PRC subsidiaries have obtained road transportation permits or completed registration for their car rental business, while other PRC subsidiaries are still in the process of applying for such permits and registration.
- (c) With respect to cars used for rental services, some provinces and cities do not have specific local rules, while others impose additional licensing and filing requirements. In many provinces and cities, the “nature of use” stated in the vehicle license must be registered as rental or commercial. Some provinces and cities require special additional licenses or vehicle license plates for rental vehicles. For instance, in some areas, such as Fujian Province, Hubei Province, Anhui Province, Gansu Province, Suzhou, Shanghai, and Kunming, a road transportation license or a rental vehicle operation license is required for each rental car; in some areas, such as Shanghai, special vehicle license plates must be obtained for rental cars, and in some areas, such as Beijing, Guangzhou, Shijiazhuang and Chongqing, each rental car shall be filed with relevant local authority. Our PRC subsidiaries are in the process of applying for the aforementioned licenses and fulfilling the required filing procedures for our rental vehicles. However, since we own and operate a massive number of rental vehicles and some of the local requirements are not well implemented by the local administration authorities, we may not be able to obtain license and complete filing for each of our rental vehicles in a timely manner.
- (d) Some local authorities, such as those in Shanghai and Nanchang, have promulgated local rules requiring that, if a rental vehicle does not carry a local license plate, it may not be used for rental services where the pick-up place and drop-off place are both within that city. The failure to comply with this requirement may result in being subject to fines ranging from RMB5,000 to RMB10,000.
- (e) Further, some local authorities have promulgated rules or practical guidelines, such as those in Beijing, Chongqing, Kunming, Guangdong Province, Shanxi Province and Hubei Province, requiring that the owner of a rental car and the entity engaged in car rental services must be the same entity. If we were found to violate these local rules or practical guidelines, we may be subject to fines ranging from RMB500 to five times of illegal income generated from such activities, and our road transportation licenses may even be revoked if our noncompliance activities are found to be “serious.” Since we provide nationwide car rental services with car fleet deployed and moved across our nationwide network across China, and we offer one-way rentals to our customers, whereby a customer may rent a car from one city and return it to a service location located in another city, certain local governments may find our car rental services in violation of these or the above local rules and regulations from time to time.

Local practices differ and the implementation of the local rules and regulations are still under development by local government agencies. Some of the above requirements are not strictly enforced or may be modified or suspended by the local administration authorities, for example, local government authorities of certain cities do not issue permits or process registration for our car rental business or our rental vehicles although there exist local regulations requiring such permits or registration. As a result, we have from time to time failed to comply with all of the above requirements, which may subject us to fines and other penalties. See “Risk factors – Risks Related to Our Business and Industry – Some of our PRC subsidiaries may have engaged in business activities without the necessary approvals from or registration with local authorities, which could subject us to fines or other penalties that may negatively impact our results of operations or interfere with our ability to operate our business.”

On December 20, 2020, MOT has promulgated Measures for the Administration of Operation and Service of Car Rental Business, which will come into effect on April 1, 2021. According to the Measures, the car rental service providers are required to file with local competent authority within 60 days after registration with the market supervision and administration authority or establishment of new service agencies. With respect to the cars used in car rental service, the “nature of use” shall be registered as rental.

Regulations on chauffeured services

A large number of provinces and cities, such as Beijing, Shanghai, Chongqing, Kunming, Xiamen, Jiangsu Province, Zhejiang Province, Shaanxi Province, Shanxi Province, Shandong Province, Sichuan Province, Guizhou Province, Jilin Province, Hubei Province, Hunan Province, Hebei Province, Jiangxi Province, Heilongjiang Province and Liaoning Province have promulgated local road transportation regulations, which generally provide that the business scope of car rental services shall not include chauffeured services. Moreover, certain of these regulations explicitly restrict a car rental company from directly providing chauffeured services concurrently with short-term car rental services.

Pursuant to the Measures for the Administration of Operation and Service of Car Rental Business promulgated by the MOT on December 20, 2020, which will come into effect on April 1, 2021, the car rental service providers will be restricted from providing chauffeured services nationwide.

Given the above restrictions, for our car rental customers who requested chauffeured services, we had connected them with independent third party chauffeur service providers, and we are exploring additional means, to the extent permitted by law, to accommodate such customer needs.

Regulations on penalties for violation of traffic laws and regulations

According to the Road Traffic Safety Law and its implementing rules, the driver of the vehicle shall be subject to legal penalties and demerits, on cumulative basis, imposed by the competent traffic administrative department in connection with his/her conviction of traffic offenses, and in case that the driver of the vehicle cannot be identified or the driver refuses to accept the penalties and demerits, the competent traffic administrative department may impose the penalties on the owner of the vehicle. Further, according to the Registration Provisions, every vehicle shall be subject to periodic inspection, and such inspection can only be passed after the traffic accidents on such vehicle have been settled, the related fines have been paid up and penalty points have been deducted on the driver’s license in relation to any violation of traffic laws and regulations.

Regulations on operating parking facilities

On October 3, 1988, the MPS and Ministry of Construction jointly promulgated an Interim Rules on the Construction and Administration of Parking Facilities, which were abolished in 2018. Currently, operation of parking facilities is mainly subject to local regulations that impose various requirements on entities engaged in operating parking facilities, and such regulatory requirements vary across locales. For example, the Beijing Municipal People’s Government promulgated the Rules on the Administration of Parking of Automobiles on November 18, 2013, under which a company that operates public parking facilities must file with the appropriate local authority and comply with the requirements for the operation of public parking facilities.

Laws and regulations on sales and auction of used cars

In March 2006, MOFCOM issued the Used Cars Trading Standards, which sets forth detailed criteria and requirements for the purchase, sale, dealing, auction, evaluation, trading and post-sale services in respect of used cars. The Used Cars Trading Standards requires that each operator of used cars must carry out business within its business scope. Pursuant to the Administrative Measures on the Trading of Used Cars, or the Used Cars Measures, which was jointly issued by MOFCOM, SAIC, the State Administration of Taxation, or SAT, and MPS, and became effective on October 1, 2005 and as amended on September 14, 2017, the distribution of used cars refers to the purchase and sale of used cars by qualified distributors, and the dealership of used cars refers to the brokering and dealing activities by qualified dealers with the aim to procure successful trading of used cars between other parties and collecting commissions. A distributor or dealer of used cars shall first be registered

with the local counterpart of SAIC and obtain a business license with the business scope of used cars distribution or dealing, and file with MOFCOM's local counterpart at provincial level for record within two months after obtaining such business license. The Used Cars Measures set forth various requirements for the sales of used cars, in particular, the sellers and distributors shall own the title to, or otherwise have the right to dispose of, the used cars sold by them, and when selling used cars, the distributors are required to make public their quality warranty and after-sales covenants to the buyers.

Pursuant to the Used Cars Measures and the Auction Law of the PRC, an enterprise engaging in the bidding and auction of used cars shall satisfy various criteria, such as having registered capital of at least RMB1 million and having appropriate professionals among whom at least one should be the auction master. The auction activities shall be carried out by the auction master with qualification certificate. To engage in the bidding and auction business, auctioneers shall first be verified and authorized by the auction administration department of the people's government at provincial level, and subsequently registered with the local counterparts of SAIC. The Used Cars Trading Standards further provide that online auction refers to the activities of posting auction information, specifications and pictures of the used cars via the Internet, and transferring the title of the used cars, through online public bidding and offline transaction, to the bidders who offer the highest price. The Used Cars Trading Standards require the online auctioneers to post the colored pictures and required auction information on the Internet for not less than 7 days. Entities engaging in auction business without approval and registration may be ordered to cease business and face monetary penalties.

We dispose of our rental vehicles of certain age to end users, dealers and franchisees primarily through online bidding and auction platforms, with offline auction companies and other offline sales as supplemental channels. Our PRC subsidiaries have obtained appropriate licenses to provide bidding and auction services, as well as used car dealing and sale activities.

REGULATIONS ON THE FILING OF LEASE AGREEMENTS

The Ministry of Housing and Urban-Rural Development issued the Administrative Measures for Commodity Housing Tenancy on December 1, 2010, which took effect from February 1, 2011. Pursuant to such administrative measures, the parties to a lease agreement shall file such lease agreement with the local housing authority within 30 days after the signing of such lease agreement. Failure to file a lease agreement with the local housing authority may subject the lessor and the lessee to fines of up to RMB10,000 each. For information on legal deficiencies in our leases, please see "Business – Properties – Leased Properties."

REGULATIONS ON AUTOMOBILE REPAIR AND MAINTENANCE SERVICES

Our automobile repair and maintenance business is generally subject to the Regulations on the Administration of Automobile Maintenance and Repair, or Automobile Repair Regulations, promulgated by the MOT on June 24, 2005, which became effective on August 1, 2005 and as amended on August 8, 2015, April 19, 2016 and June 21, 2019, and the Regulations of the People's Republic of China on Road Transport, or Road Transportation Regulations, promulgated by the State Council on April 30, 2004, which became effective on July 1, 2004 and as amended on November 9, 2012, February 6, 2016 and March 2, 2019.

Under the Automobile Repair Regulations, an operator is required to have suitable facilities, equipment and technical personnel in order to operate an automobile repair and maintenance business. In addition, an operator shall implement quality management systems and safety procedures, provide training to its technical personnel, maintain proper automobile repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

Under the Road Transportation Regulations, an operator shall file an application with the local counterpart of the MOT and shall meet the motor vehicle maintenance business standards developed by the MOT. Violation of the Road Transportation Regulations may result in fines and suspension of business operations against the operator.

Further, our automobile repair and maintenance business is also regulated by local government authorities of the provinces and cities where such business is operated. Various local regulations set forth the qualifications for the operating companies and detailed requirements for the repair and maintenance business, which may vary from one locale to another.

REGULATIONS ON REGISTRATION OF BRANCH COMPANIES

According to the Company Law and the amended Administrative Regulations of Registration of Enterprise Legal Persons, which became effective on March 1, 2014 with the latest amendment becoming effective on March 2, 2019, a company may establish branch companies, which are entities without legal person status, to conduct business outside the domicile of such company. Branch companies must be registered at the competent government authorities and obtain a business license. The amended Administration Regulations of Company Registration set forth detailed procedures for the registration of branch companies.

As of December 31, 2020, we had an extensive network of 2,560 directly operated service locations including 439 stores and 2,121 self-served locations in 172 major cities in all provinces in China. We have registered all of our stores and service locations that have active business operation and met all other regulatory requirements for subsidiaries and branch companies as our subsidiaries or branch companies with competent local authorities. As we quickly expand our operations, we may need to register additional branch companies from time to time. However, whether a service store or pick-up point will be deemed as having business nature or otherwise be required for branch company registration is subject to the sole discretion of the government authorities. Because of the discretionary nature of regulatory enforcement in the PRC, we cannot assure you that the governmental authorities will take the same view with us on whether a service store or pick up point is required or qualified to be registered as a branch company, for example, government authorities may deem that some of our pick-up points are of business nature and shall be required to be registered as a branch company, while some other of our stores or pick up points do not satisfy the regulatory requirements for branch companies, and thus can neither be registered as a branch office nor continue the current operation. If the government authorities find that we fail to complete branch company registration for any of our service stores and pick-up points or otherwise violate the regulations on branch companies, we may be subject to penalties, including fines, confiscation of income, or being ordered to cease business, which may substantially inhibit our ability to operate our business. See “Risk factors – Risks related to our business and industry – Some of our PRC subsidiaries may have engaged in business activities without the necessary approvals from or registration with local authorities, which could subject us to fines or other penalties that may negatively impact our results of operations or interfere with our ability to operate our business.”

REGULATIONS ON FINANCIAL LEASING

On October 22, 2004, MOFCOM and SAT, jointly issued the Notice on Issues Concerning the Operation of Financial Leasing Business, or the Leasing Notice. Pursuant to the Leasing Notice, financial leasing companies may not engage in the following activities: (i) accepting savings or irregular savings; (ii) providing the lessee working capital loans or other loans under the lease; (iii) investing in the securities of financial institutions; (iv) interbank lending business and (v) other financial business without the approval of the China Banking Regulatory Commission. On September 18, 2013, MOFCOM issued the Administration Measures of Supervision on Financial Leasing Enterprises, or Leasing Measures, pursuant to which, financial leasing companies may carry out financial leasing businesses in such forms as direct lease, sublease, sale-and-lease-back, leveraged lease, entrusted lease and joint lease, and the risk assets of a financial leasing companies shall not exceed ten times of its total net assets. A financial leasing company shall not engage in: (i) such financial businesses as deposit taking, loan issuing, and loan issuing on commission, (ii) illegal fund-raising activities in the name of financial leasing, and (iii) inter-bank borrowing and other businesses without the approval from relevant authorities. Further, under the Leasing Measures, financial leasing companies shall (i) prepare and report the numerical statements and brief descriptions about the business conditions of last quarter within 15 business days after the end of each quarter (ii) prepare and report the numerical statements and descriptions about the business conditions of last year, and submit and report the financial statements of the last fiscal year (including the notes) audited by an accounting firm by April 30 of each year.

In addition, the Civil Code sets mandatory rules about financial leasing contracts. Under the Civil Code, financial leasing contracts must be in writing and include terms such as the name, quantity, specifications, technical performance and inspection method of the leased asset, the lease term, the composition of the rental, payment term, payment method and rental currency and specify ownership of the leased asset upon expiration of the lease. Under financial leasing contracts, the lessor will enter into and conclude a purchase and sale contract with the seller of the leased assets designated by the lessee based on the lessee’s selection of the seller and the leased asset, and the seller will deliver the leased asset to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased asset. Without the consent of the lessee, the lessor may not modify relevant

particulars related to the lessee of the purchase contract which has been entered into based on the lessee's selection of the seller and the leased asset. The lessee must take due care of the leased asset and use it properly and must maintain and repair the leased asset while it is in his or her possession. The lessor is not liable for personal injury or damage to the property of a third party caused by the leased asset while it is in the possession of the lessee. However, the lessor retains ownership of the leased asset. If the leased asset fails to meet the requirements stipulated by the parties or is not fit for the purpose for which it is to be used, the lessor is not liable unless the lessee selected the leased asset in reliance on the technical ability of the lessor or the lessor interfered in the selection of the leased asset. The lessor and the lessee may stipulate which party will own the leased asset upon expiration of the lease. If no stipulation is made or such stipulation is unclear, or if ownership cannot be determined in accordance with the Civil Code, the lessor will retain ownership of the leased asset. If the parties have stipulated that the lessee will own the leased asset upon expiration of the lease and the lessee has already paid most of the lease payment but is unable to pay the balance, then in the event of the lessor terminating the contract and repossessing the leased asset on those grounds, the lessee may demand a partial refund if the value of the leased asset repossessed exceeds the rent and any other expenses owed by the lessee.

REGULATIONS ON COMMERCIAL FRANCHISING

Pursuant to the Regulations on the Administration of Commercial Franchising, or the Franchising Regulations, which took effect on May 1, 2007, commercial franchising refers to the business activities where a franchisor, being an enterprise possessing registered trademarks, corporate logos, patents, proprietary technology or other business resources, licenses its business resources to the franchisees, being other business operators, through contracts, and the franchisees carry out business operation under the uniform business model and pay franchising fees to the franchisor pursuant to the contracts. The Franchising Regulations set forth a number of prerequisite requirements for the franchisors, including the possession of a mature business model, the capability to provide business guidance, technical support and business training to the franchisees, and the ownership of at least two direct stores all of which shall have been in operation for at least one year in China. The Franchising Regulations also set forth a number of requirements governing the franchise agreements, for example, the franchisors and franchisees are required to enter into franchising agreements containing certain required terms, and the franchise term thereunder shall not be less than three years unless agreed by the franchisee.

Pursuant to the Administrative Measures on the Filing of the Commercial Franchise, which took effect on February 1, 2012, and the Franchising Regulations, within 15 days after executing the first franchise agreement, the franchisors shall file with the MOFCOM or its local counterparts for record, and if there occurs any change to the franchisee network and franchisee stores throughout China, the franchisor shall file such change to MOFCOM for the record within 30 days after the occurrence of the change. Further, within the first quarter of each year, the franchisors shall report the execution, renewal, termination and revocation of the franchise agreements occurred in the last year to MOFCOM or its local counterparts. Further, the franchisors are required to implement information disclosure system. The Administrative Measures on the Information Disclosure of Commercial Franchising, which took effect on April 1, 2012, provides a list of information that the franchisors shall disclose to the franchisees in writing at least 30 days before execution of the franchising agreements, and if there is any material change to the disclosed information, the franchisor shall notify the franchisees in a timely manner. Further, according to the Franchising Regulations, any failure to comply with the aforementioned requirement may result in fines ranging from RMB10,000 to RMB500,000.

We started to employ franchise arrangement in December 31, 2013. As of December 31, 2020, our franchise network operated by Principal PRC Subsidiaries covered a total of 158 small cities and we had entered into franchise agreements with a total of 106 franchisees to provide rental services through 211 franchised service locations in these cities. Each year, we are obligated to report the execution, renewal, termination and revocation of the franchise agreements occurred in the previous year throughout China to MOFCOM or its local counterparts. If MOFCOM finds any of our franchising activities in violation of PRC laws and regulations, it may impose administrative penalties against us.

TORT LIABILITY

The Civil Code provides that, in the event of death or serious personal injuries caused by a defective product, the entity that manufactured and distributed the defective product may be subject to punitive damages if it was clearly aware of the defect. Further, according to the Civil Code, when the driver of a rental car who is not the owner of the vehicle is held liable for a traffic accident, liability will first be covered by the insurance company providing the compulsory traffic accident insurance of the vehicle, and the driver shall be responsible for the portion not covered by the compulsory traffic accident insurance. The vehicle owner is not liable unless the owner has fault in such accident. However, if a company provides chauffeured services and the chauffeur is an employee or contracted driver of the company who is held liable for traffic accident while providing chauffeured services, liability will first be covered by the compulsory traffic accident insurance on the vehicle, and then by the company providing chauffeured services if the insurance coverage is not sufficient. See “Risk factors – Risks Related to Our Business and Industry – We face risks related to liabilities resulting from the use of our vehicles by our customers.”

REGULATIONS ON LABOR MATTERS

We are subject to laws and regulations governing our relationship with our employees, including wage and hour requirements, working and safety conditions, and social insurance, housing funds and other welfare. The compliance with these laws and regulations may require substantial resources.

The PRC Labor Law which became effective on January 1, 1995 and amended on August 27, 2009 and December 29, 2018, the Labor Contract Law of the People’s Republic of China, which became effective on January 1, 2008 and was amended on December 28, 2012, and its Implementing Regulation, which became effective on September 18, 2008, permit workers in both state owned and private enterprises in the PRC to bargain collectively. The PRC Labor Law and the PRC Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The PRC Labor Contract Law and its Implementing Regulation impose certain requirements with respect to human resources management, including, among other things, signing labor contracts with employees, terminating labor contracts, paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labor Contract Law requires employers to provide remuneration packages that meet the relevant local minimum standards. The PRC Labor Contract Law has enhanced rights for the nation’s workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

Under applicable PRC laws, rules and regulations, including the Social Insurance Law promulgated by the Standing Committee of the National People’s Congress and effective as of July 1, 2011 and as amended on December 29, 2018, Several Provisions on Implementing the Social Insurance Law issued by Ministry of Human Resource and Social Security and effective as of July 1, 2011, the Interim Regulations on the Collection and Payment of Social Security Funds promulgated by the State Council and effective as of January 22, 1999 and as amended on March 24, 2019, the Interim Measures Concerning Maternity Insurance of Enterprise Employees promulgated by the Ministry of Labor and effective as of January 1, 1995, the Regulations on Occupational Injury Insurance promulgated by the State Council and effective as of January 1, 2004 and amended on December 20, 2010, and the Regulations on the Administration of Housing Funds promulgated by the State Council and effective as of April 3, 1999 and amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to remediate on payments within a stipulated time period.

Our failure to make contributions to various employee benefit plans and comply with applicable PRC labor related laws may subject us to late payment penalties or fines. We may also be ordered to pay up the cumulative amount of the under-contributed social insurance, housing fund and other employee benefits.

REGULATIONS ON AUTO INSURANCE

Compulsory auto liability insurance

According to the Road Traffic Safety Law, traffic accident insurance must be purchased for each vehicle. Pursuant to relevant provisions of the Regulation on Compulsory Auto Liability Insurance, or the Insurance Regulation, effective as of July 1, 2006 and amended on December 17, 2012, February 6, 2016 and March 2, 2019, the owner or manager of a motor vehicle operating on the roads within the PRC must apply for the compulsory traffic accident liability insurance for motor vehicles in accordance with the provisions of the Road Traffic Safety Law, and the insurance company must make indemnity payments within liability limit to all victims, other than persons in the insured vehicle, for death, personal injury or property losses suffered in a road traffic accident involving the insured motor vehicle.

The limits of liability for compulsory traffic accident insurance for motor vehicles are standardized throughout the PRC and are classified into the limit of indemnity for death, injury or disability, the limit of indemnity for medical expenses, the limit of indemnity for property losses and the limit of no-fault indemnity of the insured in a road traffic accident.

REGULATIONS ON DATA PROTECTION

According to the Cybersecurity Law of the People's Republic of China, promulgated on November 7, 2016, or the PRC Cybersecurity Law, when collecting or using the personal information, the Internet operators shall comply with the principles of legality, justification and necessity. The Internet operators shall also publicize the rules for collection and use, clearly indicate the purposes, methods and scope of the information collection and use, and obtain the consent of those from whom the information is collected. Failure to comply with such requirement may subject the Internet operators to order to rectify, warning, confiscation of illegal gains and fine of not less than the amount of the illegal gains but not more than ten times that amount. In serious circumstances, the competent authority may order the Internet operator to suspend its business for rectification, close the website and revoke relevant permit or its business license.

In January 2019, the Cyberspace Administration of China, the Ministry of Industry and Information Technology of the People's Republic of China, the Ministry of Public Security of the People's Republic of China and the State Administration for Market Regulation jointly launched enforcement activity on illegal collection and use of personal information by App operators. The Provision on Test for Illegal Collection and Use of Personal Information by App was promulgated in November 2019 to further regulate data protection by App operators.

Pursuant to the Measures for the Administration of Operation and Service of Car Rental Business promulgated by the MOT on December 20, 2020, which will come into effect on April 1, 2021, the car rental service providers and the operators of e-commerce platforms which engage in deal-making and information distribution for car rental service providers shall comply with PRC laws and regulations on network security, personal information protection, data security, e-commerce and other matters. They shall also collect relevant information and data according to PRC law, strictly protect personal information and important data and maintain network data security, thus to support and cooperate with relevant authorities on regulatory work.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

China has adopted legislation governing intellectual property rights, including trademarks, copyrights and domain names. China is a signatory to the major international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

Copyright

Under the Copyright Law of the People's Republic of China, adopted in 1990 and revised in 2001, 2010 and 2020 (latest amendment will come into effect on June 1, 2021), or the Copyright Law, and its related Implementing Regulations adopted in 2002 and amended in 2011 and 2013, creators of protected works enjoy personal and property rights with respect to publication, authorship, alteration, integrity, reproduction, distribution, lease, exhibition, performance, projection, broadcasting, dissemination via information network, production, adaptation, translation, compilation and related activities. The term of a copyright, other than the rights of authorship, alteration and integrity of an author, which is unlimited in time, is life plus 50 years for individual authors and 50 years for corporations. In consideration of the social benefits and costs of copyrights, China balances copyright protections with limitations that permit certain uses, such as for private study, research, personal entertainment and teaching, without compensation to the author or prior authorization.

According to the Copyright Law currently in force, an infringer will be subject to various civil liabilities, which include cessation of the infringement and apologizing to and compensating the actual loss suffered by the copyright owner. If the actual loss of the copyright owner is difficult to calculate, the income received by the infringer as a result of the infringement will be deemed as the actual loss or if such illegal income is also difficult to calculate, the court can decide the amount of the actual loss up to RMB500,000.

The Computer Software Copyright Registration Measures (the "Software Copyright Measures"), promulgated by the National Copyright Administration on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the "CPCC"), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conform to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Promulgated in 2001 and revised in 2011 and 2013).

Trademarks

The PRC Trademark Law, adopted in 1982 and revised in 1993, 2001, 2013 and 2019, protects registered trademarks. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark must not prejudice the existing right of others obtained by priority, nor may any person register in advance a trademark that has already been used by another person and has already gained a "sufficient degree of reputation" through that person's use. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. During the three months after this public announcement, any person entitled to prior rights and any interested party may file an objection against the trademark.

The PRC Trademark Office's decisions on rejection, objection or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no objection is filed within three months after the public announcement or if the objection has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, at which point the trademark is deemed to be registered and will be effective for a renewable ten-year period, unless otherwise revoked.

Domain Names

Internet domain name registration and related matters are primarily regulated by the Administrative Measures on the Internet Domain Names, issued by the MIIT on August 24, 2017 and effective as of November 1, 2017, the Implementing Rules of China ccTLD Registration issued by CNNIC on June 18, 2019 and effective as of the same date, and the China ccTLD Dispute Resolution Policy issued by CNNIC on June 18, 2019 and effective as of the same date. Domain Name registrations are handled through domain name service agencies established under the relevant regulations, and the applications become domain name holders upon successful registration.

REGULATIONS ON FOREIGN EXCHANGE

Pursuant to the Regulations on the Administration of Foreign Exchange issued by the State Council, effective from 1996 and amended in January 1997 and August 2008, Renminbi is freely convertible for current account items, such as sale or purchase of goods, which are generally not subject to PRC governmental control or restrictions. Certain organizations in the PRC, including foreign-invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents.

However, for capital account items, such as direct investments, loans, repatriation of investments and investment in securities outside of PRC, the prior approval of or registration with the State Administration of Foreign Exchange, or SAFE, or its local counterparts, or qualified banks authorized by SAFE, is required.

From 2012, SAFE has promulgated several circulars to substantially amend and simplify the foreign exchange procedure. Pursuant to these circulars, the opening of various special purpose foreign exchange accounts, the reinvestment of RMB proceeds by foreign investors in the PRC and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE. In addition, domestic companies are allowed to provide cross-border loans not only to their offshore subsidiaries, but also to their offshore parents and affiliates. Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors, or Circular 21, which was promulgated by SAFE in May 2013 and amended in December, 2019, provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange. Pursuant to the Circular on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or Circular 13, promulgated by SAFE on February 13, 2015 and amended on December 30, 2019, entities and individuals will be required to apply for foreign exchange registrations of foreign direct investment and overseas direct investment at qualified banks instead of SAFE. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration. Though there are restrictions on the convertibility of Renminbi for capital account items, which principally include investments and loans, we generally follow the regulations and apply to complete registration as required by SAFE and other relevant PRC government authorities. However, we may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries and our PRC affiliated entities may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Pursuant to the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing promulgated by PBOC on January 11, 2017, effective as of the same date, the outstanding cross-border financing (including loans provided by foreign entities or individuals) of an enterprise shall be calculated in a risk-weighted approach, and shall not exceed the upper limit as calculated based on a statutory formula that is linked to the total capital (or net asset) and business type of the borrower and other specified factors.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 142. Circular 142 requires that the registered capital of a FIE converted into RMB from foreign currencies be only utilized for purposes within its business scope. For example, such converted amounts may not be used for equity investments in or acquisitions of other companies. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of FIEs settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been utilized.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or Circular 19, which took effect and replaced SAFE Circular 142 from June 1, 2015 and amended on December 30, 2019. Although under SAFE Circular 19, foreign-invested enterprises are allowed to freely convert their capital from foreign currencies into Renminbi and use the converted Renminbi for equity investments in the PRC, other restrictions on the foreign-invested enterprises' use of the converted Renminbi under Circular 142 will continue to apply, such as restrictions on use of converted Renminbi for purposes beyond the business scope or for advancing Renminbi entrusted loans.

On June 9, 2016, SAFE further issued the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or Circular 16, to further expand and strengthen the discretionary conversion reform under Circular 19. Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items on a discretionary basis which applies to all enterprises registered in the PRC. Pursuant to Circular 16, in addition to foreign currency capital, the discretionary conversion policy expands to foreign currency debts borrowed by an enterprise (except financial institutions) and repatriated funds raised through overseas listing. In addition, Circular 16 has narrowed the scope of purposes for which an enterprise must not use the RMB funds so converted, which include, among others, (i) payment for expenditure beyond its business scope or otherwise as prohibited by the applicable laws and regulations; (ii) investment in securities or other financial products other than banks' principal-secured products; (iii) provision of loans to non-affiliated enterprises, except where it is expressly permitted in the business scope of the enterprise; and (iv) construction or purchase of non-self-used real properties, except for the real estate developer.

Violations of the applicable circulars and rules will result in severe penalties, such as fines. The applicable foreign exchange circulars and rules may limit our ability to transfer the net proceeds from this offering to our PRC subsidiaries and convert the net proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing the distribution of dividends by wholly foreign-owned enterprises include: the Company Law and the EIT Law, promulgated on March 16, 2007 and effective as of January 1, 2008 and most recently amended on December 29, 2018, and its implementation rules, promulgated on December 6, 2007 and effective as of January 1, 2008 and amended on April 23, 2019.

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a PRC company, including a wholly foreign-owned enterprise, is required to set aside at least 10% of its after-tax profit, as calculated using PRC accounting standards, each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. A PRC company may, at its discretion, allocate a portion of its after-tax profits to its employee welfare and bonus funds. These reserve funds, however, may not be distributed as cash dividends. Under the EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise in the PRC to its foreign investor who is a non-PRC resident enterprise will be subject to a 10% PRC withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a lower PRC income tax rate.

REGULATIONS ON FOREIGN EXCHANGE REGISTRATION OF OFFSHORE INVESTMENT BY PRC RESIDENTS

SAFE issued a public notice named Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (including its appendixes), or Circular 37, effective on July 4, 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or Circular 75. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity is referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions. After Circular 13 became effective on June 1, 2015, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under Circular 37, with qualified banks, instead of SAFE.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfill the required foreign exchange registration, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

REGULATIONS ON EMPLOYEE STOCK OPTION PLANS

On December 25, 2006, PBOC promulgated the Administrative Measures for Individual Foreign Exchange. On January 5, 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rules, which, among other things, specify registration requirements for a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On February 15, 2012, SAFE promulgated Circular of the SAFE on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in the Share Incentive Schemes of Overseas-Listed Companies, or Circular 7, which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company issued by SAFE in March 2007.

Under the SAFE regulations, in particular, Circular 7, all PRC residents who participate in an employee stock incentive plan or stock option plan of an overseas publicly-listed company are required, through the PRC subsidiary of the overseas publicly-listed company, to jointly entrust a PRC agent to handle foreign exchange registration with SAFE or its local counterpart and complete certain procedures relating to the share incentive schemes such as opening account and capital transfer. PRC residents include PRC nationals or foreign citizens having been consecutively residing in PRC for not less than one year, acting as directors, supervisors, senior management personnel or other employees of PRC companies affiliated with such offshore listed company. A PRC agent could be a PRC subsidiary of such overseas publicly-listed company participating in the share incentive scheme or another PRC institution qualified for asset trusteeship as designated by the PRC subsidiary and in accordance with PRC laws. The PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The foreign exchange proceeds received by the PRC residents from sale of shares under share incentive plans granted by the overseas publicly-listed company must be remitted to bank accounts in China opened by the PRC agents.

Further, a Notice Concerning Individual Income Tax on Earnings from Employee Stock Options, jointly issued by the Ministry of Finance and SAT, provides that domestic companies that implement employee share option programs must file the employee share option plans and other relevant documents with local tax authorities having jurisdiction over the companies before implementing such plans, and must file share option exercise notices and other relevant documents with local tax authorities before exercise by their employees of any share options.

PRC ENTERPRISE INCOME TAX LAW AND INDIVIDUAL INCOME TAX LAW

Under the EIT Law, enterprises are classified as either resident enterprises or non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25%. An enterprise established outside of the PRC with a "de facto management body" located within the PRC is considered a "PRC resident enterprise," meaning that it can be treated in a manner similar to a Chinese domestic enterprise for PRC enterprise income tax purposes. The implementing rules of the EIT Law define de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. The Notice regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of De Facto Management Bodies issued by SAT on April 22, 2009, or Circular 82, provides that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group shall be classified as a "PRC resident enterprise" with a "de facto management body" located within China if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of daily production, business operations and management operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies located within the PRC; (iii) major assets, accounting

books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. Although Circular 82 has been amended by the Notice Regarding the Determination of PRC Resident Enterprises on the Basis of De Facto Management Bodies (released by the SAT on January 29, 2014), or Circular 9, no PRC law, including Circular 9, has ever amended or modified such standards under Circular 82 as described above.

Due to the lack of applicable legal precedents, it remains unclear how the PRC tax authorities will determine the PRC tax resident treatment of a foreign company like us because we are currently not controlled by PRC enterprise or PRC enterprise groups and therefore Circular 82 does not apply to us directly. However, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general. We currently do not believe that we or our Hong Kong subsidiaries are PRC resident enterprises because we do not believe that we or our Hong Kong subsidiary meet all of the conditions above but there is no assurance in this regard. If the PRC tax authorities determine that we are a "PRC resident enterprise" for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. We would be subject to the PRC enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations, and payments of interest on the Notes and gains from the disposition of the Notes may be subject to PRC tax as described in the next paragraph.

The EIT Law and its implementation rules provide that an income tax rate of 10% will normally be withheld from interest and dividends payable by a PRC resident enterprise to its investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividend payments have their sources within the PRC and unless an applicable tax treaty provides otherwise. Such investors are also subject to 10% income tax on PRC-source gains, subject to the provisions of any applicable tax treaty. Under the PRC Individual Income Tax Law and its implementation rules, interest and dividend payments from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors are subject to 20% PRC individual income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. The State Council of the PRC or a tax treaty between the PRC and the jurisdictions in which the non-PRC investors reside may reduce such income tax. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, dividends paid by a foreign-invested PRC enterprise to its direct holding company, which is considered a Hong Kong tax resident and is determined by the relevant PRC tax authority to have satisfied relevant requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws, will be subject to withholding tax at the rate of up to 5% if the direct holding company owns at least 25% of the capital of the invested company, or up to 10% in other cases. Based on the Notice on Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by SAT, or Circular 81, if the relevant PRC tax authorities determine, at their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement without business substance, such PRC tax authorities may adjust or deny the tax treaty benefits. Further, based on the Circular on Issues Related to the "Beneficial Owners" in Tax Treaties, or Circular 9, issued on February 3, 2018 by SAT, a "beneficial owner" means an individual who (i) has ownership and the right to dispose of the income or the proprietary rights giving rise to the income, and (ii) substantively engages in the relevant business activities. When determining the applicant's status of a "beneficial owner" regarding tax treatments in connection with (i) dividends, (ii) interests or (iii) royalties in the tax treaties, a number of factors, including but not limited to (a) whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, (b) whether the business operated by the applicant constitutes the actual business activities, and (c) whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and will be analyzed according to the actual circumstances of the specific cases. If an applicant fails to be recognized as the "beneficial owner", it may not be entitled to the above-mentioned reduced income tax rate of up to 5% under the Double Tax Avoidance Arrangement. Besides, according to the Announcement relating to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements issued by SAT on October 14, 2019 and effective as of January 1, 2020, non-resident enterprises are no longer required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, non-resident enterprises, if upon self-assessment, determine that the prescribed criteria to enjoy the tax treaty

benefits are met, may directly apply for the reduced withholding tax rate by filing the necessary forms when performing tax filings and collect and retain supporting documents, which will be subject to post-filing examinations by the relevant tax authorities.

On October 17, 2017, SAT promulgated the Circular on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, which came into effect on December 1, 2017.

Pursuant to this circular, the entities which have the direct obligation to make certain payments to a non-PRC resident enterprise are responsible to withhold the tax. Such payments include income from equity investments (including dividends and other returns on investment), interest, rents, royalties, and income from the assignment of property as well as other income subject to enterprise income tax received by non-PRC resident enterprise in China, except for those excluded by the laws and regulations. Further, this circular provides that a tax withholder is obliged to submit a tax declaration and remit the tax withheld to the local tax authority within seven days after its withholding obligation arises.

REGULATION ON PRC BUSINESS TAX AND VAT

Prior to January 1, 2012, pursuant to Provisional Regulation of China on Business Tax and its implementing rules, any entity or individual rendering services in the territory of PRC is generally subject to a business tax at the rate of 5% on the revenues generated from provision of such services. Since January 1, 2012, the PRC Ministry of Finance and the SAT have been implementing the VAT Pilot Program, which imposes VAT in lieu of business tax for certain industries in Shanghai, and since August 1, 2012, such Pilot Program has been expanded to and completed in other regions, including Beijing, Tianjin, Jiangsu, Zhejiang, Anhui, Fujian, Hubei, Guangdong, Xiamen and Shenzhen. On May 24, 2013, the Ministry of Finance and the SAT jointly issued the Circular on Tax Policies on the Nationwide Expansion of the Pilot Program for the Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries, or Circular 37, which expanded the Pilot Program nationwide as of August 1, 2013.

On March 23, 2016, the Ministry of Finance and the SAT jointly issued the Notice on Comprehensive Implementation of the Pilot Program for Imposition of Value-Added Tax to Replace Business Tax, or the Notice which amended on July 11, 2017, December 25, 2017 and March 20, 2019. Pursuant to the Notice, the VAT became effective on May 1, 2016 and was implemented comprehensively across the country and extended to all industries, including construction sector, real estate sector, financial services and consumer services. According to the VAT, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay VAT instead of business tax. An entity or individual rendering services in China is subject to VAT at the rate of 17%, 11% or 6%, as applicable. Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates promulgated on April 4, 2018 and come to effect on May 1, 2018, by Ministry of Finance and State Administration of Taxation, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

MANAGEMENT

Our board of directors comprises nine directors, including one executive director, five non-executive directors and three independent non-executive directors. The directors are elected or appointed to serve a term of three years, which is renewable upon reelection and/or reappointment.

The following table sets out information in respect of the directors of the Company:

Name	Age	Position
Yifan SONG (宋一凡)	44	Chief Executive Officer and Executive Director
Hongfei YU (于洪飛)	43	Non-executive Director
Xuan YAN (嚴旋)	58	Non-executive Director
Stephen LE Ee Boon (李毅文)	47	Non-executive Director
Jun XU (徐俊)	37	Non-executive Director
Shengping YU (俞聖萍)	36	Non-executive Director
Sam Hanhui SUN (孫含暉)	48	Independent Non-executive Director
Wei DING (丁瑋)	61	Independent Non-executive Director
Li ZHANG (張黎)	53	Independent Non-executive Director

EXECUTIVE DIRECTOR

Yifan SONG (宋一凡), aged 44, was appointed as the Chief Executive Officer and an Executive Director on April 11, 2016. Ms. Song has worked as a vice-president for the Group from September 2007 to August 2013, and was promoted to an executive vice-president since September 2013. She is also a founding member of the Group. Before her appointment as the Chief Executive Officer of the Company, she was responsible for general management of processes and standardization; in particular, stores, fleet, repair and maintenance facilities and call centers.

Ms. Song has over 22 years of industry experience. She was the head of customer services for Beijing Huaxia United Automobile Association Co. Ltd. (北京華夏聯合汽車俱樂部有限公司) from March 2005 to August 2007 and she served as the head of customer services at Beijing Yingtong Information System Co., Ltd. (北京盈通資訊系統有限公司), an internet service provider company, from January 2003 to March 2005. Ms. Song worked as the head of customer services at Shouchuang Internet Co., Ltd. (首創網路有限公司), another internet service provider company, from May 2000 to December 2002 and at Beijing Youheng Technology Co., Ltd. (北京友恒科技有限公司) as a technical support manager from June 1999 to May 2000. She was a member of the technical support department at Beijing Ruide Hengchang Computer System Co., Ltd. (北京瑞得恒昌計算器系統集成有限公司) from May 1998 to May 1999. Ms. Song obtained a master degree in business administration from Central University of Finance and Economics of China (中央財經大學) in June 2009. She graduated from the College of Electric Automation Engineering of Beijing Union University (北京聯合大學電子自動化工程學院) and received her bachelor's degree in communication engineering in July 1998.

NON-EXECUTIVE DIRECTORS

Hongfei YU (于洪飛), aged 43, was appointed as a Non-executive Director on December 15, 2020. Mr. Yu is currently a member of the Remuneration Committee of the Company. Mr. Yu is a Partner and Co-head of Greater China at MBK Partners, an affiliate of Indigo Glamour Company Limited, which in turn is a substantial shareholder of the Company. Mr. Yu has over 18 years of experience in the private equity and investment banking industries. Prior to joining MBK Partners, from 2006 to 2010, Mr. Yu was a Vice President in the investment banking division of Morgan Stanley in Hong Kong. From 2005 to 2006, he worked as an Associate in the investment banking division of HSBC in Hong Kong. From 2003 to 2005, he worked as a Business Development Manager in Alcoa China in Beijing. From 2002 to 2003, he worked as an Associate in ICEA Finance Holdings Limited in Beijing. Mr. Yu received a Bachelor of Science degree in economics and a Master of Science degree in finance from University of International Business and Economics in Beijing. Mr. Yu currently serves on the boards of directors of Apex Logistics International Inc., Wendu Education Group and Shanghai Siyanli Industrial Co., Ltd.

Xuan YAN (嚴旋), aged 58, was appointed as a Non-executive Director on December 15, 2020. Mr. Yan is currently a member of the Nomination Committee of the Company. Mr. Yan is an Operating Partner of MBK Partners. Mr. Yan has more than two decades of business leadership, corporate governance, legal and government relations experience in both China and the U.S. Concurrently, he is the Chief Executive Officer of Wendu Education Group. Prior to joining MBK Partners, he was a Vice President at Microsoft Corporation. He currently serves on the board of directors of Las Vegas Sands Corporation, and was a member of the boards of directors of Alibaba Health Information Technology Limited and Shanghai Shenhua Holdings Co., Ltd. Before Microsoft, he was a public policy partner with the global law firm of Squire Patton Boggs. He served as a Senior Advisor to the French private equity firm Eurazeo and to China's largest grocery distributor and solutions provider Yiguo Fresh. Mr. Yan also held executive positions with leading global companies including AT&T/Lucent, Oracle, Qualcomm and Nielsen. Mr. Yan received his Bachelor of Arts and Juris Doctor degrees from Beijing Institute of Foreign Languages and Duke University School of Law, respectively.

Stephen LE Ee Boon (李毅文), aged 44, was appointed as a Non-executive Director on January 15, 2020. Mr. Le is a Partner at MBK Partners and is based in Hong Kong. Prior to joining MBK Partners, he was a Managing Director, Head of Asian Distressed Product Group, Strategic Investment Group and Co-head of the Asia Pacific Credit Division for Deutsche Bank. Mr. Le was also a member of the Global Credit Executive Committee of Deutsche Bank. Before joining Deutsche Bank, Mr. Le worked at Goldman Sachs & Co. focusing on equity research of the energy and petrochemical sector in Asia Pacific. Mr. Le received a Bachelor of Arts degree with First Class Honours in Accountancy from Nanyang Technological University, Singapore.

Jun XU (徐俊), aged 37, was appointed as a Non-executive Director on March 2, 2021. Mr. Xu is currently a member of the Audit and Compliance Committee of the Company. Mr. Xu is a director at MBK Partners, an affiliate of Indigo Glamour Company Limited, which in turn is a substantial shareholder of the Company. Mr. Xu has over 10 years of experience in the private equity and investment banking industries. Prior to joining MBK Partners, Mr. Xu was a Vice President at Ally Bridge Group in Hong Kong from 2015 to 2017. From 2011 to 2015, he worked as an Associate in the corporate finance division of China International Capital Corporation and Houlihan Lokey in Hong Kong. From 2006 to 2009, he worked as a Senior Consultant at Booz & Company in Shanghai. Mr. Xu received a Bachelor of Business Administration degree from Fudan University in Shanghai and an MBA degree from the Wharton School of University of Pennsylvania. Mr. Xu currently serves on the board of directors of Wendu Education Group.

Shengping YU (俞聖萍), aged 36, was appointed as a Non-executive Director on March 2, 2021. Ms. Yu is a director at MBK Partners. Ms. Yu has over 10 years of experience in the private equity and investment banking industries. Prior to joining MBK Partners, from 2010 to 2011, Ms. Yu was a Senior Associate in the investment banking division of Morgan Stanley in Hong Kong. From 2006 to 2008, she worked as a consultant at Oliver Wyman in New York. Ms. Yu received a Bachelor of Arts degree in economics from Harvard College and an MBA from the Wharton School of University of Pennsylvania. Ms. Yu currently serves on the board of directors of Shanghai Siyanli Industrial Co., Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sam Hanhui SUN (孫含暉), aged 48, has served as an Independent Non-executive Director since August 18, 2014. Mr. Sun is currently the Chairman of Audit and Compliance Committee of the Company and a member of the Nomination Committee of the Company. He is responsible for participating in the decision making of the Company's significant events; and participating in making decisions and advising on issues relating to corporate governance and audit. Mr. Sun has over 26 years of industry experience. Mr. Sun was appointed as an independent director and the chairman of the audit committee of each of iQiyi Inc. (a company listed on the NASDAQ, Stock Code: IQ) in March 2018. From March 2018 to July 2019, Mr. Sun has served as an independent director and chairman of the audit committee of Sunlands Technology Group (formerly known as Sunlands Online Education Group, a company listed on The New York Stock Exchange, Stock Code: STG). Since December 2015, Mr. Sun has served as an independent director and the chairman of the audit committee of Yirendai Ltd., a company listed on the New York Stock Exchange (Stock Code: YRD). From September 2010 to May 2019, Mr. Sun has served as an independent director and the chairman of the audit committee of Fang Holdings Limited (formerly named "SouFun Holdings Limited") which is a company listed on the New York Stock Exchange (Stock Code: SFUN). From January 2010 to May 2015, Mr. Sun served as the chief financial officer of Qunar Cayman Islands Ltd, a NASDAQ-listed company (Stock Code: QUNR). Mr. Sun was also an independent director and audit committee member of KongZhong Corporation, a NASDAQ-listed company, from

July 2005 to January 2007. He was the chief financial officer of KongZhong Corporation from February 2007 to April 2009. From 2004 to 2007, Mr. Sun served in several financial controller positions at Fang Holdings Limited, Maersk China Co., Ltd. and Microsoft China R&D Group. Mr. Sun worked in KPMG's auditing practice group from April 1995 to October 2004, including eight years at the Beijing office of KPMG where he was an audit senior manager, and two years at KPMG in Los Angeles, California. In May 1998, Mr. Sun was admitted as a China certified public accountant by the Chinese Institute of Certified Public Accountants. Mr. Sun graduated from the Beijing Institute of Technology in July 1993 with a bachelor degree in engineering, majoring in business administration.

Wei DING (丁玮), aged 61, has served as an Independent Non-executive Director since August 18, 2014. Mr. Ding is currently the Chairman of Remuneration Committee of the Company. He is responsible for participating in the decision making of the Company's significant events and participating in making decisions and advising on issues relating to corporate governance and remuneration of Directors and senior management. Mr. Ding has nearly 34 years of industry experience in international finance, commercial banking, investment banking, and private equity industry. Since May 2016, Mr. Ding has been serving as managing director and the head of private equity business of China International Capital Corporation Limited. Since June 2012, Mr. Ding has been serving as a member of the board for Hwa Pao Investment. From February 2011 to December 2013, Mr. Ding served as the senior managing director and head of Temasek Greater China, where he was responsible for Temasek's China strategy and investments. From October 2002 to February 2011, Mr. Ding worked at China International Capital Corporation as the managing director and later served as the head of investment banking division. From March 1999 to September 2002, Mr. Ding served as the chief country officer for China at Deutsche Bank. Mr. Ding worked at the World Bank and the International Monetary Fund in Washington, D.C. from November 1987 to February 1999, serving as an economist, project manager, divisional manager and the chief representative. In January 1998, Mr. Ding completed the executive development program at Harvard Business School, which was tailor-made for the World Bank. Mr. Ding received a bachelor degree majoring in finance from Renmin University of China in July 1982.

Li ZHANG (張黎), aged 53, was appointed as an Independent Non-executive Director, the chairman of the Nomination Committee of the Company and members of the Audit and Compliance Committee and the Remuneration Committee of the Company on February 27, 2018. He is responsible for participating in the decision making of the Company's significant events and participating in making decisions and advising on issues relating to the corporate governance, nomination of directors and remuneration of directors and senior management. He was an Independent Non-executive Director, a chairman of the Nomination Committee of the Company and a member of the Remuneration Committee of the Company from August 18, 2014 to January 13, 2016, and a member of the Audit and Compliance Committee of the Company from November 17, 2015 to January 13, 2016. Mr. Zhang has over 24 years of industry experience. Mr. Zhang has served as an Independent director of China United Property Insurance Company Limited since January 2020. From October 2013 to May 2016, Mr. Zhang has been serving as a deputy dean of the National School of Development at Peking University. And from October 2013 to January 2017, Mr. Zhang has been serving as the dean of BiMBA Business School of the National School of Development at Peking University where he was responsible for education in business administration, research and administration of school affairs. From September 2008 to September 2013, he was working as a professor and deputy dean of Beijing International MBA at Peking University, where he was mainly responsible for education in management studies, research and administration of school affairs. From September 2003 to August 2008, he was working as an associate professor and assistant dean of Beijing International MBA at Peking University, where he was mainly responsible for teaching and research. From January 2002 to August 2003, Mr. Zhang was employed by Peking University to participate in project management and teaching. Mr. Zhang received a doctor of philosophy degree from the Ohio State University in September 1999, a master degree in commodity sciences from Renmin University of China in July 1995 and a bachelor degree in textile engineering from Tianjin Institute of Textile Science & Technology (now known as Tianjin Polytechnic University) in July 1989.

Save as disclosed herein, none of our directors of the Company held any directorship positions in any listed companies in Hong Kong and overseas within the three years immediately preceding the date of this offering memorandum.

After the Offeror compulsorily acquires Shares held by other shareholder of the Company and the Shares are delisted from the Hong Kong Stock Exchange, our board of directors may or may not change.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. Save for Ms. Yifan Song, whose information is set out in the above, the table below shows certain information in respect of other senior management of our Company:

Name	Age	Position
Guangyu CAO (曹光宇)	44	Chief Financial Officer
Zhe ZHAO (趙喆)	44	Vice-president
Yijun ZHANG (張益軍)	43	Chief Technology Officer
Pingxin XU (徐屏新)	62	Vice-president
Huijun ZHAO (趙慧軍)	48	Vice-president
Yandong ZENG (曾龔冬)	45	Vice-president

Guangyu CAO (曹光宇), aged 44, was appointed as the Chief Financial Officer and vice president of the Company on September 1, 2018 and oversees financing strategies, tax planning and accounting. Mr. Cao is registered as a Certified Public Accountant and Certified Tax Agent in the PRC. He has over 20 years' experience in accounting and financial management. Mr. Cao is a founding member of the Company and he built the financial system and financial team of the Company and laid the solid foundation for the Company's rapid growth. Mr. Cao served as the senior vice president of UCAR. From April 2016 to August 2018 and the vice-president and financial controller of the Company from September 2007 to April 2016. Mr. Cao worked in different roles in the finance field from 2000 to 2007 in various companies. Mr. Cao obtained a master's degree in accountancy from Peking University in January 2014. He graduated from Nankai University with a bachelor's degree in accountancy in July 2000.

Zhe ZHAO (趙喆), aged 44, joined the Group in 2007. Ms. Zhao has been working as a vice-president for the Group since 2015 and is responsible for yield enhancement, marketing strategies and operation management of the rental business. Before working as a vice-president, she worked as city manager and subsequently regional general manager of the Company. Ms. Zhao graduated from Hubei University (湖北大學) and obtained a bachelor's degree in public administration in 1999.

Yijun ZHANG (張益軍), aged 43, joined the Group in 2006. Mr. Zhang has been working as Chief Technology Officer for the Group since 2016 and oversees digitalization and information and intelligence development of the Company through structural planning, research and analysis, and execution. Mr. Zhang graduated from Beijing Technology and Business University (北京工商大學) and obtained a bachelor's degree in computer application in 2000.

Pingxin XU (徐屏新), aged 62, joined the Group in 2013. Mr. Xu has been working as a vice-president for the Group since 2014 and is responsible for used car management, including marketing strategies, channel development, and used car assessment. Before 2014, he worked as city manager and subsequently regional general manager of the Company. Mr. Xu graduated from Ningde Normal University (寧德師範學院) and obtained a college's degree in mathematics in 1981.

Huijun ZHAO (趙慧軍), aged 48, joined the Group in 2008. Mr. Zhao has been working as a vice-president for the Group since 2017 and is responsible for fleet management, including repair and maintenance and insurance. Before 2017, he worked as city manager and subsequently regional general manager of the Company. Mr. Zhao graduated from Open College in Party School of the CPC Central Committee (中共中央黨校函授學院) and obtained a bachelor's degree in law in 2004.

Yandong ZENG (曾龔冬), aged 45, was appointed as the Company's senior management on April 11, 2016. Mr. Zeng has been working as a vice-president for the Group since June 2009 and is responsible for strategic cooperation including resources management and business partner relationships. Since Mr. Zeng joined the Group in 2009, he has assumed a key management role in the fleet management. Prior to joining us, Mr. Zeng worked as a sales director at APV Far East Ltd. (APV遠東有限公司) from June 2006 to September 2008. From March 2001 to May 2006, he worked as a national sales manager at Tetrapak China Co., Ltd. (利樂中國有限公司). From September 1998 to March 2001, he worked as a manufacturing engineer at Ford Motor (China) Ltd. (福特汽車(中國)有限公司). Mr. Zeng received an Executive Master of Business Administration degree from Peking University (北京大學) in July 2008. He graduated from Tsinghua University (清華大學) and obtained a bachelor's degree in automotive engineering in July 1997.

Company Secretary

Ka Man SO (蘇嘉敏), aged 47, was appointed as our company secretary on July 30, 2014. Ms. So has over 22 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. From August 2000 to December 2003, Ms. So worked at Tengis Limited (currently known as Tricor Tengis Limited). She is currently a director at the corporate services division of Tricor Services Limited (“Tricor”), a global professional service provider specializing in integrated Business, Corporate and Investor Services. Ms. So is currently the company secretary of Embry Holdings Limited (安莉芳控股有限公司) (Stock Code: 1388), China Logistics Property Holdings Co., Ltd (中國物流資產控股有限公司) (Stock Code: 1589), Computime Group Limited (金寶通集團有限公司) (Stock Code: 320) and Maoye International Holdings Limited (茂業國際控股有限公司) (Stock Code: 848), all companies are listed on the Stock Exchange. Ms. So is also a joint company secretary of Xiaomi Corporation (小米集團) (a company listed on the Stock Exchange; Stock Code: 1810). Ms. So is a chartered secretary and a fellow of both The Hong Kong Institute of Chartered Secretaries (“HKICS”) and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom. She is a holder of the Practitioner’s Endorsement from HKICS. (Note: The Company has engaged Tricor as external service provider and appointed Ms. So as the company secretary since July 30, 2014.)

BOARD COMMITTEES

We have established the following committees in our board of directors: an Audit and Compliance Committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with terms of reference established by our board of directors.

Audit and Compliance Committee

We have established an Audit and Compliance Committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraphs C.3 and D.3 of the Code and Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit and Compliance Committee consists of one non-executive director, namely, Mr. Jun XU (徐俊), and two independent non-executive directors, namely, Mr. Sam Hanhui SUN (孫含暉) and Mr. Li ZHANG (張黎), with Mr. Sam Hanhui SUN (孫含暉) being the chairman of the committee. As required under Rules 3.10(2) and 3.21 of the Hong Kong Listing Rules, Mr. Sam Hanhui SUN (孫含暉), being the chairman of the committee, holds the appropriate professional qualifications.

The primary duties of the Audit and Compliance Committee are to assist our board in reviewing the Company’s financial information and relationship with external auditors; overseeing and monitoring the Company’s risk management, financial reporting system, internal control procedures and corporate governance functions; reporting to the Board of any suspected frauds, irregularities, failures of the risk management or internal control systems; meeting with the internal and external auditors or senior management to discuss the audit plans; and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

Remuneration Committee

We have established a Remuneration Committee with terms of reference in compliance with paragraph B.1 of the Code and Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of one non-executive director, namely, Mr. Hongfei YU (于洪飛), and two independent non-executive directors, namely, Mr. Li ZHANG (張黎) and Mr. Wei DING (丁瑋), with Mr. Wei DING (丁瑋) being the chairman of the committee.

The primary duties of the Remuneration Committee include making recommendations to the board on the Company’s policy and structure for all directors’ and senior management’s remuneration and on establishing a formal and transparent procedure for developing remuneration policy; making recommendations to the board on the remuneration of directors and senior management; and ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

Nomination Committee

We have established a Nomination Committee with terms of reference in compliance with paragraph A.5 of the Code and Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of one non-executive director, namely, Mr. Xuan YAN (嚴旋), and two independent non-executive directors, namely, Mr. Li ZHANG (張黎) and Mr. Sam Hanhui SUN (孫含暉), with Mr. Li ZHANG (張黎) being the chairman of the committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the board annually and making recommendations on any proposed changes to the board to complement the Company's corporate strategy; making recommendations to the board on the appointment and succession planning for directors, in particular the chairman of the board and the chief executive officer; and assessing the independence of independent non-executive directors and identifying suitable candidates to become board members.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As of December 31, 2020, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV to the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO), or are required, pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules are listed as follows:

Long positions in the Shares

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Mr. Sam Hanhui SUN	Beneficial owner	510,000	0.02%

Long position in the underlying Shares – physically settled unlisted equity derivatives (share options)

<u>Name of Director</u>	<u>Capacity in which interests were held</u>	<u>Number of underlying shares in respect of the share options granted</u>	<u>Total interests as to % of the total number of Shares in issue</u>
Ms. Yifan SONG.....	Beneficial owner	23,322,548	(approximately) 1.10%

Except as disclosed above, none of the directors or the chief executive of the Company has any interests or short positions in the shares of the Company, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV to the SFO) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO), or are required, pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As of December 31, 2020, the following persons or entities (other than the directors and chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange:

Long Positions in the Shares

Name	Capacity	Number of Shares	Approximate Percentage of the Company's Issued Share Capital*
Legend Holdings Corporation ⁽¹⁾	Interest in controlled corporations	563,583,025	26.55%
Right Lane Limited ⁽¹⁾	Interest in controlled corporations	563,583,025	26.55%
Grand Union Investment Fund, L.P. ⁽¹⁾	Beneficial owner	562,668,025	26.51%
Infinity Wealth Limited ⁽¹⁾	Interest in controlled corporations	562,668,025	26.51%
Amber Gem Holdings Limited ⁽²⁾ ..	Beneficial owner	157,039,260	7.90%
Warburg Pincus & Co. ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
Warburg Pincus Private Equity XI, L.P. ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
Warburg Pincus XI, L.P. ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
WP Global LLC ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
Warburg Pincus Partners II, L.P. ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
Warburg Pincus Partners GP LLC ⁽²⁾	Interest in Controlled Corporations	157,039,260	7.90%
UBS Group AG ⁽³⁾	Interest in Controlled Corporations	113,187,299	5.33%
Indigo Glamour Company Limited ⁽⁴⁾	Beneficial owner	442,656,855	20.86%
Indigo Glamour Holdings Limited ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
Michael ByungJu Kim ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
Teck Chien Kong ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
MBK GP IV, Inc. ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
MBK Partners Fund IV, L.P. ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
MBK Partners GP IV, L.P. ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%
MBK Partners JC IV GP, Inc. ⁽⁴⁾ ...	Interest in controlled corporations	442,656,855	20.86%
MBK Partners JC IV GP, L.P. ⁽⁴⁾ ...	Interest in controlled corporations	442,656,855	20.86%
MBK Partners JC IV, L.P. ⁽⁴⁾	Interest in controlled corporations	442,656,855	20.86%

Notes:

- (1) Grand Union Investment Fund, L.P. is an exempted liability partnership which is controlled by a sole general partner, Infinity Wealth Limited and a sole limited partner, Right Lane Limited. Infinity Wealth Limited is a wholly-owned subsidiary of Right Lane Limited, which in turn, is wholly-owned by Legend Holdings Corporation. Legion Elite Limited is a wholly-owned subsidiary of Right Lane Limited. Thus, Legend Holdings Corporation and Right Lane Limited were deemed to be interested in 562,668,025 shares and 915,000 shares of the Company held by Grand Union Investment Fund, L.P. and Legion Elite Limited respectively. Infinity Wealth Limited was deemed to be interested in 562,668,025 shares of the Company held by Grand Union Investment Fund, L.P.
- (2) Warburg Pincus Private Equity XI, L.P. owns 41.42% of the equity interest in Amber Gem Holdings Limited ("Amber Gem"). Warburg Pincus Private Equity XI, L.P. is a wholly-owned subsidiary of Warburg Pincus XI, L.P., which, in turn, is wholly-owned by WP Global LLC. WP Global LLC is wholly-owned by Warburg Pincus Partners II, L.P., which, in turn, is wholly-owned by Warburg Pincus Partners GP LLC. Warburg Pincus Partners GP LLC is wholly owned by Warburg Pincus & Co. Thus, Warburg Pincus Private Equity XI, L.P., Warburg Pincus XI, L.P., WP Global LLC, Warburg Pincus Partners II, L.P., Warburg Pincus Partners GP LLC and Warburg Pincus & Co. were deemed to be interested in 157,039,260 shares of the Company held by Amber Gem.
- (3) UBS AG and UBS Asset Management (Singapore) Ltd are wholly-owned subsidiaries of UBS Group AG. Thus, UBS Group AG was deemed to be interested in the 94,332,299 and 18,855,000 shares held by UBS AG and UBS Asset Management (Singapore) Ltd, respectively.
- (4) Based on the information set out in the relevant disclosures made by the said substantial Shareholder(s), Indigo Glamour Company Limited is an indirect wholly-owned subsidiary of Indigo Glamour Holdings Limited. Indigo Glamour Holdings Limited is wholly-owned by MBK Partners JC IV, L.P. In respect of MBK Partners JC IV, L.P. (which indirectly owns 100% of Indigo Glamour Company Limited): (i) Michael ByungJu Kim controls MBK GP IV, Inc., which in turn controls MBK Partners GP IV, L.P. which in turn controls MBK Partners Fund IV, L.P., which is the sole limited partner of MBK Partners JC IV, L.P.; and (ii) Teck Chien Kong controls MBK Partners JC IV GP, Inc., which in turn controls MBK Partners JC IV GP, L.P., which in turn controls MBK Partners JC IV, L.P. Thus, Michael ByungJu Kim, Teck Chien Kong, MBK GP IV, Inc., MBK Partners Fund IV, L.P., MBK Partners GP IV, L.P., MBK Partners JC IV GP, Inc., MBK Partners JC IV GP, L.P., MBK Partners JC IV, L.P. and Indigo Glamour Holdings Limited were deemed to be interested in 442,656,855 Shares held by Indigo Glamour Company Limited.

Long position in the underlying Shares – unlisted derivatives (convertible instruments)

Name	Capacity in which interests were held	Number of underlying shares in respect of the convertible instruments	Approximate Percentage of the Company's Issued Share Capital*
Mcqueen SS Ltd. ⁽¹⁾	Beneficial Owner	339,062,500	15.98%
Michael ByungJu Kim ⁽¹⁾	Interest in controlled corporations	339,062,500	15.98%
MBKSS GP I, Inc. ⁽¹⁾	Interest in controlled corporations	339,062,500	15.98%
MBK Partners Special Situations GP I, L.P. ⁽¹⁾	Interest in controlled corporations	339,062,500	15.98%
MBK Partners Special Situations I, L.P. ⁽¹⁾	Interest in a controlled corporation	339,062,500	15.98%
British Columbia Investment Management Corporation ⁽²⁾	Interest in controlled corporations	339,062,500	15.98%

Notes:

- (1) Based on the information set out in the relevant disclosures made by the substantial shareholder(s), Mcqueen SS Ltd. is indirectly wholly-owned by MBK Partners Special Situations I, L.P. MBK Partners Special Situations I, L.P. is controlled by MBK Partners Special Situations GP I, L.P., which is controlled by MBKSS GP I, Inc., which in turn is controlled by Mr Michael ByungJu Kim. Thus, MBK Partners Special Situations I, L.P., MBK Partners Special Situations GP I, L.P., MBKSS GP I, Inc. and Mr Michael ByungJu Kim were deemed to be interested in 339,062,500 underlying shares in respect of convertible instruments of the Company held by the Mcqueen SS Ltd.
- (2) Based on the information set out in the relevant disclosures made by the said substantial Shareholder(s), Mcqueen SS Ltd. is indirectly wholly-owned by MBK Partners Special Situations I, L.P., which, in turn, is owned by bcIMC PEPL 2017 WSAF Inc. and bcIMC PEPL 2017 Inc. in the proportions of 5.54% and 32.69% respectively. bcIMC PEPL 2017 WSAF Inc. and bcIMC PEPL 2017 Inc. are wholly-owned by British Columbia Investment Management Corporation. Thus, British Columbia Investment Management Corporation, bcIMC PEPL 2017 Inc., bcIMC PEPL 2017 WSAF Inc. and MBK Partners Special Situations I, L.P. were deemed to be interested in 339,062,500 underlying shares in respect of convertible instruments of the Company held by the Mcqueen SS Ltd.

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as of December 31, 2020.

Save as disclosed above, the Company is not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as of December 31, 2020.

After settlement of the VGO and completion of the compulsory acquisition by Indigo Glamour Company Limited of shares held by other shareholders of the Company, the Company will become a wholly-owned subsidiary of Indigo Glamour Company Limited. An application will be made to the Hong Kong Stock Exchange for the withdrawal of listing of the Shares from the Hong Kong Stock Exchange under Rule 6.15(1) of the Listing Rules, which is currently expected to be in around July 2021.

CONNECTED TRANSACTIONS

The following discussion describes current certain material related party transaction between us and our related party.

ISSUANCE OF THE COMPANY'S CONVERTIBLE BONDS TO MCQUEEN SS LTD.

On December 3, 2020, the Company entered into a subscription agreement with Mcqueen SS Ltd. (the "Subscription Agreement"), pursuant to which the Company has conditionally agreed to issue, and the Relevant Investor has conditionally agreed to subscribe for, or procure other investor(s) to subscribe for, the convertible bonds in the aggregate principal amount of US\$175,000,000.

Mcqueen SS Ltd. (on behalf of the investors) may waive satisfaction of any of the conditions as disclosed in the circular of the Company dated December 16, 2020. If the conditions above are neither waived by the Relevant Investor nor satisfied on or prior to January 31, 2021 (or such other date as the Company and the Relevant Investor may mutually agree in writing), the Subscription Agreement shall automatically terminate on such date, and no party thereto will have any claim against the other save for in respect of rights, obligations or liabilities accrued prior to such termination.

Mcqueen SS Ltd. is wholly-owned by MBK Partners Special Situations I, L.P. The general partner of MBK Partners Special Situations I, L.P. is MBK Partners Special Situations GP I, L.P., and the general partner of MBK Partners Special Situations GP I, L.P. is MBKSS GP I, Inc., affiliates of MBK Partners. Furthermore, Indigo Glamour Holdings Limited is wholly-owned by MBK Partners Fund IV, L.P. The general partner of MBK Partners Fund IV, L.P. is MBK Partners GP IV, L.P., and the general partner of MBK Partners GP IV, L.P. is MBK GP IV, Inc., affiliates of MBK Partners. At the time of completion of the Subscription Agreement, Indigo Glamour Holdings Limited was holding approximately 20.86% of the issued capital of the Company and hence, a connected person of the Company by virtue of being a substantial shareholder of the Company. As a result, Mcqueen SS Ltd. is a connected person of the Company by virtue of being an associate of Indigo Glamour Holdings Limited and the subscription under the Subscription Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and independent shareholders' approval requirements under the Listing Rules.

The transaction under the Subscription Agreement was approved by the independent shareholders by poll at the extraordinary general meeting of the Company on January 6, 2021. All conditions of the Subscription Agreement have been fulfilled and completion of the Subscription Agreement took place on January 15, 2021.

For details, please refer to the Company's announcements dated December 3, 2020 and January 15, 2021 and circular dated December 16, 2020 published on the website of the Hong Kong Stock Exchange.

TRANSACTIONS WITH UCAR AND/OR ITS SUBSIDIARIES

Although Mr. Charles Zhengyao Lu resigned as a director of the Company in June 2020, Mr. Lu remains a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules for 12 months after the date of his resignation. Since Mr. Lu was the actual controller of UCAR, UCAR constitutes a connected person of the Company and the following transactions between the Company and UCAR constitute continuing connected transactions of the Company.

Procurement Framework Agreement with Borgward China and Borgward Xiamen dated September 24, 2020

On September 24, 2020, CAR Beijing, an indirectly wholly-owned subsidiary of the Company, entered into a procurement framework agreement with Borgward China and Borgward Xiamen in relation to its purchase of vehicle parts from Borgward China and Borgward Xiamen with a termination date of December 31, 2021.

Both Borgward China and Borgward Xiamen are wholly-owned subsidiaries of Beijing Borgward and Beijing Borgward is a non-wholly owned subsidiary of UCAR.

From September 24, 2020 to December 31, 2020, the aggregate amount paid by CAR Beijing to Borgward China and Borgward Xiamen was approximately RMB22,070,000, which did not exceed the aggregated annual cap of RMB25,000,000.

For details, please refer to the announcement of the Company dated September 24, 2020.

Renewed Framework Agreement with UCAR dated December 13, 2018

On December 13, 2018, the Company entered into a renewed framework agreement with UCAR in relation to fleet rental, technical services, leasing and other services with a termination date of December 31, 2021.

The Company convened an extraordinary general meeting on February 22, 2019 to seek independent Shareholders' approval of the transactions under the renewed framework agreement and the aggregate annual caps for the financial years ending December 31, 2019 to 2021. The new framework agreement was approved by the independent Shareholders.

For the year ended December 31, 2020, the aggregate amount charged by the Group to UCAR in relation to fleet rental, technical services, and leasing services under the renewed framework agreement was approximately RMB83,258,000, RMB9,068,000 and RMB793,000, respectively, and the aggregate amount paid by the Group to UCAR in relation to leasing services was approximately RMB3,380,000.

For details, please refer to the announcement of the Company dated December 13, 2018 and circular dated January 18, 2019.

New Framework Agreement with UCAR dated June 25, 2018

To facilitate and provide a new and efficient channel to dispose vehicles as an additional option to the existing channels, on June 25, 2018, the Company entered into a new framework agreement with UCAR in relation to its sale of vehicle business, with a term of not more than three years and subject to terms and conditions provided therein. The new framework agreement replaced the framework agreement with UCAR dated June 29, 2016 upon its expiry on December 31, 2018.

The Company convened an extraordinary general meeting on August 16, 2018 to seek independent Shareholders' approval of the transactions under the new framework agreement and the aggregate annual caps for the financial years ended/ending December 31, 2018 to 2020. The new framework agreement was approved by the independent Shareholders.

For the year ended December 31, 2020, there was no commission paid to UCAR group for sale of vehicles to end-users through UCAR group's sales platform.

For details, please refer to the announcement of the Company dated June 25, 2018 and the circular dated July 17, 2018.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing operations and to finance our working capital requirements, we have entered into financing agreements with various financial institutions, such as banks, trust companies and financial leasing companies, and we have issued certain senior notes and corporate bonds. As of December 31, 2020, our interest-bearing bank and other borrowings amounted to RMB1,537.0 million (US\$235.6 million) and our liabilities under the senior notes amounted to RMB5,124.0 million (US\$785.3 million).

ONSHORE FINANCING

Trust Loan Agreements

From time to time, we may enter into financing arrangements with trust companies pursuant to which we receive financing from trust companies in the PRC. They typically have terms up to 36 months. In 2019, we have entered into two trust loan agreements with Tibet Trust Corporation Limited and obtained loans with the aggregate outstanding amount of RMB550 million (US\$84.3 million) as of March 22, 2021.

Interest

The interest rates of loans with trust companies usually do not link to the PBOC benchmark interest rates but depend largely on the market condition. The interest rate of our loans with trust company is a fixed rate of 6.85% per annum. Interest payments are payable quarterly and must be made on each payment date as provided in the particular trust loan agreements.

Covenants

The major covenants of our outstanding trust loan agreements include, among others, the following:

- (a) the borrowing subsidiary shall disclose to the relevant trust financing company the current and future indebtedness of the borrowing subsidiary, including but not limited to, indebtedness and liabilities;
- (b) before paying off the principal and interest, the borrowing subsidiary shall not provide security to a third party with the assets formed by the trust loans, without the consent of the relevant trust financing company; and
- (c) the borrowing subsidiary shall comply with the use of proceeds.

Events of Default

The trust loan agreements contain customary events of default, including non-payment of principal or interest and breaches of the terms of the agreement. If an event of default has occurred, the trust company may exercise its rights to demand payment and any accrued interest from our borrowing subsidiary or guarantor of the financed amount.

Guarantee and Security

The liabilities of the subsidiary borrowers under the trust financing arrangements are guaranteed by the Company. Under certain guarantee agreements, we shall not provide guarantee to a third party, without the written consent of the trust company, and we shall inform the trust company within three working days after making any decision of liquidation, dissolution, bankruptcy, merger, being involved in litigation or disposal of material assets.

Sale and Leaseback Agreement

In November 2019, we have entered into a sale and leaseback agreement with CMB Financial Leasing Co., Ltd. (“CMB”). We obtained capital leases from CMB for over 1,500 of our vehicles with the aggregate outstanding amount of approximately RMB27 million (US\$4.1 million) as of March 22, 2021.

Interest

The principal amount outstanding under the sale and leaseback agreement generally bears interest at floating rates calculated by reference to the PBOC's benchmark interest rate per annum. Floating interest rates generally are subject to review by the lender annually. The current carrying interest's rate is 5.63%. Interest payments are generally payable quarterly to CMB.

Covenants

Under the sale and leaseback agreement, our borrowing subsidiary has agreed, among other things, to inform the relevant financial leasing company if the borrowing subsidiary is involved in the following actions:

- (a) matter occur in a way that may adversely affect their ability to repay their loans; and
- (b) acquisitions, restructuring, mergers or divisions, providing external guarantees or filing for bankruptcy.

Events of Default

The sale and leaseback agreement contains customary events of default, including non-payment of rental and breaches of the terms of the agreement. If an event of default has occurred, the financial leasing company may exercise its rights to demand payment and claim damages from the borrowing subsidiary.

Guarantee and Security

The liabilities of the subsidiary borrowers under the sale and leaseback agreement are guaranteed by the Company. Under certain guarantee agreement, we shall inform the financial leasing company and the financial leasing company is entitled to require us to provide other guarantee prior to making any decision of reorganization, merger, takeover, shareholding reform, reduction of registered capital, material investment, merger, acquisition, reconstruction, division, change of control, being involved in material litigation, disposal of material assets or other equivalent circumstances.

OFFSHORE FINANCING

2021 Notes

Pursuant to an indenture dated April 4, 2018 (as amended or supplemented from time to time, the "2021 Indenture"), we issued an aggregate principal amount of CNY400,000,000 6.5% Senior Notes due 2021 on April 4, 2018 and issued an additional aggregate principal amount of CNY350,000,000 6.5% Senior Notes due 2021 on May 2, 2018 (together, the "2021 Notes"). The 2021 Notes are listed on the Hong Kong Stock Exchange.

Guarantee

The obligation pursuant to the 2021 Notes are guaranteed by our existing subsidiaries, or the 2021 Subsidiary Guarantors, other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2021 Indenture. We refer to these guarantees as the 2021 Subsidiary Guarantees.

Each of the 2021 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2021 Notes.

Interest

The 2021 Notes bear an interest rate of 6.5% per annum. Interest is payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2021 Indenture and each of the 2021 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- (a) incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- (b) declare dividends on capital stock or purchase or redeem capital stock;
- (c) make investments or other specified restricted payments;
- (d) guarantee indebtedness of the Company or any other restricted subsidiaries;
- (e) sell assets;
- (f) create liens;
- (g) enter into sale and leaseback transactions;
- (h) enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- (i) enter into transactions with shareholders or affiliates;
- (j) effect a consolidation or merger; and
- (k) engage in any business other than businesses permitted by the 2021 Indenture.

Events of Default

The 2021 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the 2021 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2021 Indenture or the holders of at least 25% of the outstanding 2021 Notes may declare the principal of the 2021 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Upon the occurrence of certain specified events of default, the principal of, premium (if any), and accrued and unpaid interest on the outstanding 2021 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Not later than 30 days following the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding 2021 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

Maturity and Redemption

The maturity of the 2021 Notes is April 4, 2021. At any time and from time to time on or after April 4, 2020, the Company may at its option redeem all or part of the aggregate principal amount of the 2021 Notes at a redemption price of 103.25% of the principal amount of the 2021 Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to April 4, 2020, the Company may at its option redeem the 2021 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2021 Notes plus the applicable premium as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The Company has arranged funds offshore to make full payment of the amount due under the 2021 Notes at the maturity date, including the principal and interest.

2022 Notes

Pursuant to an indenture dated May 10, 2019 (as amended or supplemented from time to time, the “2022 Indenture”), we issued an aggregate principal amount of US\$372,333,000 8.875% senior notes due 2022 (the “2022 Notes”). The 2022 Notes are listed on the Hong Kong Stock Exchange.

Guarantee

The obligation pursuant to the 2022 Notes are guaranteed by our existing subsidiaries, or the 2022 Subsidiary Guarantors, other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2022 Indenture. We refer to these guarantees as the 2022 Subsidiary Guarantees.

Each of the 2022 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2022 Notes.

Interest

The 2022 Notes bear an interest rate of 8.875% per annum. Interest is payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2022 Indenture and each of the 2022 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- (a) incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- (b) declare dividends on capital stock or purchase or redeem capital stock;
- (c) make investments or other specified restricted payments;
- (d) issue or sell capital stock of restricted subsidiaries;
- (e) guarantee indebtedness of the Company or any other restricted subsidiaries;
- (f) sell assets;
- (g) create liens;
- (h) enter into sale and leaseback transactions;
- (i) enter into agreements that restrict the restricted subsidiaries’ ability to pay dividends;
- (j) transfer assets or make intercompany loans;
- (k) enter into transactions with shareholders or affiliates;
- (l) effect a consolidation or merger; and
- (m) engage in any business other than businesses permitted by the 2022 Indenture.

Events of Default

The 2022 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the 2022 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2022 Indenture or the holders of at least 25% of the outstanding 2022 Notes may declare the principal of the 2022 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any), and accrued and unpaid interest on the outstanding 2022 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Not later than 30 days following the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding 2022 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the purchase payment date.

Maturity and Redemption

The maturity of the 2022 Notes is May 10, 2022. At any time and from time to time prior to May 10 2022, the Company may at its option redeem the 2022 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture) as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

2019 Bank of China (Hong Kong) Facility

On November 19, 2019, we entered into a facility agreement with, among others, Bank of China (Hong Kong) Limited as arranger and agent, pursuant to which Bank of China (Hong Kong) Limited agreed to provide a term loan facility to us for up to US\$150.0 million. As of the date of this offering memorandum, we had drawn down the full amount under this facility. The 2019 Bank of China (Hong Kong) Facility is guaranteed by certain of our offshore subsidiaries.

2019 China Citic Bank International Limited Facility

On December 27, 2019, we entered into a loan agreement with, among others, China Citic Bank International Limited as facility agent and security agent, pursuant to which the lenders thereof agreed to provide a term loan facility to us for up to HK\$330 million. As of the date of this offering memorandum, we had drawn down the full amount under this facility. The 2019 China Citic Bank International Limited Facility is guaranteed by certain of our offshore subsidiaries.

Convertible Bonds

We issued an aggregate principal amount of US\$175,000,000 5% unsecured convertible bonds with a 5-year tenor at the initial conversion price of HK\$4.0 per conversion share (the “Convertible Bonds”) on January 15, 2021.

The Convertible Bonds constitute direct, unguaranteed, unconditional and unsecured obligations of the Company and the Convertible Bonds shall at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, save for such obligations as may be preferred by mandatory provisions of law.

Interest

The Convertible Bonds bear an interest rate of 5% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the Convertible Bonds contain certain covenants including but not limited to financial covenant and covenant not to create encumbrance upon the Company or restricted subsidiaries’ undertaking, assets or revenues to secure any financial indebtedness.

Events of Default

The Convertible Bonds contains certain customary events of default, including default in the payment of principal or of any premium on the Convertible Bonds when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default substantially similar to the Events of Default under the Indenture.

At any time following the occurrence of an event of default and if the event of default is continuing, the bondholders (acting by a resolution passed at a meeting of bondholders by a majority of not less than 75% of the votes cast) may have the right to give notice to the Company that the Convertible Bonds shall immediately become due and repayable and require the Company to redeem (within seven (7) business days of the bondholders giving a redemption notice to the Company) the Convertible Bonds in full at an amount equal to the aggregate of (a) the aggregate principal amount of the Convertible Bonds the subject of the redemption; (b) any accrued but unpaid interest on such Convertible Bonds; and (c) an amount that would give the bondholders an internal return rate specified in the Convertible Bonds document (the “**CB Redemption Amount**”).

Change of Control and Delisting Redemption

At any time following the occurrence of a change of control event or delisting event, the bondholders (acting by an extraordinary resolution) may have the right at their sole option (but are not obliged) to require the Company to redeem the Convertible Bonds in full at an amount equal to the CB Redemption Amount.

Maturity and Bondholders' Redemption Option

The maturity of the Convertible Bonds is January 15, 2026. The Company will, at the option of any bondholder, redeem all or some of such bondholder's Convertible Bonds on a date falling on the fourth anniversary of the issue date at an amount equal to the CB Redemption Amount.

See Company's announcement dated December 3, 2020 and circular dated December 16, 2020 published on the website of the Hong Kong Stock Exchange for more details of the Convertible Bonds.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to CAR Inc., and any successor issuer of the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which Guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection on or after the Original Issue Date at the corporate trust office of the Trustee located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

BRIEF DESCRIPTION OF THE NOTES

The Notes will be:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the Existing *Pari Passu* Indebtedness and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under “– The Subsidiary Guarantees” and in “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees”;
- effectively subordinated to all existing and future secured obligations of the Company to the extent of the value of the collateral serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below).

The Notes will mature on March 31, 2024, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “– Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 9.75% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrear on September 30 and March 31 of each year (each, an “Interest Payment Date”), commencing September 30, 2021. Interest on the Notes will be calculated on the basis of a 360-day year comprised twelve 30-day months.

Interest on the Notes will be paid to the Holders of record at the close of business on September 15 or March 16 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. So long as the Notes are held in global form, each payment in respect of the Global Note will be

made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. In any case in which the date of the payment of principal of, premium (if any) or interest on the Notes is not a Business Day, then such payment need not be made in such place on such date but may be made on the next succeeding Business Day. Any payment made on such succeeding Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by wire transfer by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying and Transfer Agent currently located at Citibank, N.A., London Branch, c/o Citibank, N.A., Dublin Branch, 1 North Way Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, if the Notes are in definitive form and the Company acts as its own paying agent, at the option of the Company, payment of interest may be made by check mailed (at the expense of the Company) to the address of the Holders as such address appears in the Note register maintained by the Registrar or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

THE SUBSIDIARY GUARANTEES

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under “– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Restricted Subsidiaries other than (i) the Restricted Subsidiaries organized under the laws of the PRC (the “PRC Restricted Subsidiaries”) and (ii) Car Holdings Limited (the “Initial Offshore Non-Guarantor Subsidiary”). All of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

None of the existing or future PRC Restricted Subsidiaries will provide a Subsidiary Guarantee at any time in the future. Such Restricted Subsidiaries, together with any Offshore Non-Guarantor Subsidiaries (as defined below), are referred to herein as the “Non-Guarantor Subsidiaries.”

The Company will cause each of its future Restricted Subsidiaries (other than PRC Restricted Subsidiaries or any Excluded Subsidiaries), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes. Notwithstanding the foregoing sentence, the Company may elect to have any Restricted Subsidiary organized outside the PRC (such Restricted Subsidiaries, “Offshore Restricted Subsidiaries”) not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or have the Subsidiary Guarantee provided by such Restricted Subsidiary released (Offshore Restricted Subsidiaries that do not provide a Subsidiary Guarantee in accordance with the Indenture, including the Initial Offshore Non-Guarantor Subsidiary, are referred to as the “Offshore Non-Guarantor Subsidiaries”); *provided* that, after giving effect to the amount of Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (excluding any Excluded Subsidiaries) do not exceed 10% of Total Assets. If, at any time, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (excluding any Excluded Subsidiaries) exceed 10% of Total Assets, the Company must cause one or more Offshore Non-Guarantor Subsidiaries to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Offshore Non-Guarantor Subsidiaries will guarantee the payment of the Notes such that the 10% limitation is complied with. Such supplemental indenture must be executed within 30 Business Days from the date of the most recent annual financial statements or semi-annual interim financial statements of the Company is made available to the public or delivered to the

Trustee, whichever is earlier.

Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date is referred to as a “Future Subsidiary Guarantor” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “Subsidiary Guarantor.”

Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

As of December 31, 2020,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total consolidated indebtedness of approximately RMB6,660.9 million (US\$1,020.8 million), of which RMB77.2 million (US\$11.8 million) was secured; and
- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB1,007.4 million (US\$154.4 million).

In addition, as of December 31, 2020, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of approximately RMB91.2 million (US\$14.0 million) and nil, respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor will be:

- a general obligation of such Subsidiary Guarantor;
- effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- at least *pari passu* with the guarantees provided for the Existing *Pari Passu* Indebtedness (where applicable) and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium (if any) and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See “Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees – The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of such Subsidiary Guarantees.”

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “– Defeasance – Defeasance and discharge” or satisfaction and discharge as described under “– Satisfaction and Discharge”;
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary or an Offshore Non-Guarantor Subsidiary in compliance with the terms of the Indenture; or
- upon the sale, disposition or merger of a Subsidiary Guarantor (or any direct or indirect holding company thereof) in compliance with the terms of the Indenture (including the covenants under the captions “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “– Certain Covenants – Limitation on Asset Sales” and “– Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture (to the extent required).

In addition, in the case of a Subsidiary Guarantor with respect to which the Company or any of the Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may, concurrently with the consummation of such sale or issuance of Capital Stock, instruct the Trustee in writing to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Offshore Restricted Subsidiaries, and upon such release such Subsidiary Guarantor and its Offshore Restricted Subsidiaries will become new Offshore Non-Guarantor Subsidiaries (such that each new Offshore Non-Guarantor Subsidiary will no longer Guarantee the Notes); *provided* that, after the release of such Subsidiary Guarantees, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (including the new Offshore Non-Guarantor Subsidiaries but excluding any Excluded Subsidiaries) do not account for more than 10% of Total Assets. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if, as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “– Certain Covenant – Limitation on Indebtedness” covenant described below.

OPTIONAL REDEMPTION

At any time on or after March 31, 2023, the Company may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to 103.65625% of the principal amount of the Notes redeemed plus accrued and unpaid interest, if any, to (but not including) the relevant redemption date.

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to March 31, 2023, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the Applicable Premium.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes will be selected for redemption as follows:

- (a) if the Notes are listed on any securities exchange, in compliance with the requirements of such securities exchange on which the Notes are listed and/or, if the Notes are held through the clearing systems, in compliance with the requirements of the applicable clearing systems; or
- (b) if the Notes are not listed on any securities exchange or held through the clearing systems, on a *pro rata* basis, by lot or by such other method as the Trustee in its sole and absolute discretion shall deem to be fair and appropriate unless otherwise required by applicable law.

Notices of redemption may, in the Company's discretion, be subject to the satisfaction of one or more conditions precedent.

However, no Note of US\$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

REPURCHASE OF NOTES UPON A CHANGE OF CONTROL TRIGGERING EVENT

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but excluding) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "Offer to Purchase").

The Company will agree in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit the repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors – Risks Related to the Notes and the Subsidiary Guarantees – We may not be able to repurchase the Notes, the 2021 Notes and the 2022 Notes upon a Change of Control Triggering Event."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Notwithstanding the foregoing, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control has occurred and shall not be liable to any person for any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

NO MANDATORY REDEMPTION OR SINKING FUND

There will be no mandatory redemption or sinking fund payments for the Notes.

ADDITIONAL AMOUNTS

All payments of principal of, premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under “– Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payment is made by or on behalf of the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the “Relevant Jurisdictions”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

- (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere;
 - (d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (“FATCA”), any current or future U.S. Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA (an “IGA”), any law, regulation or other official guidance implementing FATCA or an IGA, or any agreement with the U.S. Internal Revenue Service under FATCA;
 - (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership, limited liability company or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or limited liability company or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company will furnish to the Holders and the Trustee, within 90 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers’ Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying and Transfer Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

REDEMPTION FOR TAXATION REASONS

The Notes may be redeemed, at the option of the Company or a Surviving Person (as defined under the caption “– Consolidation, Merger and Sale of Assets”), as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “Tax Redemption Date”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or

- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an official position, is announced (i) except as described in (ii) immediately below, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or a Surviving Person (the "Assumption Date") if such Person's Relevant Taxing Jurisdiction had not been a Relevant Taxing Jurisdiction prior to the relevant Assumption Date, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as conclusive evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

REPURCHASES OF NOTES

The Company or any Subsidiary Guarantor may purchase Notes in the open market or by tender or by any other means at any price, so long as such acquisition does not otherwise violate the terms of the Indenture.

CERTAIN COVENANTS

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness); *provided* that the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would not be less than 2.5 to 1.0 with respect to any Incurrence of Indebtedness.

Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and any Restricted Subsidiary may Incur, to the extent provided below, each and all of the following (“Permitted Indebtedness”):
- (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;
 - (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c) below; *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) if the Company is the obligor on such Indebtedness and the obligee of such Indebtedness is not a Subsidiary Guarantor, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if any Subsidiary Guarantor is the obligor on such Indebtedness (and neither the Company nor any other Subsidiary Guarantor is the obligee), such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor;
 - (d) Indebtedness (“Permitted Refinancing Indebtedness”) of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have correlative meanings), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the proviso in paragraph (1) above or clause (a), (b), (d), (k), (q) or (v) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the earlier of the final maturity date of the Notes and the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or more than 180 days after the final maturity date of the Notes, and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;
 - (e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations (i) designed to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation or (ii) designed to reduce or manage interest expenses;
 - (f) any *Pari Passu* Guarantee;

- (g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; *provided* that this Indebtedness is extinguished within five Business Days;
- (h) Indebtedness of the Company or any Restricted Subsidiary in respect of workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business;
- (i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in each case Incurred or assumed in connection with the disposition of any business, assets of the Company or of a Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of any of the Company's or a Restricted Subsidiary's business or assets for the purpose of financing an acquisition; *provided* that the maximum assumable liability in respect of all this Indebtedness shall at no time exceed the gross proceeds actually received by the Company and/or the relevant Restricted Subsidiary in connection with the disposition;
- (j) obligations with respect to trade letters of credit, performance and surety bonds and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations, entered into in the ordinary course of business, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee;
- (k) Indebtedness of the Company or any Restricted Subsidiary:
 - (i) representing Capitalized Lease Obligations; or
 - (ii) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price of equipment, property or assets (including Vehicles) (including the purchase of Capital Stock of any Person holding such equipment, property or assets that is, or will upon such purchase become, a Restricted Subsidiary) or the cost of development, construction or improvement of equipment, property or assets to be used in the ordinary course of a Permitted Business by the Company or a Restricted Subsidiary;

provided that (A) such purchase money Indebtedness shall not exceed the purchase price of such equipment, property or assets so acquired or, as the case may be, the cost of such development, construction or improvement, (B) such purchase money Indebtedness shall be Incurred no later than 360 days after the acquisition of such equipment, property or assets or, as the case may be, the completion of such development, construction or improvement, and (C) on the date of the Incurrence of any Indebtedness permitted by this clause, and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (m), (n), (p), (q), (r) and (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;

- (l) Guarantees by the Company and any Restricted Subsidiary of any Indebtedness of the Company or any Restricted Subsidiary; *provided* that the Indebtedness guaranteed is permitted to be Incurred under the Indenture;

- (m) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less for working capital; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (m) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (k) above and clauses (n), (p), (q), (r) and (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (n) Indebtedness Incurred pursuant to any Credit Facility; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k) and (m) above and clauses (p), (q), (r) and (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (p) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k), (m) and (n) above and clauses (q), (r), and (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (q) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (q) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k), (m), (n) and (p) above and clauses (r) and (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;

- (r) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (r) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k), (m), (n), (p) and (q) above and clause (s) below (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
 - (s) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (s) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k), (m), (n), (p), (q) and (r) above (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
 - (t) Indebtedness (A) of a Special Purpose Subsidiary secured by a Lien on all or part of the assets disposed of in, or otherwise Incurred in connection with, a Financing Disposition or (B) otherwise Incurred in connection with a Special Purpose Financing; *provided* that such Indebtedness is not recourse to the Company or any Restricted Subsidiary that is not a Special Purpose Subsidiary (other than with respect to Special Purpose Financing Undertakings); *provided further* that, in the event such Indebtedness shall become recourse to the Company or any Restricted Subsidiary that is not a Special Purpose Subsidiary (other than with respect to Special Purpose Financing Undertakings), such Indebtedness will be deemed to be, and must be classified by the Company as, Incurred at such time (or at the time initially Incurred) under one or more of the other provisions of this covenant for so long as such Indebtedness shall be so recourse;
 - (u) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time not to exceed US\$20.0 million (or the Dollar Equivalent thereof);
 - (v) Indebtedness (“Permitted Contribution Indebtedness”) of the Company or any Restricted Subsidiary in an aggregate outstanding principal amount of up to 100% of the Net Cash Proceeds received by the Company, since the Original Issue Date, as capital contribution to its common equity or from the issuance and sale of its Capital Stock to a Person who is not a Subsidiary of the Company; *provided* that such Net Cash Proceeds may not be relied upon as the basis for Incurrence of Indebtedness pursuant to this clause (v) if they have been designated as Excluded Contributions or applied to make Restricted Payments pursuant to clause (c)(ii) of the first paragraph of the covenant described under the caption “– Limitation on Restricted Payments” prior to the incurrence of such Permitted Contribution Indebtedness; *provided, further*, that such Permitted Contribution Indebtedness shall be Incurred no later than 180 days after the receipt of such Net Cash Proceeds;
 - (w) Indebtedness constituting a Subordinated Shareholder Loan.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

- (4) For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness under this “Limitation on Indebtedness” covenant, the Dollar Equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies; *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or such Restricted Subsidiary’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance or other acquisition or retirement for value, in each case prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, of Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under the caption “– Limitation on Indebtedness”; or
- (c) such Restricted Payment, together with the aggregate amount of (1) all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and the Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall exceed the sum (without duplication) of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on July 1, 2014 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner and which may be internal financial statements) are available; *plus*

- (ii) 100% of the aggregate Net Cash Proceeds (other than such Net Cash Proceeds that have been relied upon as the basis for Incurrence of Indebtedness pursuant to clause (v) of the second paragraph of the covenant described under the caption “– Limitation on Incurrence of Indebtedness” to the extent such Indebtedness or any refinancing of such Indebtedness Incurred pursuant to clause (d) of the second paragraph of that covenant remains outstanding) received by the Company after the Measurement Date as capital contribution to its common equity by, or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary, *provided* that this clause (ii) shall not include any Excluded Contributions; plus

- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided, however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the Incurrence of such Indebtedness; *plus*

- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (E) any Person becoming a Restricted Subsidiary but only to the extent such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Restricted Subsidiary (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Restricted Subsidiary (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Restricted Subsidiary in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Restricted Subsidiary (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided* that any such cash payment shall not be for the purpose of evading the limitation of this “Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (7) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$5.0 million (or the Dollar Equivalent thereof) in any calendar year;
- (8) the repurchase for value of any Capital Stock of the Company from the market solely for the purposes of its “share award scheme” approved by its Board of Directors, provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$5.0 million (or the Dollar Equivalent thereof) in any calendar year;
- (9) Restricted Payments made after the Original Issue Date in an aggregate amount not exceeding US\$20.0 million (or the Dollar Equivalent thereof); or
- (10) Restricted Payments described in clause (2), (3) or (4) of the first paragraph of this covenant in an aggregate amount not exceeding the aggregate amount of Excluded Contributions received by the Company on or after the Original Issue Date,

provided that, in the case of clauses (2), (3) and (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clause (1) of this paragraph shall be included (but Restricted Payments made pursuant to clauses (2) through (10) shall not be included) in calculating whether the conditions of clause (c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or

securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment (other than cash) or any such assets or securities (other than cash) must be based upon an opinion or an appraisal issued by an accounting, appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$20.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than those made pursuant to clauses (5) through (10) of the second paragraph of this "Limitation on Restricted Payments" covenant) in excess of US\$5.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

For purposes of determining compliance with this "Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this "Limitation on Restricted Payments" covenant and paragraph (16) of the definition of "Permitted Investment" at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of such paragraphs.

Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

provided that (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis, in each case, shall not be deemed to constitute such an encumbrance or restriction.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture or any Pari Passu Guarantee, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;

- (c) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary (or any Subsidiary of such Person or the property or assets of any Subsidiary of such Person), existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of any Subsidiary of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary (or any direct or indirect holding company thereof that is a Restricted Subsidiary) that is permitted by the covenants described under the captions “– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “– Limitation on Indebtedness” and “– Limitation on Asset Sales”;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(k), (n), (o), (p), (q), (r), (s), (t) or (u) of the “Limitation on Indebtedness” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company or any Subsidiary Guarantor to make required payment on the Notes or its Subsidiary Guarantee, as the case may be, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (g) existing in customary provisions in shareholders agreements, joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor to make required payments under its Subsidiary Guarantee;
- (h) customary provisions contained in agreements evidencing Liens incurred in accordance with the covenant described under the caption “– Limitation on Liens” that limit the right of the debtor or grantor to dispose of the assets which are subject to the Liens; or
- (i) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on sales and issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary or, in the case of a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, *pro rata* to its shareholders or incorporators or on a basis more favorable to the Company;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the covenant described under the caption “– Limitation on Asset Sales” to the extent required thereunder; and
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the covenant described under the caption “– Limitation on Restricted Payments” if made on the date of such issuance or sale; *provided* that the Company complies with the covenant described under the caption “– Limitation on Asset Sales” to the extent required thereunder.

Limitation on issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clause (2)(b), (c) or (s) (in the case of clause (2)(s), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of cash deposits or bank accounts to secure or the use of any guarantee or letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness) of the covenant described under the caption “– Limitation on Indebtedness.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on transactions with shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each, an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and

- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and has been approved by a majority of the disinterested members of the Board of Directors, *provided* that, if the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Board Resolution shall certify that such Affiliate Transaction complies with this covenant and has been approved by a majority of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation for the services as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or such Restricted Subsidiary;
- (2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1), (2) or (3) of the first paragraph of the covenant described under the caption “– Limitation on Restricted Payments” if permitted by that covenant (other than in reliance on the second paragraph of that covenant);
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or a Minority Interest Staged Acquisition Agreement; and
- (7) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (7) or (8) of the second paragraph of the covenant described under the caption “– Limitation on Restricted Payments.”

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the covenant described under the caption “– Limitation on Restricted Payments,” (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and the Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among (A) any two or more of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, (B) Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries, or (C) the Company or a Restricted Subsidiary on the one hand and any Minority Joint Venture or Unrestricted Subsidiary on the other hand, and (iv) any Investment by any Permitted Holder (or any Affiliate of any Permitted Holder) in securities or Indebtedness of the Company or any Restricted Subsidiary (and payment of reasonable out-of-pocket expenses incurred by any such Permitted Holder or

Affiliate in connection therewith) so long as such Investment is offered by the Company or such Restricted Subsidiary to other investors on terms that are the same or more favorable to such other investors than such terms offered to such Permitted Holder or Affiliate; *provided* that, in the case of clause (iii), none of the shareholders or partners (other than the Company or a Wholly Owned Restricted Subsidiary) of or in such Restricted Subsidiary (that is not a Wholly Owned Restricted Subsidiary), Minority Joint Venture or Unrestricted Subsidiary, as the case may be, is a Person that is described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or other partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, as the case may be).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien (without consent of Holders), for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under the caption “– Limitation on Indebtedness” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “– Limitation on Liens,” in which case the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under the caption “– Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of (determined on the date of the contractual arrangement for such Asset Sale); and

- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$15.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:
- (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary may apply such Net Cash Proceeds to:

- (a) permanently repay unsubordinated Indebtedness of the Company or any Restricted Subsidiary (and, if such unsubordinated Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (b) acquire properties and assets (other than current assets), including any shares of Capital Stock in a Person holding such properties or assets that is primarily engaged in a Permitted Business, that will be used in the Permitted Businesses ("Replacement Assets"),

provided that, pending the application of Net Cash Proceeds in accordance with clause (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) may be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (a) accumulated Excess Proceeds, multiplied by
- (b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes will be purchased on a *pro rata* basis based on the principal amount of the Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on business activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited by the covenant described under the caption “– Limitation on Restricted Payments.”

Use of proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than (1) as specified under “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or Disqualified Stock or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “– Limitation on Indebtedness” or such Lien would violate the covenant described under the caption “– Limitation on Liens”; (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) as of the time of such designation, such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary (other than such first-mentioned Restricted Subsidiary or its Subsidiaries) Guarantees or provides credit support for the Indebtedness of such first-mentioned Restricted Subsidiary; and (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption “– Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “– Limitation on Indebtedness”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “– Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary will become a Subsidiary Guarantor.

Government approvals and licenses; Compliance with law

The Company has completed the registration of foreign debt in respect of the offering described in this offering memorandum and obtained a certificate of registration from the NDRC dated December 18, 2020 in accordance with the NDRC Notice. The Company will (i) file or cause to be filed with the NDRC or its local branch information concerning the offering described in this offering memorandum after the Original Issue Date in accordance with and within the time period prescribed by the NDRC Notice and (ii) ensure that the registration of foreign debt with the NDRC in respect of the offering described in this offering memorandum remains in full force and effect for so long as any Note remains outstanding.

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except (in each case) to the extent that failure so to obtain, maintain, preserve and comply with would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the Indenture or the relevant Subsidiary Guarantee.

Anti-layering

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the Subsidiary Guarantees on substantially identical terms; *provided* that this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Rating maintenance

So long as any Note remains outstanding, the Company will maintain at least one corporate rating on itself by a Rating Agency.

SUSPENSION OF CERTAIN COVENANTS

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from two out of three of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “– Certain Covenants – Limitation on Indebtedness”;
- (2) “– Certain Covenants – Limitation on Restricted Payments”;
- (3) “– Certain Covenants – Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “– Certain Covenants – Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “– Certain Covenants – Limitation on Business Activities”;
- (7) “– Certain Covenants – Limitation on Sale and Leaseback Transactions”;
- (8) “– Certain Covenants – Limitation on Asset Sales”; and
- (9) clauses (3), (4) and (5)(x) of the first and second paragraphs of “Consolidation, Merger and Sale of Assets.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under “– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant described under the caption “– Certain Covenants – Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

PROVISION OF FINANCIAL STATEMENTS AND REPORTS

- (1) So long as any Note remains outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s Common Stock are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; provided that, if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of an annual results announcement substantially similar to the 2020 annual results announcement published by the Company on The Stock Exchange of Hong Kong Limited on March 15, 2021, which shall contain unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company;
 - (b) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, (i) copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants; (ii) copies of a description of the business, including business key performance indicators (specifically, average daily fleet, total fleet, average daily rental rates, utilization rate and number of cars sold) for the fiscal year, in form and substance substantially similar to the 2020 annual report published by the Company on The Stock Exchange of Hong Kong Limited on March 16, 2021 (the “2020 Annual Report”); (iii) copies of disclosure of related party transactions as required to be disclosed in accordance with GAAP in a manner substantially similar to that disclosed in the 2020 Annual Report; and (iv) copies of a review of financial performance in a scope that is substantially similar to the information contained in the “Management Discussion and Analysis” section of the 2020 Annual Report;
 - (c) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Company, (i) copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants with a comparison to the half-year period of the prior year; and (ii) copies of a summary sheet of business key performance indicators (specifically, average daily fleet, total fleet, average daily rental rates, utilization rate and number of cars sold) for such half-year period; and

- (d) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarters of the Company, (i) copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company; (ii) copies of a summary sheet of business key performance indicators (specifically, average daily fleet, total fleet, average daily rental rates, utilization rate and number of cars sold) for the relevant quarter; and (iii) a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that the relevant financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

The requirement to furnish any of the reports required pursuant to clauses (a), (b), (c) and (d) above may be satisfied by the posting of such reports within the time periods specified above on Intralinks or any comparable password protected online data system requiring user identification and a confidentiality acknowledgement (the “Secured System”). If the Company uses the Secured System to satisfy such requirements, it shall make readily and promptly available any password or other login information relating to the Secured System to Holders, prospective investors (each a “Prospective Investor”), security analysts who have certified to the Company that they are reputable security analysts employed by a reputable financial institution who regularly cover or intend to cover the Company and the Notes (each, a “Security Analyst”) and market makers who have certified to the Company that they are reputable market makers who regularly make or intend to make a market in the Notes (each, a “Market Maker”), and shall make readily and promptly available on an “Investor Relations” page on its external website contact information for being provided access to the Secured System to any Holders, Prospective Investors, Security Analysts or Market Makers and promptly comply with any such requests for access to the Secured System; provided, however, that the Company may deny access to any competitively sensitive information otherwise to be provided pursuant to this paragraph to any such Holder, Prospective Investor, Security Analyst or Market Maker that is a competitor of the Company and its Subsidiaries to the extent that the Company determines in good faith that the provision of such information to such Person would be competitively harmful to the Company and its Subsidiaries.

- (2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; provided that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers’ Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

EVENTS OF DEFAULT

The following events will be defined as “Events of Default” in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenant described under the caption “– Consolidation, Merger and Sale of Assets” or the failure by the Company to make or consummate an Offer to Purchase in the manner described under the caption “– Repurchase of Notes upon a Change of Control Triggering Event” or “– Certain Covenants – Limitation on Asset Sales”;

- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$15.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Significant Subsidiary in the ordinary course of business that shall result in the net assets of such Significant Subsidiary being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a *pro rata* basis or on a basis more favorable to the Company); or
- (9) any Subsidiary Guarantor denies or disaffirms in writing its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders, subject to being indemnified and/or secured to its satisfaction, shall declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, subject to being indemnified and/or secured to its satisfaction, pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;
- (4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity and/or security pursuant to clause (3) above, whichever occurs later; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

However, subject to “Amendments and Waiver – Amendments with consent of Holders,” such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

If the Trustee collects any money pursuant to the Indenture, it shall pay out the money in the following order:

First, to the Trustee and the Agents to the extent necessary to reimburse the Trustee and the Agents for any fees, costs and expenses incurred in connection with the collection or distribution of such amounts held or realized and any fees incurred and properly incurred expenses in connection with carrying out their respective functions under the Indenture (including properly incurred legal fees and expenses) and all indemnification payments to which the Trustee and the Agents are entitled under the Indenture;

Second, to the Trustee for the benefit of Holders; and

Third, any surplus remaining after such payments will be paid to the Company or to whomever may be lawfully entitled thereto.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "– Provision of Financial Statements and Reports."

The Trustee is not obligated to do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so. The Trustee may assume that no such event has occurred (except when there is a default in payment of principal or interest on any Note or failure by the Company to provide its annual compliance certificate to the Trustee) and that the Company and the Subsidiary Guarantors are performing all of their obligations under the Indenture and the Notes unless the Trustee has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Company and the Subsidiary Guarantors are not performing all of their obligations under the Indenture and/or the Notes.

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or from or through which payment is made, and the Indenture and the Notes shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness";

- (5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this caption, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

- (1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”; and
- (5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with,

provided that this paragraph shall not apply to any sale or other disposition that complies with the covenant described under the caption “– Certain Covenants – Limitation on Asset Sales” or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under the caption “– The Subsidiary Guarantees – Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

NO PAYMENTS FOR CONSENTS

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment. Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee, the Company and any Restricted Subsidiary may exclude Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

DEFEASANCE

Defeasance and discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

Defeasance of certain covenants

The Indenture will further provide that (i) the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4) and (5)(x) under the first and second paragraphs under the caption “– Consolidation, Merger and Sale of Assets” and all the covenants described herein under the caption “– Certain Covenants,” other than as described under the captions “– Certain Covenants – Government Approvals and Licenses; Compliance with Law” and “– Certain Covenants – Anti-Layering,” and (ii) clause (3) under “Events of Default” with respect to such clauses (3), (4) and (5)(x) under the first and second paragraphs under the caption “– Consolidation, Merger and Sale of Assets” and with respect to such other events set forth in such clause, clause (4) under “– Events of Default” with respect to such other covenants set forth in clause (i) above and clauses (5), (6), (7) and (8) under “Events of Default” shall be deemed not to be Events of Default, upon, among other things, the deposit with the Trustee (or its agent), in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and certain other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either (a) all of the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust with the Trustee by the Company and thereafter repaid to the Company) have been delivered to the Paying and Transfer Agent for cancellation; or (b) all Notes not theretofore delivered to the Paying and Transfer Agent for cancellation have become due and payable pursuant to an optional redemption notice or otherwise or will become due and payable within one year, and the Company has irrevocably deposited or caused to be deposited with the Trustee (or its agent) funds, in cash in U.S. dollars, U.S. Government Obligations, or a combination thereof, in such amounts sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Paying and Transfer Agent for cancellation, for principal of, premium, if any, and interest on the Notes to the date of maturity or redemption together with irrevocable written instructions from the Issuer directing the Trustee or the Paying and Transfer Agent to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Company or any Subsidiary Guarantor has paid all other sums payable under the Indenture; and
- (3) such deposit will not result in a breach or violation of, or constitute a default under, any instrument to which the Company or any Subsidiary Guarantor is a party or by which the Company or any Subsidiary Guarantor is bound (other than the Indenture or the Notes).

In addition, the Company must deliver to the Trustee an Officers’ Certificate stating that all conditions precedent to satisfaction and discharge have been satisfied. The Trustee shall be entitled to conclusively rely on such certificate without any liability or responsibility to any person.

AMENDMENTS AND WAIVER

Amendments without consent of Holders

The Indenture, the Notes or the Subsidiary Guarantees may be amended, without the consent of any Holder:

- (1) to cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) to comply with the provisions described under “– Consolidation, Merger and Sale of Assets”;
- (3) to evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (5) to effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (6) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (7) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing or securities depository system;
- (8) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (9) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees; or
- (10) to make any other change that does not materially and adversely affect the rights of any Holder.

Amendments with consent of Holders

Amendments of the Indenture, the Notes or the Subsidiary Guarantees may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided, however*, that no such modification, amendment or waiver may, without the consent of not less than 90% in aggregate principal amount of the outstanding Notes:

- (1) change the Stated Maturity of the principal of, or premium, if any, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (8) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;
- (9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;
- (10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;
- (11) change the redemption date or the redemption price of the Notes from that stated under the caption “– Optional Redemption” or “– Redemption for Taxation Reasons”;
- (12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

UNCLAIMED MONEY

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

NO PERSONAL LIABILITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS, DIRECTORS OR EMPLOYEES

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

CONCERNING THE TRUSTEE, THE REGISTRAR AND THE PAYING AND TRANSFER AGENT

Citicorp International Limited is to be appointed as Trustee under the Indenture, and Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the State of New York with limited liability, is to be appointed as paying agent and transfer agent (the “Paying and Transfer Agent”) with regard to the Notes and as registrar (the “Registrar” and, together with the Paying and Transfer Agent, the “Agents”) under the Indenture. Except during the continuance of a Default, the Trustee and the Agents undertake to perform such duties and only such duties as are specifically set forth in the Indenture and the Notes, and no implied covenant or obligation shall be read into the Indenture or the Notes against the Trustee and the Agents. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture and the Notes as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless the requisite number of Holders shall have instructed the Trustee in writing and have offered to the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense.

Pursuant to the terms of the Indenture and the Notes, the Company and the Subsidiary Guarantors will reimburse the Trustee and the Agents for all fees and properly incurred costs and expenses.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; provided, however, that if it becomes aware it has acquired any conflicting interest, it must eliminate such conflict or resign.

BOOK-ENTRY; DELIVERY AND FORM

The Notes will be represented by one or more global notes in registered form without interest coupons attached (the “Global Notes”). On the Original Issue Date, an initial Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream. Any Additional Notes will be represented by additional Global Notes.

Global Notes

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– Certificated Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying and Transfer Agent in U.S. dollars. The Paying and Transfer Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law, in which case additional amounts may be paid as described under the caption “– Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, the Paying and Transfer Agent and the Trustee will treat the registered holder of the Global Notes (*i.e.*, the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- any action or failure to take action by Euroclear, Clearstream or any participant or indirect participant in connection with distributing the payments made by the Company or the Subsidiary Guarantors on the Global Notes.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Notes so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by owners of book-entry interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of any Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for individual definitive Notes in certificated form, and to distribute such certificated Notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global clearance and settlement under the book-entry system

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the Business Day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents will have responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

CERTIFICATED NOTES

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “– Events of Default” and the Company has received a written request from a Holder, the Company will issue certificated Notes in registered form in exchange for the Global Notes. Upon receipt of such notice from the common depositary, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Notes for certificated Notes and cause the requested certificated Notes to be executed and delivered to the Registrar in sufficient quantities to be authenticated by or on behalf of the Trustee and delivered to the Holders. Persons exchanging interests in a Global Note for certificated Notes will be required to provide the Registrar, through the relevant clearing system, with written instructions and other information required by the Company and the Registrar to complete, execute and deliver such certificated Notes. In all cases, certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Certificated Notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

NOTICES

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor, as the case may be, at 3F, Lead International, 2A Zhonghuan South Road, Wangjing, Chaoyang District, Beijing PRC 100102, Attention: Investor Relations Department, +86 10 5820 9666, and (if intended for the Trustee) addressed to the Trustee at the corporate trust office of the Trustee and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

CONSENT TO JURISDICTION; SERVICE OF PROCESS

The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee or the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc., located at 122 E. 42nd Street, 18th floor, New York, NY 10168, for receipt of service of process in any such suit, action or proceeding.

GOVERNING LAW

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2019 BOC Facility” means the Company’s up to US\$150 million term loan facility pursuant to a facilities agreement dated November 19, 2019 with Bank of China (Hong Kong) Limited as arranger, agent and one of the original lenders.

“2019 CNCBI Facility” means the Company’s HK\$330 million term loan facilities pursuant to a loan agreement dated December 27, 2019 with China CITIC Bank International Limited as arranger, facility agent, security agent and one of the original lenders.

“2021 Convertible Bonds” means the US\$175 million convertible bonds due 2026 of the Company.

“2021 Notes” means the 6.50% senior notes due 2021 of the Company.

“2022 Notes” means the 8.875% senior notes due 2022 of the Company.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after March 31, 2023, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note on March 31, 2023 (such redemption price being set forth in the first paragraph under the caption “– Optional Redemption”), plus all required remaining scheduled interest payments due on such Note through March 31, 2023 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided that* “Asset Sale” shall not include:

- (1) any sale, transfer or other disposition of inventory, receivables or other current assets in the ordinary course of business (including, without limitation, the rental of Vehicles);
- (2) any sale, transfer or other disposition of Vehicles used in a Permitted Business prior to such sale, transfer or other disposition;
- (3) any sale, transfer or other disposition of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under the caption “– Certain Covenants – Limitation on Restricted Payments”;
- (4) a sale, transfer or other disposition of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (5) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;
- (6) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (7) a transaction covered by the covenant described under the caption “– Consolidation, Merger and Sale of Assets”;
- (8) the sale or discount (with or without recourse and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable or notes receivable;
- (9) sales or other dispositions of cash or Temporary Cash Investments;
- (10) any transfer, termination, unwinding or other disposition of Hedging Obligations;
- (11) any Financing Disposition; and
- (12) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts or bank deposits of the Company or a Restricted Subsidiary or guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchange of U.S. dollars, Hong Kong dollars or other foreign currencies into Renminbi or vice versa, or to remit Renminbi or any foreign currency into or outside the PRC.

“Board of Directors” means the board of directors of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person (other than lease or hire purchase contract which, in accordance with GAAP as of December 31, 2018, would have been treated as an operating lease).

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);
- (2) the Permitted Holders, in aggregate, are the “beneficial owners” (as such term is used in Rule 13d-3 of the Exchange Act) of less than 35% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders in aggregate;
- (4) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election or nomination to the Board of Directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Commodity Hedging Agreement” means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes from the redemption date to March 31, 2023.

“Comparable Treasury Price” means, with respect to any redemption date if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is obtained by the Company) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonably best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense;
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income for such period;

all as determined on a consolidated basis for such Person and its Subsidiaries (excluding Unrestricted Subsidiaries) in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary of such Person is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA for such period shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income for such period attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of the Restricted Subsidiaries; and (ii) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA for such period shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Restricted Subsidiaries (except to the extent held directly or indirectly by the Company or any Wholly Owned Restricted Subsidiary), except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly-Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries to any Person (other than such Person and its Restricted Subsidiaries), without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation constituting Indebtedness, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees) other than termination payments, (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its Restricted Subsidiaries and (7) any capitalized interest on Indebtedness; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any Person (the “Subject Person”) for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (4) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution; and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;
- (3) the cumulative effect of a change in accounting principles;
- (4) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);
- (5) any translation gains and losses due solely to fluctuations in currency values and related tax effects;
- (6) any net after-tax extraordinary or non-recurring gains or losses;
- (7) effects of adjustments (including the effects of such adjustments pushed down to such Person and its Restricted Subsidiaries and including adjustments in the inventory (including any impact of changes to inventory valuation policy methods, including changes in capitalization of variances), property and equipment, software, goodwill, intangible assets, in-process research and development, deferred revenue and debt line items thereof) resulting from the application of recapitalization accounting or purchase accounting, as the case may be, in relation to any consummated acquisition or joint venture investment or the amortization or write-off or write-down of any amounts thereof;

- (8) any restructuring charges or reserves, any equity-based or non-cash compensation charges or expenses (including any such charges or expenses arising from grants of stock appreciation or similar rights, stock options, restricted stock or other rights, retention charges (including charges or expenses in respect of incentive plans)), any start-up or initial costs for any project or new production line, division or new line of business or other business optimization expenses or reserves including, without limitation, costs or reserves associated with improvements to information technology and accounting functions, integration and facilities opening costs, any one-time costs incurred in connection with acquisitions and Investments, any costs related to the closure and/or consolidation of facilities and any loss or charge from disposed, abandoned or discontinued operations; and
- (9) any fees, expenses or charges, or any amortization thereof for such period, in connection with any acquisition, recapitalization, Investment, Asset Sale, disposition, incurrence or repayment of Indebtedness (including such fees, expenses or charges related to the offering and issuance of the Notes), issuance of Capital Stock, refinancing transaction or amendment or modification of any debt instrument (including any amendment or other modification of the Notes) and including, in each case, any such transaction consummated on, prior to or after the Original Issue Date and any such transaction undertaken but not completed, and any charges or non-recurring merger costs incurred during such period as a result of any such transaction, in each case whether or not successful or consummated.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semiannual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less, to the extent otherwise included, any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Credit Facilities” means one or more of the facilities or arrangements designated by the Company with one or more banks or other lenders or institutions providing for revolving credit loans, term loans, receivables or fleet financings (including without limitation through the sale of receivables or fleet assets to such institutions or to special purpose entities formed to borrow from such institutions against such receivables or fleet assets or the creation of any Liens in respect of such receivables or fleet assets in favor of such institutions), letters of credit or other Indebtedness, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with any of the foregoing, including but not limited to any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledge agreements, security agreements and collateral documents, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded, refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other banks, lenders or institutions or otherwise, and whether provided under any original Credit Facility or one or more other credit agreements, indentures, financing agreements or other Credit Facilities or otherwise). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“Currency Hedging Agreement” means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “– Certain Covenants – Limitation on Asset Sales” and “– Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the covenants described under “– Certain Covenants – Limitation on Asset Sales” and “– Repurchase of Notes upon a Change of Control Triggering Event.”

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings; *provided* that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Euroclear” means Euroclear Bank SA/NV.

“Exchange Act” means U.S. Securities Exchange Act of 1934, as amended.

“Excluded Contribution” means (1) net cash received by the Company as contributions to its common equity and/or (2) Net Cash Proceeds received by the Company from the sale (other than to a Subsidiary of the Company) of Capital Stock (other than Disqualified Stock) of the Company, in each case, after the Original Issue Date and designated as “Excluded Contribution” pursuant to an Officers’ Certificate, which shall not be taken into account in the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under the caption “– Certain Covenants – Limitation on Restricted Payments,” *provided* that Excluded Contribution shall not include Net Cash Proceeds that have been relied upon as the basis for Incurrence of Indebtedness pursuant to clause (v) of the second paragraph of the covenant described under the caption “– Certain Covenants – Limitation on Incurrence of Indebtedness.”

“Excluded Subsidiary” means any Restricted Subsidiary (a) that is not permitted to become a Subsidiary Guarantor due to applicable law or regulation, or (b) in respect of which the Company determines in good faith that the giving of a Subsidiary Guarantee by such Restricted Subsidiary would give rise to a breach of any contractual restrictions binding on the Company or any Restricted Subsidiary (which restriction was not entered into primarily to avoid the granting of a Subsidiary Guarantee) or would reasonably be expected to expose any of the directors or officers of the Company or any Restricted Subsidiary to a material risk of personal liability or criminal liability or material risk of any conflict with the fiduciary duties or similar duties of the directors or officers of the Company or any Restricted Subsidiary, or any material adverse Tax consequences for the Company or any Restricted Subsidiary.

“Existing Pari Passu Indebtedness” means Indebtedness represented by the 2021 Notes, the 2022 Notes, the 2021 Convertible Bonds, the 2019 BOC Facility and the 2019 CNCBI Facility.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

“Financing Disposition” means any sale, transfer, conveyance or other disposition of, or creation or incurrence of any Lien on, property or assets by the Company or any Restricted Subsidiary to or in favor of any Special Purpose Entity, or by any Special Purpose Subsidiary in each case in connection with the Incurrence by a Special Purpose Entity of Indebtedness, or obligations to make payments to the obligor on Indebtedness, which may be secured by a Lien in respect of such property or assets.

“Fitch” means Fitch Ratings and its successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire Reference Period;
- (c) *pro forma* effect will be given (notwithstanding clause (2) of the definition of Consolidated Net Income) to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries during such Reference Period as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) *pro forma* effect will be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) *pro forma* effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means International Financial Reporting Standards as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest or the accrual of dividends shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments (other than any Trade Instruments);
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be deemed to be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the actual amount of such Indebtedness (determined without giving effect to this clause (6));
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations;
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and
- (10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of property or assets to be used in a Permitted Business or Entrusted Loans; *provided* that such item is not reflected on the consolidated balance sheet of the Company and the Restricted Subsidiaries (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet as borrowings or indebtedness will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph 2(e) under the “Limitation on Indebtedness” covenant or (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Interest Rate Hedging Agreement” means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under the captions “– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries” and “– Certain Covenants – Limitation on Restricted Payments”: (1) upon the designation by the Company of a Restricted Subsidiary as an Unrestricted Subsidiary, the Company will be deemed to have made an Investment in such newly designated Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of such newly designated Unrestricted Subsidiary calculated as of the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of “Aaa,” “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both of them, as the case may be.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Measurement Date” means February 4, 2015.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Minority Joint Venture” means any corporation, association or other business entity (which is not itself a Subsidiary of the Company or a Restricted Subsidiary) that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP and reflected in an Officers’ Certificate delivered to the Trustee; and
- (2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“NDRC” means the National Development and Reform Commission of the PRC.

“NDRC Notice” means the Notice on the Administrative Reform for the Registration of Offshore Debt Issuances (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) issued by the NDRC on September 14, 2015, as amended or supplemented from time to time.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the tender agent (the “Tender Agent”) at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Tender Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Tender Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers’ Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Tender Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.

“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel in form and substance acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Guarantee” means a Guarantee by the Company or any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor, as the case may be; *provided that* (1) the Company and such Subsidiary Guarantor were permitted to incur such Indebtedness by the covenant described under “– Limitation on Indebtedness” and (2) such Guarantee ranks *pari passu* with the Notes or any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, as the case may be.

“Permitted Businesses” means any business which is conducted by the Company and the Restricted Subsidiaries on the Original Issue Date as described in this offering memorandum and any business incidental, substantially similar, ancillary or complementary thereto (including, without limitation, any business relating to the sale, or facilitation of sales, of Vehicles owned by Persons other than the Company or any Restricted Subsidiary, the provision of repairs and other services relating to Vehicles or other value-added services relating to travel and transport).

“Permitted Holders” means any or all of the following:

- (1) MBK Partners Fund IV, L.P. and MBK Partners Fund V, L.P.;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of any Person specified in clause (1);
- (3) any fund and/or entity controlled, managed or advised directly or indirectly by one or more of the Persons specified in clauses (1) and (2); and
- (4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1), (2) and (3).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed (i) to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates or (ii) to reduce or manage interest expenses;
- (7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments consisting of consideration received in connection with an Asset Sale and made in compliance with the covenant described under the caption “– Certain Covenants – Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens”;
- (10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms;
- (11) Investments in existence on the Original Issue Date;
- (12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers’ compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business of the Company or any Restricted Subsidiary;
- (13) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (14) payments made pursuant to any Staged Acquisition Agreement;
- (15) any Guarantees of Indebtedness Incurred in accordance with the covenant under the caption “– Limitation on Indebtedness”;
- (16) other Investments having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), taken together with all other Investments made pursuant to this clause (16) that are at the time outstanding, not to exceed an amount equal to 30% of Total Assets; or
- (17) finance leases to third parties in the ordinary course of business.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;
- (5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or its Subsidiaries or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary) or of any Subsidiary of such Person; *provided, further*, that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (6) Liens in favor of the Company or any Restricted Subsidiary;
- (7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;
- (8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (9) Liens existing on the Original Issue Date;
- (10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”; *provided* that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under the caption “– Certain Covenants – Limitation on Liens” to be, secured by a Lien on the property subject to such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business or (iii) such Liens secure obligations set forth under Interest Rate Hedging Agreements designed to reduce or manage interest expenses;
- (12) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;
- (13) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; *provided*, however, that the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;
- (14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (15) any interest or title of a lessor in the property subject to any operating lease;

- (16) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (17) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;
- (18) Liens securing Indebtedness of the type described under clause (2)(k) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”; *provided* that such Lien (i) covers only the equipment, property or assets acquired, developed, constructed or improved with such Indebtedness and (ii) is created within 180 days of such acquisition, or completion of such development, construction or improvement; *provided, further*, that, in the case of clause (i), such Lien may cover other equipment, property or assets (instead of or in addition to such item of equipment, property, assets or improvements) if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of equipment, property or assets (as reflected in the most recent available consolidated financial statements of the Company, which may be internal consolidated financial statements) or, if any such equipment, property or assets have been acquired since the date of such financial statements, the cost of such equipment, property or assets (other than, in each case, deposits of loan proceeds securing performance of obligations in relation to the use of such loan proceeds under a loan or similar agreement to which such loan proceeds relate to, entered into by the Company or any Restricted Subsidiary, if the Indebtedness Incurred under such agreement is otherwise permitted under the terms of the Indenture) subject to Liens incurred pursuant to this clause (18) does not exceed 200% of the aggregate principal amount of Indebtedness secured by such Liens;
- (19) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement (or any Subsidiary thereof) securing Indebtedness permitted to be Incurred under clause (2)(o) or (2)(t), respectively, of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”;
- (20) Liens incurred or deposits made to secure Entrusted Loans;
- (21) Liens incurred on one or more bank accounts or deposits to secure Bank Deposit Secured Indebtedness permitted to be Incurred under clause (2)(s) of the covenant described under the caption “– Limitation on Indebtedness”;
- (22) Liens in favor of any Special Purpose Entity in connection with any Financing Disposition or Special Purpose Financing;
- (23) Liens securing Indebtedness permitted to be Incurred under clause (2)(q) of the covenant described under the caption “– Limitation on Indebtedness”;
- (24) Liens on deposits or prepayments made in order to secure the performance of payment obligations under a loan, indenture, trust deed or similar agreement entered into by the Company or any Restricted Subsidiary, if (x) such deposits or prepayments are made no earlier than six months before the relevant amount becomes due under such agreement and the amount of any such deposits or prepayments does not exceed the corresponding payment obligations under such agreement or (y) at the time of the making of such deposits or payments, the aggregate of such deposits or payments (which have not already been applied towards the discharge of payment obligations under such loan, indenture, trust deed or similar agreement) does not materially exceed the aggregate projected amounts of payments becoming due under such loan, indenture, trust deed or similar agreement within the next six months; or
- (25) Liens with respect to obligations of the Company or any Restricted Subsidiary that do not exceed US\$15.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination) at any one time outstanding.

“Permitted Subsidiary Indebtedness” means Indebtedness of any Non-Guarantor Subsidiary; *provided* that, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Non-Guarantor Subsidiary permitted under clause (2)(c), (e), (l), (o), (s) or (w) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness”) does not exceed an amount equal to 20% of Total Assets (or the Dollar Equivalent thereof).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding, solely for the purpose of this definition, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.

“PRC CJV” means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Rating Agencies” means S&P and Moody’s; *provided* that, if S&P or Moody’s shall not make a rating of the Notes or, as the case may be, a rating of the Company publicly available, one or more internationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s, as the case may be.

“Rating Category” means (i) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (ii) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

“Rating Decline” means, in connection with a Change of Control Triggering Event, the occurrence on, or within 60 days after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by either of the Rating Agencies) of any of the events listed below as a result of such Change of Control:

- (a) in the event the Notes are rated by both Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either of the Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

- (c) in the event the Notes are rated by both of the Rating Agencies (or, if the Notes are rated by one Rating Agency only, such Rating Agency) on the Rating Date below Investment Grade, the rating of the Notes by either Rating Agency (or, if the Notes are rated by one Rating Agency only, such Rating Agency) shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Receivable” means a right to receive payment pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay, as determined in accordance with GAAP.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary. As a matter of construction, references to Restricted Subsidiaries of a Person other than the Company shall mean Subsidiaries of that Person that are Restricted Subsidiaries.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Indebtedness” means any Indebtedness of the Company or a Restricted Subsidiary secured by a Lien.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Significant Subsidiary” means any Restricted Subsidiary or any group of Restricted Subsidiaries that, taken together, would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5 percent.

“Special Purpose Entity” means (x) any Special Purpose Subsidiary or (y) any other Person that is engaged in the business of (i) acquiring, selling, collecting, financing or refinancing Receivables, accounts (as defined in the Uniform Commercial Code as in effect in any jurisdiction from time to time), other accounts and/or other receivables, and/or related assets, and/or (ii) acquiring, selling, leasing, financing or refinancing Vehicles and/or other equipment, and/or related rights (including under leases, manufacturer warranties and buy-back programs, and insurance policies) and/or assets (including managing, exercising and disposing of any such rights and/or assets).

“Special Purpose Financing” means any financing or refinancing of assets consisting of or including Receivables, Vehicles and/or other equipment of the Company or any Restricted Subsidiary that have been transferred to a Special Purpose Entity or made subject to a Lien in a Financing Disposition.

“Special Purpose Financing Fees” means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Special Purpose Financing.

“Special Purpose Financing Undertakings” means representations, warranties, covenants, indemnities, guarantees of performance and (subject to clause (y) of the proviso below) other agreements and undertakings entered into or provided by the Company or any Restricted Subsidiary that the Company determines in good faith (which determination shall be conclusive) are customary or otherwise necessary or advisable in connection with a Special Purpose Financing or a Financing Disposition; *provided* that (x) it is understood that Special Purpose Financing Undertakings may consist of or include (i) reimbursement and other obligations in respect of notes, letters of credit, surety bonds and similar instruments provided for credit enhancement purposes or (ii) Hedging Obligations entered into by the Company or any Restricted Subsidiary, in respect of any Special Purpose Financing or Financing Disposition, and (y) subject to the preceding clause (x), any such other agreements and undertakings shall not include any Guarantee of Indebtedness of a Special Purpose Subsidiary by the Company or a Restricted Subsidiary that is not a Special Purpose Subsidiary.

“Special Purpose Subsidiary” means a Subsidiary of the Company that (a) is engaged solely in (x) the business of (i) acquiring, selling, collecting, financing or refinancing Receivables, accounts (as defined in the Uniform Commercial Code as in effect in any jurisdiction from time to time) and other accounts and receivables (including any thereof constituting or evidenced by chattel paper, instruments or general intangibles), all proceeds thereof and all rights (contractual and other), collateral and other assets relating thereto, and/or (ii) acquiring, selling, leasing, financing or refinancing Vehicles and/or other equipment, and/or related rights (including under leases, manufacturer warranties and buy-back programs, and insurance policies) and/or assets (including managing, exercising and disposing of any such rights and/or assets), all proceeds thereof and all rights (contractual and other), collateral and other assets relating thereto, and (y) any business or activities incidental or related to such business, and (b) is designated as a “Special Purpose Subsidiary” by the Company.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire 50% or more of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any unsecured loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is expressly subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) by its terms does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; provided, however, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; provided that “Subsidiary Guarantor” does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, Hong Kong, the PRC or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong, the PRC or any agency of any of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof, Hong Kong or the PRC and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P or Fitch;
- (5) securities maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P, Moody’s or Fitch;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;
- (7) demand or time deposit accounts, certificates of deposit overnight or call deposits and money market deposits with any bank or financial institution organized under the laws of the PRC, Hong Kong or another jurisdiction where the Company or any Restricted Subsidiary conducts business operations; and
- (8) investment or structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC or Hong Kong if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months’ notice.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last date of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements); *provided* (1) that only with respect to clause (2)(k)(ii) of the “Certain Covenants – Limitation on Indebtedness” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all the equipment, property or assets the acquisition, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets

thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness; and (2) only with respect to clause (2)(o) of “– Limitation on Indebtedness” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving *pro forma* effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary; and (3) only with respect to any Person becoming a new Non-Guarantor Subsidiary, *pro forma* effect shall at such time be given to the consolidated assets of such new Non-Guarantor Subsidiary (including giving *pro forma* effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a new Non-Guarantor Subsidiary).

“Trade Instruments” means any performance bonds or advance payment bonds or documentary letters of credit issued in respect of the obligations of the Company or any Restricted Subsidiary arising in the ordinary course of trading.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Vehicles” means vehicles, including automobiles, trucks, tractors, trailers, vans, sport utility vehicles, buses, campers, motor homes, motorcycles and other motor vehicles.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Restricted Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

This section addresses certain tax considerations that may be relevant to certain non-PRC resident investors in the Notes under the current laws and practices of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC. The following summary is not a complete description of all tax considerations that may be relevant to an investor or to such investor's decision to purchase, own or dispose of the Notes. It is subject to changes in the relevant law and does not constitute legal or tax advice to any person. It does not deal with all possible tax consequences applicable to all categories of investors and does not consider an investor's particular circumstances. It does not address the tax treatment of investors subject to special rules.

Accordingly, investors should consult their own tax advisor regarding the tax consequences of an investment in the Notes.

CAYMAN ISLANDS TAXATION

Pursuant to section 6 of the Tax Concessions Act (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from May 13, 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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

BRITISH VIRGIN ISLANDS TAXATION

There is no income or other tax of British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the British Virgin Islands Subsidiary Guarantors pursuant to the Notes or the Subsidiary Guarantees.

HONG KONG

Withholding Tax

No Hong Kong withholding tax is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it currently applies, Hong Kong profits tax may be charged on profits from the sale, disposal or redemption of the Notes where such sale, disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest payments on or in respect of the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue to:

- (a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) corporation carrying on a trade, profession or business in Hong Kong; or
- (c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such payments are in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposition of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

PRC TAX CONSIDERATIONS

The following is a summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes to non-resident enterprises and non-resident individuals. It is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

We may be treated as a PRC tax resident, as described in “Risk Factors – Risks Related to doing business in China – We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purpose, which could result in our global income becoming subject to 25% PRC enterprise income tax”. If we are considered a PRC resident enterprise under the EIT Law, holders of Notes who are non-resident enterprises may be subject to PRC withholding tax on interest paid by us, and PRC enterprise income tax on any gains realized from the transfer of Notes, if such income or gain is considered to be derived from sources within the PRC, at a rate of 10%, *provided* that such non-resident enterprise investor (i) has no establishment or premises in the PRC, or (ii) has an establishment or premises in the PRC but its income derived from the PRC has no real connection with such establishment or premises. Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider interest we pay with respect to the Notes or any gain realized from the transfer of Notes to be income derived from sources within the PRC, such interest earned by non-resident individuals may be subject to PRC withholding tax and such gain realized by non-resident individuals may be subject to PRC individual income tax, in each case at a rate of 20%. Any PRC income tax liability may be reduced under applicable tax treaties. In addition, if we are considered as a PRC resident enterprise under the PRC Enterprise Income Tax Law and if the relevant PRC tax authorities consider the interest we pay with respect to the Notes as income derived from sources within the PRC, such interest payable by us to non-resident holders of the Notes may be subject to 10% PRC enterprise income tax unless a treaty or similar arrangement otherwise provides.

If we are not deemed a PRC resident enterprise, non-resident enterprise and non-resident individual holders of Notes will not be subject to PRC income tax on any payments of interest on, or gains from the transfer of, Notes.

PLAN OF DISTRIBUTION

China International Capital Corporation Hong Kong Securities Limited, Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities plc are acting as the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers of this offering and as the Initial Purchasers named below. China CITIC Bank International Limited is acting as the Co-Manager. Subject to the terms and conditions contained in a purchase agreement dated March 26, 2021 (the “Purchase Agreement”), each Initial Purchaser has agreed to purchase from us, and we have agreed to sell to such Initial Purchaser, the following principal amount of the Notes set forth opposite such Initial Purchaser’s name.

Initial Purchasers	Principal Amount of Notes to be Purchased
China International Capital Corporation Hong Kong Securities Limited.....	US\$83,334,000
Goldman Sachs (Asia) L.L.C.	US\$83,333,000
J.P. Morgan Securities plc.....	US\$83,333,000
Total	US\$250,000,000

The Purchase Agreement provides that the obligation of each of the Initial Purchasers to pay for and accept delivery of the Notes is several and not joint and subject to certain other conditions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to the payment of the Notes.

The Initial Purchasers initially propose to offer the Notes to investors at the offering price set forth on the cover page of this offering memorandum outside the United States in reliance on Regulation S under the Securities Act. See “Transfer Restrictions.” After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

We have agreed to jointly and severally indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof. We will pay the Initial Purchasers customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with this offering. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement. In addition, we have agreed with the Initial Purchasers that private banks will receive a commission in connection with the purchase of the Notes by their private bank clients.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Application will be made to the Hong Kong Stock Exchange for the listing of the Notes by way of debt issues to professional investors only as described in this offering memorandum.

However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that there will be an active trading market for the Notes. The Initial Purchasers have advised us that they currently intend to make, or continue to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with this offering of the Notes, any Initial Purchaser appointed and acting in a capacity as the stabilizing manager may, on behalf of the Initial Purchasers, to the extent permitted by applicable laws and regulations, engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may over allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities, which may be effected in the over-the-counter market or otherwise, may stabilize or maintain the market price of the Notes above independent market levels.

However, the Initial Purchasers are not obligated or required to engage in these activities, and may end any of these activities at any time at their sole discretion without prior notice. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

We have agreed that, for a period of 30 days from the date of this offering memorandum, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of the Subsidiary Guarantors, directly or indirectly, or announce the offering, of any debt securities (other than any debt securities convertible into or exchangeable for common equity of the Company or any subsidiary of the Company) issued or guaranteed by us or any Subsidiary Guarantor (other than the Notes and the Subsidiary Guarantees).

We expect that delivery of the Notes will be made on or about the date specified on the cover page of this offering memorandum, which we expect will be on or about the three business day following the pricing date of the Notes (this settlement cycle being referred to as “T+3”). Purchasers who wish to trade Notes prior to that date may be required, by virtue of the fact that the Notes initially will settle in T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own legal advisor.

Investors who purchase Notes from the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

The Initial Purchasers and their respective affiliates may have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory services, brokerage, wealth management, private equity, trading and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. In particular, China International Capital Corporation Hong Kong Securities Limited is acting as the professional consultant to the Company, and Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities (Asia Pacific) Limited are acting as financial advisors to the Offeror, in the VGO. In addition, we may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, the Initial Purchasers and/or their affiliate(s) may act as an investor for its own account and may take up Notes in this offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with this offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

SELLING RESTRICTIONS

General

No action is being taken or is contemplated in any jurisdiction that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or their affiliates on behalf of the issuer of the securities in such jurisdiction.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Notes and the Subsidiary Guarantees are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and the Subsidiary Guarantees, an offer or sale of the Notes or the Subsidiary Guarantees within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

Each Initial Purchase has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21 (1) of the FSMA) does not apply to the Company; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

PRIIPs Regulation/Prohibition of Sales to UK Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore

Each Initial Purchaser has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Initial Purchaser has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor or to relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law;
 - (4) as specified in Section 276(7) of the SFA; or
 - (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Notification under Section 309B(1)(c) of the SFA – the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

Each Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

PRC

Each Initial Purchaser has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to purchase the Notes.

British Virgin Islands

Each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes to the public in the British Virgin Islands.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to another exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United in offshore transactions in reliance on Regulation S under the Securities Act. As used herein, the term “United States” has the meaning given to them in Regulation S.

By its purchase of the Notes, including the Subsidiary Guarantees, each purchaser will be deemed to have:

- (a) represented that it is purchasing the Notes in an offshore transaction in accordance with Regulation S;
- (b) represented that it is purchasing the Notes, including the Subsidiary Guarantees, for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is outside the United States;
- (c) acknowledged that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and that the Notes may not be offered or sold within the United States except in accordance with Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration;
- (d) agreed that it will inform each person to whom it transfers the Notes of any restrictions on the transfer of such Notes;
- (e) acknowledged that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represented that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agreed that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from us;
- (f) represented that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act;
- (g) acknowledged that the Notes will be represented by the Global Note; and
- (h) acknowledged that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE

EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

You also acknowledge that the Company, the Paying and Transfer Agent, the Registrar, the Initial Purchasers, the Trustee and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. You agree that if any of the acknowledgements, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify the Company, the Paying and Transfer Agent, the Registrar, the Trustee and the Initial Purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

RATINGS

The Notes are expected to be rated “Caa1” by Moody’s Investors Service, Inc. and “B-” (preliminary) by S&P Ratings Services. The rating reflects the rating agency assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and does not constitute recommendations to purchase, hold or sell the Notes inasmuch as such rating do not comment as to market price or suitability for a particular investor. We cannot assure you that the rating will remain in effect for any given period or that the rating will not be revised by such rating agency in the future if in their judgment circumstances so warrant. Such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Kirkland & Ellis as to matters of United States federal and New York state law and Hong Kong law, King & Wood Mallesons as to matters of PRC law and Conyers Dill & Pearman as to matters of Cayman Islands law and British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Sidley Austin as to matters of United States federal and New York law and JunHe LLP as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

The consolidated financial information of the Company as of and for the year ended December 31, 2018, 2019 and 2020 has been derived from our consolidated financial statements for the year ended December 31, 2018, 2019 and 2020, which have been audited by Ernst & Young, independent accountants, and are included elsewhere in this offering memorandum.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes. The issue of the Notes have been authorized by a resolution of our board of directors dated March 15, 2021. The Subsidiary Guarantees have been authorized by resolutions of board of directors or sole director (as applicable) of each of the Subsidiary Guarantors on March 15, 2021.

LITIGATION

There are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material to the Company or the Group or in the context of this issue of the Notes.

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the Corporate Trust Office of the Trustee at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, Facsimile: +852 2323 0279, Attention: Agency and Trust. For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the principal office of the Company.

CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
Regulation S Notes	XS2293887035	229388703

LISTING OF THE NOTES

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors only as described in this offering memorandum, and such permission is expected to become effective on or about April 1, 2021. The Hong Kong Stock Exchange takes no responsibility for the correctness of any statements made on opinions or reports contained in this offering memorandum. Admission of the Notes to the official list of the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Notes or us.

NO MATERIAL ADVERSE CHANGE

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the Notes.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements as of and for the year ended December 31, 2020

Independent Auditors' Report.....	F-2
Consolidated Statement of Profit or Loss.....	F-8
Consolidated Statement of Comprehensive Income.....	F-9
Consolidated Statement of Financial Position.....	F-10
Consolidated Statement of Changes in Equity.....	F-13
Consolidated Statement of Cash Flows.....	F-14
Notes to Financial Statements.....	F-17

Audited Consolidated Financial Statements as of and for the year ended December 31, 2019

Independent Auditors' Report.....	F-153
Consolidated Statement of Profit or Loss.....	F-160
Consolidated Statement of Comprehensive Income.....	F-161
Consolidated Statement of Financial Position.....	F-162
Consolidated Statement of Changes in Equity.....	F-165
Consolidated Statement of Cash Flows.....	F-166
Notes to Financial Statements.....	F-169

The audited consolidated financial information for the years ended December 31, 2019 and 2020 set out herein have been reproduced from the Company's annual reports for the years ended December 31, 2019 and 2020, respectively, and page references are to pages set forth in such annual reports.

These reports are not incorporated by reference herein and do not form part of this offering memorandum.

INDEPENDENT AUDITORS' REPORT

To the shareholders of CAR Inc.

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CAR Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 129 to 273, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Accounting for investment in equity shares

At 31 December 2020, the Group held 6.27% of ordinary shares of UCAR Inc., which was engaged in the online businesses for the trade-in of used cars and the provision of chauffeured car services. The investment was classified as a financial asset at fair value through profit or loss and recorded as "an Investment in equity shares" on the statement of financial position.

The investment in ordinary shares was carried at fair value determined at each reporting period end date in accordance with IFRS 9 Financial Instruments. The investment in ordinary shares was stated at nil at 31 December 2020 and the Group recognised a net loss on fair value of RMB2,800.64 million, which was recorded as "Other income and expenses, net" in the statement of profit or loss. The investment was classified as Level 3 in the fair value hierarchy. The determination of the fair value involved the use of significant assumptions and estimations including the use of observable and unobservable inputs to the valuation model.

Related disclosures are included in Note 3 "Significant accounting judgements and estimations", Note 6 "Other income and expenses, net" and Note 20 "Investment in equity shares" to the financial statements.

Our procedures included checking the registration forms to the relevant documents and assessing whether the investment in equity shares was properly classified in accordance with IFRS 9. We also evaluated the methodology adopted by the Group to determine the fair value of the equity share investment at 31 December 2020 and tested the key assumptions and estimations used in the valuation by testing the observable data to third party derived data sources and corroborating the reasonableness of unobservable inputs by comparing them to available data sources. We employed our internal valuation specialists to assist us with the valuation.

We also assessed the adequacy of the related disclosures in the notes to the financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Residual values of rental vehicles acquired outside of repurchase programs

The book amount of rental vehicles acquired outside of repurchase programs at 31 December 2020 was RMB6,789.60 million. As such rental vehicles constituted a significant portion of the Group's assets and its business requires the Group to constantly replenish its fleet, the Group faces significant risks related to the estimated residual values of these rental vehicles acquired outside of repurchase programs. The Group estimates the residual values as at the expected time of disposal and the vehicles are depreciated over the estimated holding period on a straight-line basis, taking into account the residual values. The Group periodically reviews and makes adjustments, if necessary, to the depreciation rates of rental vehicles acquired outside of repurchase programs in response to the latest market conditions and their effect on residual values as well as the estimated time of disposal. Significant estimation and judgement are required in determining the residual values of the Group's rental vehicles acquired outside of repurchase programs.

Our procedures included evaluating the design of controls and testing their operating effectiveness over the periodical review of the residual values of the rental vehicles acquired outside of repurchase programs. In addition, we assessed the key factors (primarily the available market information) applied by the Group to determine the estimated residual values, for a samples of disposals during the year, we evaluated the reasonableness of the estimated residual values by comparing them to the disposal proceeds.

Related disclosures are included in Note 3 "Significant accounting judgements and estimates" to the financial statements.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report of the Group for the year ended 31 December 2020 (the "Annual Report"), but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request that the correction be made.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai, Ricky.

Ernst & Young
Certified Public Accountants

Hong Kong
15 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Rental revenue	5	3,993,779	5,558,702
Sales of used vehicles	5	2,130,629	2,131,958
Total revenue		6,124,408	7,690,660
Depreciation of rental vehicles	8	(2,011,190)	(1,835,717)
Direct operating expenses of rental services		(1,468,556)	(1,829,445)
Cost of sales of used vehicles	8	(2,209,908)	(2,188,531)
Gross profit		434,754	1,836,967
Other income and expenses, net	6	(2,351,180)	47,914
Selling and distribution expenses		(127,892)	(27,755)
Administrative expenses		(682,494)	(603,198)
Impairment losses on financial and contract assets	8	(679,671)	(4,231)
Finance costs	7	(681,197)	(983,940)
Share of (loss)/profit of associates	19	(4,796)	6,286
(Loss)/profit before tax	8	(4,092,476)	272,043
Income tax expense	10	(70,675)	(241,267)
(Loss)/profit for the year		(4,163,151)	<u>30,776</u>
Attributable to:			
Owners of the parent		(4,163,151)	<u>30,776</u>
(Loss)/earnings per share attributable to ordinary equity holders of the parent			
Basic	12	RMB(1.963)	<u>RMB0.015</u>
Diluted		RMB(1.963)	<u>RMB0.014</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 RMB' 000	2019 RMB' 000
(Loss)/profit for the year	<u>(4,163,151)</u>	<u>30,776</u>
Other comprehensive (loss)/income for the year, net of tax	<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the year	<u>(4,163,151)</u>	<u>30,776</u>
Attributable to:		
Owners of the parent	<u>(4,163,151)</u>	<u>30,776</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
NON-CURRENT ASSETS			
Rental vehicles	13	6,814,459	10,792,336
Other property, plant and equipment	14	684,637	659,383
Finance lease receivables – non-current	15	182,470	855,952
Right-of-use assets	16	431,796	561,175
Goodwill	17	6,728	6,728
Other intangible assets	18	154,722	154,530
Investments in associates	19	103,946	117,048
Investment in equity shares	20	–	2,800,641
Deposits for sale-leaseback borrowings – non-current		–	54,250
Restricted cash – non-current	24	–	1,275
Deferred tax assets	31	158,540	240,595
Other non-current assets		18,813	9,813
Total non-current assets		<u>8,556,111</u>	<u>16,253,726</u>
CURRENT ASSETS			
Inventories	21	78,837	227,634
Trade receivables	22	57,383	96,810
Due from a related party	38	134,211	443,861
Prepayments, other receivables and other assets	23	769,318	1,343,958
Finance lease receivables – current	15	302,171	341,319
Deposits for sale-leaseback borrowings – current		14,250	–
Derivative financial instruments – current	30	–	42,693
Restricted cash – current	24	11,949	522,510
Cash and cash equivalents	24	2,179,659	5,360,520
Total current assets		<u>3,547,778</u>	<u>8,379,305</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade payables	25	66,742	86,753
Other payables and accruals	26	681,292	964,641
Advances from customers		285,135	241,943
Interest-bearing bank and other borrowings – current	27	871,294	3,554,423
Senior notes – current	28	2,699,231	2,284,546
Due to related parties	38	136,615	101,831
Income tax payable		62,181	55,475
Total current liabilities		<u>4,802,490</u>	<u>7,289,612</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,254,712)</u>	<u>1,089,693</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,301,399</u>	<u>17,343,419</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December 2020	31 December 2019
	<i>Notes</i>	RMB' 000	<i>RMB' 000</i>
NON-CURRENT LIABILITIES			
Senior notes – non-current	28	2,424,746	5,427,090
Corporate bonds	29	–	1,024,221
Interest-bearing bank and other borrowings – non-current	27	665,727	2,589,269
Deposits received for rental vehicles		400	604
Deferred tax liabilities	31	204,056	209,555
		<hr/>	<hr/>
Total non-current liabilities		3,294,929	9,250,739
		<hr/>	<hr/>
Net assets		4,006,470	8,092,680
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	131	131
Reserves	34	4,652,156	4,554,351
(Accumulated losses)/retained earnings		(645,817)	3,538,198
		<hr/>	<hr/>
Total equity		4,006,470	8,092,680
		<hr/>	<hr/>

Yifan SONG
Director

Sam Hanhui SUN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent							
	Share capital RMB'000	Merger reserve* RMB'000	Statutory reserve* RMB'000	Share premium* RMB'000	Share option reserve* RMB'000	Treasury shares RMB'000	Retained earnings RMB'000	Total equity RMB'000
As at 1 January 2019	131	2,382,719	313,597	1,572,069	145,665	–	3,558,847	7,973,028
Profit for the year	–	–	–	–	–	–	30,776	30,776
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	30,776	30,776
Appropriation of statutory reserve	–	–	51,425	–	–	–	(51,425)	–
Exercise of share options (note 33)	–	–	–	5,246	(3,976)	–	–	1,270
Equity-settled share option arrangements (note 33)	–	–	–	–	87,606	–	–	87,606
As at 31 December 2019	131	2,382,719	365,022	1,577,315	229,295	–	3,538,198	8,092,680

	Attributable to owners of the parent							
	Share capital RMB'000	Merger reserve* RMB'000	Statutory reserve* RMB'000	Share premium* RMB'000	Share option reserve* RMB'000	Treasury shares RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Total equity RMB'000
As at 1 January 2020	131	2,382,719	365,022	1,577,315	229,295	–	3,538,198	8,092,680
Loss for the year	–	–	–	–	–	–	(4,163,151)	(4,163,151)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	(4,163,151)	(4,163,151)
Appropriation of statutory reserve	–	–	20,864	–	–	–	(20,864)	–
Exercise of share options (note 33)	–	–	–	11,039	(8,222)	–	–	2,817
Equity-settled share option arrangements (note 33)	–	–	–	–	74,124	–	–	74,124
As at 31 December 2020	131	2,382,719	385,886	1,588,354	295,197	–	(645,817)	4,006,470

* These reserve accounts comprise the consolidated reserves of RMB4,652,156,000 (2019: RMB4,554,351,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(4,092,476)	272,043
Adjustments for:			
Finance costs	7	681,197	983,940
Share of loss/(profit) of associates	19	4,796	(6,286)
Interest income	6	(48,352)	(81,449)
Loss on disposal of items of other property, plant and equipment	8	1,329	275
Fair value loss on an investment in equity shares	6	2,800,641	9,000
Fair value changes on derivative instrument transactions not qualifying as hedges	6,39	3,666	(56,588)
Rental vehicles written off	13	29,471	–
Depreciation of rental vehicles	13,16	2,011,190	1,835,717
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	16	144,018	158,840
Depreciation of other property, plant and equipment	14	53,932	64,728
Amortisation of other intangible assets	18	2,374	3,118
Impairment of trade receivables	22	55,800	4,231
Impairment of amount due from a related party	38	410,402	–
Impairment of prepayments, other receivables and other assets	23	86,280	–
Impairment of finance lease receivables	15	127,189	–
Impairment of investments in associates	19	8,306	–
Exchange (gain)/loss	6	(354,541)	158,245
Equity-settled share option expenses	33	74,124	87,606
		1,999,346	3,433,420
Decrease/(increase) in rental vehicles		1,937,217	(1,839,681)
Increase in trade receivables		(16,373)	(4,661)
Increase in amounts due from a related party		(100,752)	(83,732)
Decrease/(increase) in inventories		148,797	(36,986)
Decrease in prepayments, other receivables and other assets		579,145	226,049
Decrease in finance lease receivables		585,441	150,498
Decrease in trade payables		(20,011)	(25,506)
Increase in amounts due to related parties		34,784	101,526
Increase/(decrease) in advances from customers		43,192	(8,205)
(Decrease)/increase in other payables and accruals		(166,163)	93,315
Tax paid, net		(10,709)	(330,011)
NET CASH FLOWS FROM OPERATING ACTIVITIES		5,013,914	1,676,026

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of other property, plant and equipment		(82,093)	(150,980)
Proceeds from disposal of items of other property, plant and equipment		98	226
Purchases of other intangible assets		(2,566)	(8,820)
Decrease in other current financial assets		–	522,510
Proceeds from settlement of derivative financial instruments	40	39,027	–
Increase in investments in associates		–	(68,851)
Interest received		39,806	76,672
		<u>(5,728)</u>	<u>370,757</u>
NET CASH FLOWS (USED IN)/GENERATED FROM INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease/(increase) of deposits for borrowings		40,000	(24,250)
Decrease/(increase) in restricted cash		511,836	(272,510)
Proceeds from bank and other borrowings		432,786	5,155,654
Repayments of bank and other borrowings		(4,886,041)	(5,045,948)
Proceeds from issuance of senior notes	28	–	1,338,656
Compensation of senior notes modification		(15,601)	(17,918)
Repayment of corporate bonds		(1,030,000)	–
Repayment of senior notes		(2,256,086)	–
Proceeds from exercise of share options		2,817	1,270
Principal portion of lease payments		(266,199)	(194,526)
Interest paid		(715,901)	(813,442)
		<u>(8,182,389)</u>	<u>126,986</u>
NET CASH FLOWS (USED IN)/GENERATED FROM FINANCING ACTIVITIES			
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(3,174,203)	2,173,769
Cash and cash equivalents at beginning of year		5,360,520	3,186,401
Effect of foreign exchange rate changes, net		(6,658)	350
		<u>2,179,659</u>	<u>5,360,520</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB' 000	2019 RMB' 000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	1,853,414	3,485,538
Non-pledged time deposits with original maturity of less than three months when acquired	24	326,245	1,874,982
Cash and cash equivalents as stated in the statement of financial position		2,179,659	5,360,520
Cash and cash equivalents as stated in the statement of cash flows		2,179,659	5,360,520

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an investment holding company under the laws of the Cayman Islands on 25 April 2014 in the name of China Auto Rental Inc., and changed its name to CAR Inc. on 17 June 2014. The registered and correspondence address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the car rental business.

Information about subsidiaries and the controlled structured entity

Particulars of the Company's subsidiaries and the controlled structured entity are as follows:

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
北京神州汽車租賃有限公司 Beijing China Auto Rental Co., Ltd. ("CAR Beijing")	PRC/ Mainland China/ limited liability company	RMB 378.8 million	–	100	Car rental
重慶神州汽車租賃有限公司 Chongqing China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.3 million	–	100	Car rental
上海神州華東汽車租賃 有限公司 Shanghai Shenzhou Huadong Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 9 million	–	100	Car rental
北京凱普停車管理有限公司 Beijing Kaipu Parking Management Co., Ltd. ("Beijing Kaipu")	PRC/ Mainland China/ limited liability company	RMB 5 million	–	100	Vehicle parking management

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
無錫神州汽車租賃有限公司 Wuxi China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 2.01 million	–	100	Car rental
廣州神州汽車租賃有限公司 Guangzhou China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Car rental
北京北辰汽車租賃有限公司 Beijing Beichen Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 35 million	–	100	Car rental
貴陽敬呂商貿有限公司 Guiyang Jinglv Trade Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30,000	–	100	Car rental
北京達世行華威勞務服務 有限公司 Beijing Dashihang Warwick Labor Services Co., Ltd.	PRC/Mainland China/ limited liability company	RMB 5 million	–	100	Car rental

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
China Auto Rental Limited (formerly known as Legend Capital Management (Hong Kong) Limited and LC Industrial Investment Limited)	Hong Kong/ company limited by shares	US\$ 11.2 million	–	100	Investment holding
聯慧汽車(廊坊)有限公司 Lianhui Auto (Langfang) Co., Ltd. (formerly known as United Auto (Langfang) Co., Ltd.) ("Lianhui")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 5 million	–	100	Processing and manufacture of auto parts
上海泰暢汽車駕駛服務 有限公司 Shanghai Taichang Auto Driving Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.2 million	–	100	Chauffeured services
北京卡爾汽車租賃有限公司 Beijing Carl Auto Rental Co., Ltd.	PRC/Mainland China/ limited liability company	RMB 0.5 million	–	100	Car rental

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Main Star Global Limited	British Virgin Islands/ limited liability company	US\$2	–	100	Investment holding
Haike Leasing (China) Limited	Hong Kong/ company limited by shares	HK\$1	–	100	Investment holding
海科融資租賃(北京)有限公司 Haike Leasing (Beijing) Limited	PRC/ Mainland China/ wholly foreign-owned enterprise	US\$ 199 million	–	100	Car rental
海科融資租賃(福建)有限公司 Haike Leasing (Fujian) Limited	PRC/ Mainland China/ wholly foreign-owned enterprise	US\$ 49 million	–	100	Car rental
浩科融資租賃(上海)有限公司 Haoke Leasing (Shanghai) Limited	PRC/ Mainland China/ wholly foreign-owned enterprise	RMB 1,760 million	–	100	Car rental
神州准新車(中國)有限公司 Shenzhou Used Car Limited ("Zhunxinche")	Hong Kong/ company limited (China) by shares	HK\$1	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
廣州神洲汽車租賃有限公司 Guangzhou Shenzhou Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Car rental
廣州市安淼汽車維修有限公司 Guangzhou Anmiao Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
杭州國嘉名流汽車維修 有限公司 Hangzhou Guojia Mingliu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.3 million	–	100	Auto repair service
廈門市駿洲汽車維修服務 有限公司 Xiamen Junzhou Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Auto repair service
南京兆和汽車服務有限公司 Nanjing Zhaohe Auto Service Co., Ltd. ("Nanjing ZH")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
深圳市富港汽車維修 服務有限公司 Shenzhen Fugang Auto Repair Service Co., Ltd. ("Shenzhen Fugang")	PRC/ Mainland China/ limited liability company	RMB 0.58 million	–	100	Auto repair service
長沙神州汽車維修 有限責任公司 Changsha China Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
濟南申源汽車維修有限公司 Jinan Shenyuan Auto Repair Co., Ltd. ("Jinan Shenyuan")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
武漢凱普汽車服務有限公司 Wuhan Kaipu Auto Service Co., Ltd. ("Wuhan Kaipu")	PRC/Mainland China/ limited liability company	RMB 0.3 million	–	100	Auto repair service
Premium Auto Rental (China) Limited ("Premium")	Hong Kong/ company limited by shares	US\$ 35.83 million	–	100	Investment holding
Rent A Car Holdings (HK) Limited ("Rent A Car")	Hong Kong/ company limited by shares	HK\$ 148.64 million	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
赫茲汽車租賃(上海)有限公司 Hertz Rent A Car (Shanghai) Co., Ltd. ("RAC SH")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 31.14 million	–	100	Car rental
佑安汽車租賃(北京)有限公司 You An Auto Rental (Beijing) Co., Ltd. (formerly known as Hertz Rent A Car (Beijing) Co., Ltd.) ("RAC BJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 22 million	–	100	Car rental
廣州卓越汽車租賃有限公司 Guangzhou Zhuoyue Auto Rental Co., Ltd. (formerly known as Hertz Rent A Car (Guangzhou) Co., Ltd.) ("RAC GZ")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 19 million	–	100	Car rental
上海必茲國際租車諮詢 有限責任公司 Shanghai Bizi International Car Rental Consulting Co., Ltd. ("Shanghai Hertz")	PRC/Mainland China/ wholly foreign- owned enterprise	US\$ 0.14 million	–	100	Consulting service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
海口神州暢行商旅服務 有限公司 Haikou Shenzhou Changxing Travel Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Consulting service
成都雙新汽車維修有限公司 Chengdu Shuangxin Auto Repair Co., Ltd. ("Chengdu SX")	PRC/ Mainland China/ limited liability company	RMB 0.1 million	–	100	Auto repair service
鄭州眾德立汽車維修服務 有限公司 Zhengzhou Zhongdeli Auto Repair Service Co., Ltd. ("Zhengzhou ZD")	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Auto repair service
三亞凱普汽車維修有限公司 Sanya Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
重慶凱州汽車維修服務 有限公司 Chongqing Kaizhou Auto Repair Service Co., Ltd. ("CQ Kaizhou")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and the controlled structured entity (continued)

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: (continued)

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海凱普汽車維修服務 有限公司 Shanghai Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
北京華威汽車修理 有限責任公司 Beijing Huawei Auto Repair Co., Ltd. ("Beijing HW")	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Auto repair service
神州租車(天津)有限公司 China Auto Rental (Tianjin) Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	–	100	Car rental
北京神州暢達汽車服務 有限公司 Beijing Shenzhou Changda Auto Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	–	100	Auto repair service
昆明萬眾汽車維修服務 有限公司 Kunming Wanzhong Auto Repair Service Co., Ltd. ("Kunming WZ")	PRC/Mainland China/ limited liability company	RMB 0.3 million	–	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
天津神州汽車租賃有限公司 Tianjin China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 50 million	–	100	Car rental
天津優品汽車租賃有限公司 Tianjin Youpin Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 50 million	–	100	Car rental
青島福聯華信諾汽車維修 有限公司 Qingdao Fulianhua Xinruo Auto Repair Co., Ltd. ("Qingdao FLH")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
重慶州凱汽車銷售信息諮詢 有限公司 Chongqing Zhoukai Auto Sales Consulting Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	–	100	Sale of used cars and consultation service
海科(平潭)信息技術有限公司 Haike (Pingtan) Information Technology Co., Ltd. ("Haike Pingtan")	PRC/ Mainland China/ limited liability company	RMB 100 million	–	100	Car rental information system service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
拉薩神州租車有限公司 Lhasa China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 100 million	–	100	Car rental and consulting service
東莞市鑫發汽車維修服務 有限公司 Dongguan Xinfu Auto Repair Service Co., Ltd. ("Dongguan XF")	PRC/ Mainland China/ limited liability company	RMB 0.3 million	–	100	Sale of used cars and auto repair service
神州租車投資有限公司 China Auto Rental Investment Inc. company	British Virgin Islands/ limited liability	US\$1	100	–	Investment holding
西安眾德汽車維修服務 有限公司 Xi'an Zhongde Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
陝西迪卡爾商務諮詢有限公司 Shanxi Dika'er Business Consulting Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	–	100	Car rental and sale of used cars

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
蘇州神州汽車租賃有限公司 Suzhou China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Car rental
海科融資租賃(天津)有限公司 Haike Leasing (Tianjin) Limited ("Haike Tianjin")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 1,600 million	–	100	Car rental
神州租車(廈門)有限公司 China Auto Rental (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	–	100	Car rental
蘇州凱普商務諮詢有限公司 Suzhou Kaipu Business Consulting Co., Ltd. ("SZ Kaipu")	PRC/ Mainland China/ limited liability company	RMB 5 million	–	100	Consulting service
神州租車(中國)有限公司 China Auto Rental Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 10 million	–	100	Car rental

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
湖南神州暢元商務信息諮詢 有限公司 Hunan Shenzhou Changyuan Business Information Service Co., Ltd. ("HN SZ Changyuan")	PRC/ Mainland China/ limited liability company	RMB 5 million	–	100	Management
北京翱翔嘉業科技有限 公司 Beijing AoXiang Jiaye Technology Co., Ltd. ("Beijing AX")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	IT service
神州租車電子商務(福建) 有限公司* China Auto Rental E-Commerce (Fujian) Co., Ltd. ("CAR EC Fujian")	PRC/ Mainland China/ limited liability company	RMB 20 million	–	100	IT service
神州租車信息技術(福建) 有限公司 China Auto Rental Information Technology (Fujian) Co., Ltd. ("CAR IT FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	–	100	IT service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
神州租車服務管理(福建) 有限公司 China Auto Rental Service Management (Fujian) Co., Ltd. ("CAR FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 50 million	–	100	Car rental
長沙神州新 商務諮詢 有限公司 Changsha Shenzhou Xin Zhe Business Consulting Co., Ltd. ("Changsha Xinzhe")	PRC/ Mainland China/ limited liability company	RMB 5 million	–	100	Consulting service
廣東全程汽車租賃有限公司 Guangdong Quancheng Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 10 million	–	100	Car rental
海神(福建)信息技術有限公司 Haishen (Fujian) Information Technology Co., Ltd. ("Haishen FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	–	100	IT service
天津海科信息技術有限公司 Tianjin Haike Information Technology Co., Ltd. ("Tianjin Haike")	PRC/ Mainland China/ limited liability company	RMB 10 million	–	100	IT service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
天津凱普汽車維修有限公司 Tianjin Kaipu Auto Repair Co., Ltd. ("TJ Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
深圳市凱普汽車維修服務 有限公司 Shenzhen Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
廣州市安鑫汽車維修有限公司 Guangzhou Anxin Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
武漢神州凱普機動車維修 有限公司 Wuhan Shenzhou Kaipu Auto Repair Co., Ltd. ("Wuhan Shenzhou Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
成都凱普汽車維修服務 有限公司 Chengdu Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
CAR Holdings Limited (HK)	Hong Kong/ company limited by shares	US\$1	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
蘇州晉善晉美汽車服務 有限公司 Suzhou Jin Shan Jin Mei Auto Service Co., Ltd. ("Jin Shan Jin Mei")	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Auto repair service
哈爾濱凱普汽車維修服務 有限公司 Harbin Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
佛山市堅信汽車維修有限公司 Foshan Jianxin Auto Repair Service Co., Ltd. ("Foshan Jianxin")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
福州凱普汽車維修服務 有限公司 Fuzhou Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	–	100	Auto repair service
西寧凱普汽車維修服務 有限公司 Xining Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
西安凱普汽車維修服務 有限公司 Xi'an Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海凱申汽車維修服務 有限公司 Shanghai Kaishen Auto Repair Service Co., Ltd. ("Shanghai Kaishen")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
福州市長樂區神州租車 電子商務有限公司 Fuzhou Changle China Auto Rental E-Commerce Co., Ltd. (formerly known as China Auto Rental E-Commerce (Changle) Co., Ltd.) ("Changle E-Commerce")	PRC/ Mainland China/ limited liability company	RMB 200 million	–	100	IT service
合肥凱普汽車維修服務 有限公司 Hefei Kaipu Auto Repair Service Co., Ltd. ("Hefei Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	–	100	Auto repair service
海科(廈門)汽車服務有限公司 Haike (Xiamen) Auto Service Co., Ltd. ("Haike Xiamen")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 200 million	–	100	Car service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
海科(廈門)電子商務有限公司 Haike (Xiamen) E-Commerce Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 300 million	–	100	Car rental
神州租車服務管理(廈門) 有限公司 China Auto Rental Service Management (Xiamen) Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 30 million	–	100	Car rental
神州租車電子商務(廈門) 有限公司 China Auto Rental E-Commerce (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	–	100	IT service
神州租車信息技術(廈門) 有限公司 China Auto Rental Information Technology (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	–	100	IT service
神州智慧(福建)出行有限公司 China Wisdom (Fujian) Travel Co., Ltd. ("China Wise")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 50 million	–	100	IT service

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

- * A series of contractual agreements (the "Structured Contracts") was effectuated on 1 July 2015 among CAR EC Fujian, Haike Pingtan, Mr. Chen Min and Mr. Wang Shuangyun (collectively, the "Registered Shareholders") who are employees of the Group and the legal shareholders of CAR EC Fujian.

The Structured Contracts provide the Group, through Haike Pingtan, with effective control over CAR EC Fujian. In particular, Haike Pingtan undertakes to provide CAR EC Fujian with certain technical services as required to support its operations. In return, Haike Pingtan is entitled to substantially all of the operating profits and residual benefits generated by CAR EC Fujian through intercompany charged levied on these services rendered. The Registered Shareholders are also required to transfer their interests in CAR EC Fujian to Haike Pingtan's designee upon a request made by Haike Pingtan when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in CAR EC Fujian have also been pledged by the Registered Shareholders to Haike Pingtan in respect of the continuing obligations of CAR EC Fujian. Haike Pingtan intends to continuously provide to or assist CAR EC Fujian in obtaining financial support when deemed necessary. Accordingly, Haike Pingtan has rights to variable returns from its involvement with CAR EC Fujian and has the ability to affect those returns through its power over CAR EC Fujian.

As a result, CAR EC Fujian was accounted for as a controlled structured entity of the Group. The formation of the Structured Contracts for CAR EC Fujian was accounted for as a transaction without substance and the Group consolidated CAR EC Fujian as if it was in the Group from date of incorporation of 29 April 2015.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PRESENTATION *(continued)*

Going concern

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB1,254,712,000 and the Group suffered losses of RMB4,163,151,000 for the twelve months ended 31 December 2020. In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

When preparing the consolidated financial statements as of 31 December 2020, the directors of the Company concluded that a going concern basis of preparation was appropriate after analysing the forecasted cash flows for the twelve months from 31 December 2020 which indicates that the Group will have sufficient liquidity during the next twelve months from cash flows generated by operations and currently available fund. In preparing the forecasted cash flows analysis, the directors consider that 1) the Company has already issued and received proceeds of convertible bonds with an amount of USD175 million in January 2021, 2) it will sell a portion of its car fleet at market prices in the next twelve months from 31 December 2020, and 3) it can successfully carry out the Group's business plan notwithstanding the decrease in the fleet size so as to generate sufficient operating cash flows. The analysis indicates that the Group will have the financial resources to settle borrowings and payables that will be due in the next twelve months.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PRESENTATION *(continued)*

Basis of consolidation *(continued)*

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office and stores, parking lots have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has elected to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic for the year ended 31 December 2020. At the effective date of modification, the Group remeasured lease liabilities. The difference of RMB29,000 between the carrying amount of the modified liabilities and the lease liabilities immediately before the modification was recognised as an adjustment to the right-of-use assets.

- (e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts³</i>
Amendments to IFRS 17	<i>Insurance Contracts^{3, 5}</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i> <i>Disclosure of Accounting Policies³</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates³</i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Renminbi and foreign currencies based on various Interbank Offered Rates as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments in associates** *(continued)*

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, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised 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 unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Fair value measurement**

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting year. 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 minimising 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), 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 recognised 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 the statement of profit or loss in the year 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 year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the year in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the year in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Rental vehicles

Rental vehicles are stated at cost, net of accumulated depreciation.

Certain rental vehicles have been acquired under repurchase programs, pursuant to which the Group has the option to require the car dealer to repurchase vehicles at a specified price and date, subject to certain vehicle condition and mileage. The Group plans to execute the repurchase option and depreciates vehicles over the holding period with an amount equal to the difference of the initial purchase payment and the contractual repurchase price, thereby minimising any gain or loss.

Rental vehicles acquired outside of repurchase programs are depreciated over the estimated holding year on a straight-line basis. The initial estimated number of holding years of such rental vehicles is generally about 3 years. The Group also estimates the residual value of the rental vehicles acquired outside of repurchase programs at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values are based on factors including model, usage, age, mileage and location. Quarterly adjustments are made the Group to the depreciation rates of such rental vehicles in response to the latest market conditions and their effect on residual values as well as the estimated time of disposal. Such adjustments are accounted for as changes in accounting estimates. During 2020, rental vehicles acquired outside of repurchase programs were depreciated at rates ranging from 3.0% to 25.8% per annum.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Rental vehicles *(continued)*

When an item of rental vehicles is classified as held for sale, it is not depreciated and is accounted for as held for sale, as further explained in the accounting policy for "Inventories".

Other property, plant and equipment

Other property, plant and equipment primarily include buildings, office furniture and equipment, and certain in-car accessories that can be separated from rental vehicles and leasehold improvements.

Depreciation is calculated on the straight-line basis to write off the cost of each item of other property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

In-car accessories	15.83% to 33.33%
Leasehold improvements	20% to 100%
Office furniture and equipment	15.83% to 33.33%
Buildings	1.8% to 4.74%

Where parts of an item of other 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 other property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Vehicle rental business licences

Vehicle rental business licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 18 to 25 years.

Licence plates

Licence plates are estimated to have indefinite useful lives.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Rental vehicles	3 years
Licence plates	1.2 to 3 years
Offices and stores	1.1 to 15 years
Parking lots	1.1 to 6.5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of offices and stores and parking lots (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Leases** *(continued)***Group as a lessor**

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Investments and other financial assets**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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 amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments and other financial assets** *(continued)***Financial assets designated at fair value through other comprehensive income (equity investments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss *(continued)*

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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through 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 derecognised (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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Impairment of financial assets**

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement *(continued)*

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the statement of 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Derivative financial instruments****Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories comprise used rental vehicles for sale, fuels and spare parts and are stated at the lower of cost and net realisable value. Cost of used rental vehicles for sale is calculated on a specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the vehicles to their present location and condition. Costs of fuels and spare parts are based on purchase costs and are determined by the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement 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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods 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 recognised for all taxable temporary differences, except:

- (a) 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
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Income tax** *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (a) 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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 realised 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised 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 recognised as income on a systematic basis over the periods that the costs, for which is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Revenue recognition**

Revenue is recognised 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) Operating lease rental income

Rental revenue derived from operating lease contracts is classified as car rental revenue and fleet rental revenue base on the business natures. The minimum lease payment is recognised as revenue over the lease period on a straight-line basis.

Customer loyalty award credits granted in the rendering of operating leases services are accounted for as a separate component of the lease transaction in which they are granted. The consideration received in the lease transaction is allocated between the loyalty award credits and the other components of the lease. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

(b) Finance lease income

The Group records revenue attributable to finance leases over the lease term on a systematic and rational basis so as to produce a constant rate of return on the net investment in the finance lease.

(c) Sales of used rental vehicles

Revenue from the sales of used rental vehicles is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the used rental vehicles.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(d) **Royalty and franchise income**

Royalty and franchise income are recognised on an accrual basis in accordance with the terms of the relevant agreements.

(e) **Interest income**

Interest income is recognised on a time proportion basis using the effective interest method.

(f) **Other service income**

Other service income is generally derived from auto repair and maintenance services, leasing of parking spaces, advertising income and referral fees from other vehicle rental companies, and is recognised upon the provision of services.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute 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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Share-based payments** *(continued)*

The cost of equity-settled transactions is recognised 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 recognised 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 recognised 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 recognised. 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 recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 recognised for the award is recognised 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

During the reporting period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

Housing benefits

Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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 capitalised as part of the cost of those assets. The capitalisation 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 capitalised. 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.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. 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 translated 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 recognised in the statement of profit or loss.

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 in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The resulting exchange differences are recognised 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 recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 overseas subsidiaries are translated into RMB at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas 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 recognised in the financial statements:

Lease accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases and, in respect of finance leases, determining the appropriate discount rate implicit in the lease to discount minimum lease payments. In respect of leases classified as finance leases, it has not been possible to reliably estimate lessors' residual values and management has been required to independently estimate an appropriate discount rate. The accounting policy for leases is set out in note 2.4.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Lease accounting *(continued)*

The Group has entered into sale-leaseback arrangements with certain financial institutions (the "Lenders") to obtain financing. Under such arrangements, the Group received the sales proceeds which represented the principal upon the lease inception, and would make monthly instalments during the lease term. The Group is subject to substantially the entire benefits and risks incidental to the ownership of such rental vehicles through leaseback. Under the sale-leaseback agreements, ownership of the underlying vehicles is transferred to the lenders upon the lease inception, and the Group is entitled to obtain their ownership for nil consideration at the end of the lease term. The leaseback was a finance lease due to the transfer of ownership back to the Group at the end of the lease term. The Group accounted for such arrangements as long term borrowings collateralised by rental vehicles and no gain or loss was recognised from these sale- leaseback transactions.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The renewal options for leases of offices and stores and parking lots are not included as part of the lease term as these are not reasonably certain to be exercised.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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.

Useful lives and residual values of rental vehicles

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's rental vehicles. This estimate is based on the estimated holding period of such rental vehicles. Management will increase the depreciation charge where useful lives are less than previously estimated, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. The actual holding period may differ from estimated useful lives. Periodic review could result in a change in useful lives and residual values which impact depreciation charges in the future periods.

The Group's management determines the estimated residual values at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values for rental vehicles are based on factors including model, age, mileage and location. Management will increase the depreciation charge where residual values are less than previously estimated values, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. Actual value at the time of disposal may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation charge in the future periods. The net carrying value of rental vehicles was RMB6,814,459,000 (2019: RMB10,792,336,000) as at 31 December 2020.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in used car market conditions. Management reassesses these estimates at each reporting date. The net carrying value of inventories was RMB78,837,000 (2019: RMB227,634,000) as at 31 December 2020.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)***Estimation uncertainty** *(continued)***Provision for expected credit losses on trade receivables**

The Group uses a provision matrix to calculate ECLs for trade receivables and finance lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and finance lease receivables is disclosed in note 22 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group determine the interest rate implicit for the leases of rental vehicles. The Group cannot readily determine the interest rate implicit for other leases of licence plates, offices and stores, parking lots, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Contract liabilities related to credit award

The amount of revenue attributable to the credit award earned by the customers of the Group's loyalty program is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed. Before the adoption of IFRS 15, the Group recognised deferred revenue included in advance from customers. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals. The carrying value of contract liabilities related to credit award was RMB38,285,000 (2019: RMB51,841,000) as at 31 December 2020.

Useful lives and residual values of other property, plant and equipment

In determining the useful life and residual value of an item of other property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvement in production, or from a change in the market demand for the products or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of other property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on the changes in circumstances. The net carrying value of other property, plant and equipment was RMB684,637,000 (2019: RMB659,383,000) as at 31 December 2020.

Provision for expected credit losses on finance lease receivables

Impairment loss on finance lease receivables represent management's best estimate of losses incurred in finance lease receivables at the reporting date under ECL models. Management assesses whether the credit risk of finance lease receivables have increased significantly since their initial recognition and apply a three-stage impairment model to calculate their ECL. The Group is required to exercise judgement in making assumptions and estimates when calculating impairment loss on finance lease receivables, including any observable data indicating that there is a measurable decrease in the estimated future cash flows from finance lease receivables and historical loss experience on the basis of the relevant observable data that reflects current economic conditions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)***Estimation uncertainty** *(continued)***Provision for expected credit losses on finance lease receivables** *(continued)*

The measurement of the ECL involves significant management judgments and assumptions, primarily including the selection of appropriate models and determination of relevant key measurement parameters, criteria for determining whether there was a significant increase in credit risk or a default was incurred, economic indicators for forward-looking measurement, and the application of economic scenarios and weightings, management consideration due to significant uncertain factors not covered in the models and the estimated future cash flows in stage 3. The information about the ECLs on the Group's finance lease receivables is disclosed in note 15 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB158,540,000 (2019: RMB240,595,000) as at 31 December 2020.

Fair value of an investment in equity shares

The fair value of the equity share investment in UCAR Inc. ("UCAR") was based on the market approach, with reference to the market multiples from comparable companies with consideration of the size, profitability and development stage of the industry and those comparable companies. This valuation requires the Group to make estimates about expected future sales forecast, adjusted market multiple, volatility and dividend yield, and hence they are subject to uncertainty. The fair value loss on the equity share investment in UCAR was RMB2,800,641,000 for the year ended 31 December 2020 (2019 fair value loss: RMB9,000,000). Further details are included in note 20 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying value of goodwill was RMB6,728,000 (2019: RMB6,728,000) as at 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the provision of car rental and related services to its customers. For management purposes, the Group operates in one business unit based on its services, and has one reportable segment which is the provision of car rental and other related services.

Information about geographical areas

Since all of the Group's revenue was generated from the car rental and related services in Mainland China and all of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information in accordance with IFRS 8 Operating Segments is presented.

Information about major customers

Revenue of approximately RMB93,119,000 (2019: RMB548,161,000), accounting for 1.5% (2019: 7.1%) of the Group's revenue, was derived from a single customer for the year ended 31 December 2020.

5. REVENUE

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
<i>Revenue from other sources</i>		
Car rental revenue	3,755,109	4,916,440
Finance lease income	117,985	173,453
Fleet rental revenue	114,365	434,391
Sales of used rental vehicles under lease contracts	5,018	307,270
	3,992,477	5,831,554
<i>Revenue from contracts with customers</i>		
Sales of used rental vehicles	2,125,611	1,824,688
Franchise related income	1,265	1,186
Other service income	5,055	33,232
	2,131,931	1,859,106
	6,124,408	7,690,660

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020	2019
	RMB'000	RMB'000
Types of goods or services		
Sales of used rental vehicles	2,125,611	1,824,688
Franchise related income	1,265	1,186
Other service income	5,055	33,232
	<hr/>	<hr/>
Total revenue from contracts with customers	<u>2,131,931</u>	<u>1,859,106</u>
Timing of revenue recognition		
Goods transferred at a point in time	2,125,611	1,824,688
Services transferred over time	6,320	34,418
	<hr/>	<hr/>
Total revenue from contracts with customers	<u>2,131,931</u>	<u>1,859,106</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of used rental vehicles

The performance obligation is satisfied upon delivery of the used rental vehicles and payment is generally due within 10 to 15 days from delivery, except for new customers, where payment in advance is normally required.

Franchise related income

The performance obligation is satisfied over the franchised period and payment is generally due monthly, except for new customers, where payment in advance is normally required.

Other service income

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Other service contracts are for periods of one year or less, and are billed based on the time incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. OTHER INCOME AND EXPENSES, NET

	2020 RMB'000	2019 <i>RMB'000</i>
Interest income	48,352	81,449
Exchange gain/(loss)	354,541	(158,245)
Fair value loss on an investment in equity shares (note 20)	(2,800,641)	(9,000)
Fair value changes on derivative instrument transactions not qualifying as hedges (note 30)	(3,666)	56,588
Government grants*	63,191	69,417
Loss on disposal of items of other property, plant and equipment	(1,329)	(275)
Others	(11,628)	7,980
	<u>(2,351,180)</u>	<u>47,914</u>

* There were no unfulfilled conditions or other contingencies attaching to government grants that had been recognised.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Interest on bank and other borrowings	198,176	309,936
Interest on lease liabilities	26,751	22,280
Interest on senior notes (note 28)	430,641	586,004
Interest on corporate bonds (note 29)	25,629	65,720
	<u>681,197</u>	<u>983,940</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	2020	2019
	RMB'000	RMB'000
Cost of sales of used vehicles	2,209,908	2,188,531
Depreciation of rental vehicles (note 13, note 16)	2,011,190	1,835,717
Depreciation of other property, plant and equipment (note 14)	53,932	64,728
Depreciation of right-of-use assets (excluding depreciation of rental vehicles) (note 16)	144,018	158,840
Amortisation of other intangible assets*(note 18)	2,374	3,118
Lease payments not included in the measurement of lease liabilities (note 16)	124,971	133,095
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):		
Wages and salaries	642,242	676,360
Equity-settled share option expenses (note 9, note 33)	56,886	72,649
Pension scheme contributions**	102,279	170,143
Insurance expenses	193,188	272,502
Repair and maintenance	211,506	264,598
Exchange (gain)/loss (note 6)	(354,541)	158,245
Finance costs (note 7)	681,197	983,940
Auditors' remuneration	5,000	4,500
Loss on disposal of items of other property, plant and equipment (note 6)	1,329	275
Advertising and promotion expenses	93,765	2,341
Share of loss/(profit) of associates (note 19)	4,796	(6,286)
Fair value changes on derivative instrument transactions not qualifying as hedges (note 30)	3,666	(56,588)
Impairment losses on financial and contract assets	679,671	4,231
<i>Including impairment of:</i>		
Trade receivables	55,800	4,231
Due from a related party (note 38)	410,402	–
Prepayments other receivables and other assets (note 23)	86,280	–
Finance lease receivables (note 15)	127,189	–
Impairment of investment in associates (note 19)	8,306	–
Fair value loss on an investment in equity shares (note 20)	2,800,641	9,000

* The amortisation of other intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

** Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Fees	2,378	2,067
Other emoluments		
– Salaries, allowances and benefits in kind	4,857	1,968
– Equity-settled share option expense	17,238	14,957
– Pension scheme contributions	119	158
	22,214	17,083
	24,592	19,150

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Sun Hanhui	830	689
Ding Wei	774	689
Zhang Li	774	689
	2,378	2,067

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive director and chief executive and non-executive directors

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Equity-settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2020						
Executive director and the chief executive:						
- Song Yifan	-	4,592	-	17,238	111	21,941
Non-executive directors:						
- Lu Zhengyao*	-	265	-	-	8	273
- Yan Leping**	-	-	-	-	-	-
- Yu Hongfei**	-	-	-	-	-	-
- Yan Xuan**	-	-	-	-	-	-
- Li Xiaogeng*	-	-	-	-	-	-
- Zhu Linan	-	-	-	-	-	-
- Wei Zhen*	-	-	-	-	-	-
	<u>-</u>	<u>4,857</u>	<u>-</u>	<u>17,238</u>	<u>119</u>	<u>22,214</u>
2019						
Executive director and the chief executive:						
- Song Yifan	-	927	-	14,957	126	16,010
Non-executive directors:						
- Lu Zhengyao	-	1,041	-	-	32	1,073
- Li Xiaogeng	-	-	-	-	-	-
- Zhu Linan	-	-	-	-	-	-
- Wei Zhen	-	-	-	-	-	-
	<u>-</u>	<u>1,968</u>	<u>-</u>	<u>14,957</u>	<u>158</u>	<u>17,083</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive director and chief executive and non-executive directors (continued)

* On 9 June 2020, Mr. Lu Zhengyao resigned from his position of the Chairman of the Board and a non-executive director of the Company.

On 1 August 2020, Ms. Li Xiaogeng resigned from her position as a non-executive director of the Company.

On 3 November 2020, Mr. Wei Zhen resigned from his position as a non-executive director of the Company.

** On 12 June 2020, Mr. Yan Leping was appointed as a non-executive director of the Company.

On 15 December 2020, Mr. Yu Hongfei was appointed as a non-executive director of the Company.

On 15 December 2020, Mr. Yan Xuan was appointed as a non-executive director of the Company.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the companies now comprising the Group during the year. There were no arrangements under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(c) Five highest paid employees

The five highest paid employees during the year included the chief executive (2019: the chief executive), details of whose remuneration are set out in note 9(b) above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	9,817	3,072
Equity-settled share option expense	25,357	11,483
Pension scheme contributions	214	504
	35,388	15,059

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees (continued)

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

	2020	2019
	Number of Individuals	Number of individuals
Nil to HK\$1,000,000	-	2
HK\$1,000,001 to HK\$1,500,000	-	1
HK\$1,500,001 to HK\$2,000,000	-	-
Over HK\$2,000,000	4	1
	4	4

During the year and in prior years, share options were granted to some of the above non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosure.

10. INCOME TAX

The major components of income tax expense of the Group during the year are as follows:

	2020	2019
	RMB' 000	RMB' 000
Current income tax:		
Mainland China	148,715	261,209
Overprovision in prior year	(3,731)	(7,817)
Refund of income tax payment made in prior years*	(150,865)	-
Deferred tax (note 31)	76,556	(12,125)
Total tax charge for the year	70,675	241,267

* This amount represented a tax refund received from the local tax bureau during October to December 2020 with regard to income tax paid during 2015 to 2019 on deductible temporary differences.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. INCOME TAX *(continued)*

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

The provision for current income tax in Mainland China is based on a statutory rate of 25% of the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 except for Haike (Pingtan) Technology Co., Ltd. ("Haike Pingtan"). Haike Pingtan is qualified as a promising industry company established in the comprehensive experimentation area in Pingtan, Fujian Province, and therefore is entitled a preferential corporate income tax rate of 15% pursuant to CaiShui [2014] No. 26 issued by the Ministry of Finance of the People's Republic of China.

No Hong Kong profits tax on the Group's subsidiaries has been provided at the rate of 16.5% as there was no assessable profit arising in Hong Kong during the year.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on earnings of non-resident enterprise arising from the operations in Mainland China. The withholding tax arising from inter-company charges from certain overseas subsidiaries to PRC subsidiaries amounted to RMB21,483,000 for the year ended 31 December 2020 (2019: RMB36,504,000).

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. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2020, no deferred tax has been recognised 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. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,614,972,000 at 31 December 2020 (2019: RMB1,572,938,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2020	2019
	RMB'000	RMB'000
(Loss) / Profit before tax	<u>(4,092,476)</u>	<u>272,043</u>
Tax at the PRC statutory tax rate of 25%	(1,023,119)	68,011
Tax effect of tax rate differences between PRC entities and overseas entities	278,361	155,887
Tax losses and temporary differences not recognised	778,878	40,230
True up of income tax in respect of prior year	(3,731)	(7,817)
PRC entity with preferential tax rate	5,905	(42,664)
Income not subject to tax	(1,809)	(1,603)
Expenses not deductible for tax	16,992	3,843
Utilisation of unrecognised tax losses and temporary differences	(2,285)	(11,124)
Withholding tax on the deemed income	<u>21,483</u>	<u>36,504</u>
Total charge for the year	<u>70,675</u>	<u>241,267</u>

The effective tax rate of the Group was -1.7% (2019: 88.7%) for the year ended 31 December 2020.

11. DIVIDENDS

The board of the directors did not recommend the payment of any dividend to the ordinary equity holders of the Company for the year ended 31 December 2020 (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,120,963,983 (2019: 2,119,511,942) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(Loss) /Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	<u>(4,163,151)</u>	<u>30,776</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	2,120,963,983	2,119,511,942
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>–</u>	<u>9,047,485</u>
	<u>2,120,963,983</u>	<u>2,128,559,427</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. RENTAL VEHICLES

	Total RMB'000
At 1 January 2020:	
Cost	14,266,149
Accumulated depreciation	(3,473,813)
	<hr/>
Net carrying amount	10,792,336
	<hr/>
At 1 January 2020, net of accumulated depreciation	10,792,336
Additions	210,537
Disposals and transfers to inventories	(2,231,198)
Transfers to finance leases	–
Rental vehicles written off	(29,471)
Depreciation provided during the year	(1,927,745)
	<hr/>
At 31 December 2020, net of accumulated depreciation	6,814,459
	<hr/>
At 31 December 2020:	
Cost	10,289,933
Accumulated depreciation	(3,475,474)
	<hr/>
Net carrying amount	6,814,459
	<hr/>
At 1 January 2019:	
Cost	13,769,773
Accumulated depreciation	(2,981,401)
	<hr/>
Net carrying amount	10,788,372
	<hr/>
At 1 January 2019, net of accumulated depreciation	10,788,372
Additions	4,075,475
Disposals and transfers to inventories	(2,207,455)
Transfers to finance leases	(70,062)
Depreciation provided during the year	(1,793,994)
	<hr/>
At 31 December 2019, net of accumulated depreciation	10,792,336
	<hr/>

Rental vehicles with a total carrying value of RMB353,369,000 as at 31 December 2020 (2019: RMB1,570,536,000) were pledged as security for certain of the Group's interest-bearing loans (note 27).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. OTHER PROPERTY, PLANT AND EQUIPMENT

	In-car accessories <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office furniture and equipment <i>RMB'000</i>	Buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020:						
Cost	177,233	43,847	106,333	322,635	295,170	945,218
Accumulated depreciation	(132,206)	(21,483)	(82,469)	(49,677)	-	(285,835)
Net carrying amount	<u>45,027</u>	<u>22,364</u>	<u>23,864</u>	<u>272,958</u>	<u>295,170</u>	<u>659,383</u>
At 1 January 2020, net of accumulated depreciation	45,027	22,364	23,864	272,958	295,170	659,383
Additions	7,154	2,921	3,878	-	66,660	80,613
Depreciation provided during the year	(28,411)	(6,414)	(7,590)	(11,517)	-	(53,932)
Disposals	(1,240)	-	(187)	-	-	(1,427)
At 31 December 2020, net of accumulated depreciation	<u>22,530</u>	<u>18,871</u>	<u>19,965</u>	<u>261,441</u>	<u>361,830</u>	<u>684,637</u>
At 31 December 2020:						
Cost	177,591	46,768	104,478	322,635	361,830	1,013,302
Accumulated depreciation	(155,061)	(27,897)	(84,513)	(61,194)	-	(328,665)
Net carrying amount	<u>22,530</u>	<u>18,871</u>	<u>19,965</u>	<u>261,441</u>	<u>361,830</u>	<u>684,637</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. OTHER PROPERTY, PLANT AND EQUIPMENT (continued)

	In-car accessories <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office furniture and equipment <i>RMB'000</i>	Buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019:						
Cost	164,893	36,922	105,975	309,282	185,334	802,406
Accumulated depreciation	(103,600)	(12,033)	(74,805)	(38,324)	-	(228,762)
Net carrying amount	<u>61,293</u>	<u>24,889</u>	<u>31,170</u>	<u>270,958</u>	<u>185,334</u>	<u>573,644</u>
At 1 January 2019, net of						
accumulated depreciation	61,293	24,889	31,170	270,958	185,334	573,644
Additions	19,050	6,925	1,804	13,353	109,836	150,968
Depreciation provided during the year	(35,067)	(9,450)	(8,858)	(11,353)	-	(64,728)
Disposals	(249)	-	(252)	-	-	(501)
At 31 December 2019, net of	<u>45,027</u>	<u>22,364</u>	<u>23,864</u>	<u>272,958</u>	<u>295,170</u>	<u>659,383</u>
At 31 December 2019:						
Cost	177,233	43,847	106,333	322,635	295,170	945,218
Accumulated depreciation	(132,206)	(21,483)	(82,469)	(49,677)	-	(285,835)
Net carrying amount	<u>45,027</u>	<u>22,364</u>	<u>23,864</u>	<u>272,958</u>	<u>295,170</u>	<u>659,383</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. FINANCE LEASE RECEIVABLES

Certain rental vehicles have been leased out through finance leases entered into by the Group. These leases have remaining terms ranging generally from 0 to 2.4 years. Finance lease receivables are comprised of the following:

	2020	2019
	RMB'000	RMB'000
Net minimum lease payments receivable	761,822	1,639,128
Unearned finance income	(149,992)	(441,857)
	611,830	1,197,271
Less: impairment of finance lease receivables	127,189	–
Total net finance lease receivables	484,641	1,197,271
Less: current portion	302,171	341,319
Non-current portion	182,470	855,952

Future minimum lease payments to be received under non-cancellable finance lease arrangements as at 31 December 2020 and 2019 are as follows:

	2020	2019
	RMB'000	RMB'000
Within one year	521,585	485,816
In the second to fifth years, inclusive	240,237	1,153,312
	761,822	1,639,128

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. FINANCE LEASE RECEIVABLES (continued)

The present values of minimum lease payments to be received under non-cancellable finance lease arrangements as at 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Within one year	302,171	341,319
In the second to fifth years, inclusive	182,470	855,952
	484,641	1,197,271

The movements in the loss allowance for impairment of finance lease receivables are as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
At beginning of the year	-	-
Impairment losses	127,189	-
At end of the year	127,189	-

Impairment on finance lease receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. FINANCE LEASE RECEIVABLES (continued)

Reconciliation of allowance for finance lease receivables are as follows:

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		Total <i>RMB'000</i>
	Stage 1 <i>RMB'000</i>	Stage 2 Collective basis <i>RMB'000</i>	Stage 3 <i>RMB'000</i>	
At beginning of year	–	–	–	–
Impairment losses, net	11,396	40,651	75,142	127,189
At end of year	11,396	40,651	75,142	127,189

As at 31 December 2019, there was no expected credit loss as these finance lease receivables had no history of default.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold land, rental vehicles, licence plates, offices and stores, parking lots used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of rental vehicles generally have lease terms of 3 years, licence plates generally have lease terms between 1.2 and 3 years, offices and stores generally have lease terms between 1.1 and 15 years and parking lots generally have lease terms between 1.1 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES (continued)

The Group as a lessee (continued)

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Rental vehicles* RMB'000	Licence plates RMB'000	Offices and stores RMB'000	Parking lots RMB'000	Total RMB'000
As at 1 January 2019	58,791	–	20,600	149,388	63,227	292,006
Additions	–	250,334	10,714	71,347	137,337	469,732
Depreciation expense	(1,614)	(41,723)	(16,268)	(58,135)	(82,823)	(200,563)
As at 31 December 2019	<u>57,177</u>	<u>208,611</u>	<u>15,046</u>	<u>162,600</u>	<u>117,741</u>	<u>561,175</u>

	Leasehold land RMB'000	Rental vehicles* RMB'000	Licence plates RMB'000	Offices and stores RMB'000	Parking lots RMB'000	Total RMB'000
As at 1 January 2020	57,177	208,611	15,046	162,600	117,741	561,175
Additions	–	–	–	28,380	69,733	98,113
Covid-19-related rent concessions from lessors	–	–	–	–	(29)	(29)
Depreciation expense	(1,614)	(83,445)	(12,110)	(47,822)	(82,472)	(227,463)
As at 31 December 2020	<u>55,563</u>	<u>125,166</u>	<u>2,936</u>	<u>143,158</u>	<u>104,973</u>	<u>431,796</u>

* A total of 5,000 rental vehicles were leased from third-party finance lease companies, pursuant to which the Group has designated these companies to buy the rental vehicles from a related party.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020	2019
	RMB'000	RMB'000
Carrying amount at 1 January	482,041	219,013
New leases	104,429	457,554
Accretion of interest recognised during the year	26,751	22,953
Covid-19-related rent concessions from lessors	(29)	–
Payments	(292,950)	(217,479)
	<u>320,242</u>	<u>482,041</u>
Carrying amount at 31 December		
Analysed into:		
Current portion	155,716	203,615
Non-current portion	164,526	278,426

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020	2019
	RMB'000	RMB'000
Interest on lease liabilities	26,751	22,953
Depreciation charge of right-of-use assets	227,463	200,563
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December (included in direct operating expenses of rental services)	124,971	133,095
	<u>379,185</u>	<u>356,611</u>
Total amount recognised in profit or loss		

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. GOODWILL

	2020	2019
	RMB'000	RMB'000
Cost and net carrying amount at beginning and end of the year	<u>6,728</u>	<u>6,728</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

Vehicle rental cash-generating unit

The recoverable amount of the vehicle rental cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A terminal growth rate of 3% (2019: 3%) has been projected beyond five years and the discount rate applied to the cash flow projections is 13.5% (2019: 13.5%).

Assumptions were used in the value in use calculation of the above cash-generating unit for 31 December 2020 and 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on the market development of the vehicle rental industry and the discount rate are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Customer relationship RMB'000	Vehicle rental business licences RMB'000	Auto repair service business licences RMB'000	Licence plates RMB'000	Trademark use right RMB'000	Total RMB'000
At 1 January 2020:							
Cost	35,913	180	42,525	3,144	125,699	7,030	214,491
Accumulated amortisation	(35,268)	(180)	(14,393)	(3,090)	-	(7,030)	(59,961)
Net carrying amount	<u>645</u>	<u>-</u>	<u>28,132</u>	<u>54</u>	<u>125,699</u>	<u>-</u>	<u>154,530</u>
At 1 January 2020, net of accumulated depreciation	645	-	28,132	54	125,699	-	154,530
Additions	-	-	-	-	2,566	-	2,566
Amortisation provided during the year	(463)	-	(1,868)	(43)	-	-	(2,374)
At 31 December 2020, net of accumulated depreciation	<u>182</u>	<u>-</u>	<u>26,264</u>	<u>11</u>	<u>128,265</u>	<u>-</u>	<u>154,722</u>
At 31 December 2020:							
Cost	35,913	180	42,525	3,144	128,265	7,030	217,057
Accumulated amortisation	(35,731)	(180)	(16,261)	(3,133)	-	(7,030)	(62,335)
Net carrying amount	<u>182</u>	<u>-</u>	<u>26,264</u>	<u>11</u>	<u>128,265</u>	<u>-</u>	<u>154,722</u>
At 1 January 2019:							
Cost	35,913	180	42,525	3,144	116,879	7,030	205,671
Accumulated amortisation	(34,085)	(180)	(12,526)	(3,022)	-	(7,030)	(56,843)
Net carrying amount	<u>1,828</u>	<u>-</u>	<u>29,999</u>	<u>122</u>	<u>116,879</u>	<u>-</u>	<u>148,828</u>
At 1 January 2019, net of accumulated depreciation	1,828	-	29,999	122	116,879	-	148,828
Additions	-	-	-	-	8,820	-	8,820
Amortisation provided during the year	(1,183)	-	(1,867)	(68)	-	-	(3,118)
At 31 December 2019, net of accumulated depreciation	<u>645</u>	<u>-</u>	<u>28,132</u>	<u>54</u>	<u>125,699</u>	<u>-</u>	<u>154,530</u>
At 31 December 2019:							
Cost	35,913	180	42,525	3,144	125,699	7,030	214,491
Accumulated amortisation	(35,268)	(180)	(14,393)	(3,090)	-	(7,030)	(59,961)
Net carrying amount	<u>645</u>	<u>-</u>	<u>28,132</u>	<u>54</u>	<u>125,699</u>	<u>-</u>	<u>154,530</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES

	2020 RMB' 000	2019 RMB' 000
Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司)(a)	22,158	46,222
Botpy Inc. (b)	81,788	70,826
	103,946	117,048

(a) Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司)

	2020 RMB' 000	2019 RMB' 000
Share of net assets	22,158	37,916
Goodwill on acquisition	8,306	8,306
Impairment of goodwill	(8,306)	–
	22,158	46,222

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司) ("QWOM")	Ordinary shares	PRC/Mainland China	30	Providing mobile internet digital marketing solutions based on big data analytics

The Group, through its wholly-owned subsidiary, Haike Pingtan, acquired a 30% equity interest in QWOM in April 2016. The Group's interest in QWOM is accounted for using the equity method in the consolidated financial statements. QWOM had completed listing on the National Equities Exchange and Quotations ("NEEQ") in December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES (continued)

(a) Beijing QWOM Technology Co., Ltd. (北京氩動益維科技股份有限公司) (continued)

The following table illustrates the financial information of the Group's associate that is not material:

	2020 RMB'000	2019 RMB'000
Share of the associate's (loss)/profit for the year	(15,758)	4,311
Share of the associate's total Comprehensive (loss)/income	(15,758)	4,311
Carrying amount of the Group's investment in the associate	<u>22,158</u>	<u>46,222</u>

(b) Botpy Inc.

	2020 RMB'000	2019 RMB'000
Share of net assets	21,561	4,576
Goodwill on acquisition	66,250	66,250
Deemed disposal of Goodwill	(6,023)	–
	<u>81,788</u>	<u>70,826</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Botpy Inc.	Preference shares	Cayman Islands	36.36	Automotive insurance business and providing solutions for the automotive aftermarket

The Group, through its wholly-owned subsidiary Premium Auto Rental (China) Limited, acquired a 40% equity interest in Botpy Inc. in February 2019. On 14 October 2020, Botpy Inc. issued new shares to a third party resulting in a dilution of the Group's interest in Botpy Inc. to 36.36%. The Group's interest in Botpy Inc. is accounted for using the equity method in the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. INVESTMENTS IN ASSOCIATES (continued)

(b) Botpy Inc. (continued)

The following table illustrates the financial information of the Group's associate that is not material:

	2020	2019
	RMB' 000	RMB' 000
Share of the associate's profit for the year	10,962	1,975
Share of the associate's total comprehensive income	10,962	1,975
Carrying amount of the Group's investment in the associate	81,788	70,826

20. INVESTMENT IN EQUITY SHARES

	2020	2019
	RMB' 000	RMB' 000
Investment in equity shares of a publicly held company – UCAR Inc. (“神州優車股份有限公司” Or “UCAR”)	-	2,800,641

The equity interest held by the Group in UCAR was 6.27% as at 31 December 2020 and 31 December 2019.

The directors of the Company are of the opinion that the Group does not have significant influence over UCAR and the Group designated such equity investment as a financial asset at fair value through profit or loss upon initial recognition and the investment was classified as Level 3 fair value measurement. The fair value of the ordinary share investment in UCAR was estimated with the assistance of an independent valuation company. The fair value of the ordinary share investment in UCAR as at 31 December 2020 was based on the market approach, with reference to the market multiples from comparable companies with consideration of the size, profitability and development stage of the industry and those comparable companies. UCAR has experienced significant decrease in its business and operations due to the outbreak of COVID-19 and change of operational environment. In view of certain non-compliance of UCAR in the requirements of timely publication of its 2019 annual result announcement, UCAR will be subjected to delisting process as detailed in UCAR's announcement dated 1 September 2020 pursuant to relevant regulations of NEEQ. The associated fair value loss of RMB2,800,641,000 for the year ended 31 December 2020 (note 6) was recognised through profit or loss under “Other income and expenses, net”.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

21. INVENTORIES

	2020 RMB'000	2019 <i>RMB'000</i>
Used rental vehicles held for sale	8,042	137,458
Fuel	31,597	55,102
Others	39,198	35,074
	78,837	227,634

22. TRADE RECEIVABLES

	2020 RMB'000	2019 <i>RMB'000</i>
Trade receivables	112,362	100,836
Impairment provision	(54,979)	(4,026)
	57,383	96,810

The Company generally does not provide credit terms to car rental customers. The credit period for fleet customers and finance lease customers is generally one to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables to minimise 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables as at the end of 2020, based on the invoice date and net of loss allowance, is as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Within 3 months	29,851	54,488
3 to 6 months	15,287	12,161
6 to 12 months	12,245	18,130
Over 1 year	-	12,031
	<u>57,383</u>	<u>96,810</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
At beginning of the year	4,026	4,095
Impairment losses, net	50,953	(69)
	<u>54,979</u>	<u>4,026</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

22. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Current	Past due			Total
		Less than 3 months	4 to 12 months	Over 1 year	
Expected credit loss rate	6.98%	6.98%	17.88%	100.00%	48.93%
Gross carrying amount	1,036	31,234	33,320	46,772	112,362
Expected credit losses	72	2,179	5,956	46,772	54,979

As at 31 December 2019

	Current	Past due			Total
		Less than 3 months	4 to 12 months	Over 1 year	
Expected credit loss rate	1.18%	1.18%	4.53%	14.50%	3.99%
Gross carrying amount	1,330	56,735	28,698	14,073	100,836
Expected credit losses	16	669	1,300	2,041	4,026

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020	2019
	RMB'000	<i>RMB'000</i>
Deductible VAT input	538,372	921,331
Prepayments	211,733	295,960
Other receivables	35,796	41,704
Rental deposits	50,851	53,653
Others	18,846	31,310
	855,598	1,343,958
Impairment allowance	(86,280)	–
	769,318	1,343,958

As at 31 December 2020, the impairment allowance of other receivables amounting to RMB86,280,000 (2019: Nil) was provided.

Movements in the provision for impairment of other receivables are as follows:

	2020
	RMB'000
At beginning of year	–
Impairment losses, net	86,280
At end of year	86,280

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

Reconciliation of allowance for other receivables is as follows:

As at 31 December 2020

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1	Stage 2	Stage 2	Stage 3	
	RMB'000	Individual basis RMB'000	Collective basis RMB'000	RMB'000	
At beginning of year	–	–	–	–	–
Impairment losses, net	–	86,280	–	–	86,280
At end of year	–	86,280	–	–	86,280

24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2020 RMB'000	2019 RMB'000
Cash and bank balances	1,853,414	3,485,538
Time deposits	338,194	2,398,767
	2,191,608	5,884,305
Less: Pledged time deposits:		
Pledged for bank loans*	6,733	522,510
Pledged for electricity	1,488	–
Pledged for bank overdraft facilities	1,275	1,275
Pledged for others	2,453	–
	11,949	523,785
Cash and cash equivalents	2,179,659	5,360,520

* The Group pledged certain deposits of RMB6,733,000 and RMB522,510,000 to secure the Group's bank loans as at 31 December 2020 and 31 December 2019 respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH *(continued)*

The cash and bank balances of the Group denominated in RMB amounted to RMB1,319,864,000 and RMB3,407,502,000 as at 31 December 2020 and 31 December 2019, respectively. The 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

25. TRADE PAYABLES

An ageing analysis of the outstanding trade payables as at 31 December 2020 and 31 December 2019, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	21,021	55,049
3 to 6 months	19,917	10,329
Over 6 months	25,804	21,375
	66,742	86,753

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

26. OTHER PAYABLES AND ACCRUALS

	Note	2020 RMB'000	2019 RMB'000
Interest payables		91,118	205,735
Deposits by customers		213,688	202,241
Contract liabilities	(a)	49,590	212,287
Payroll payable		81,437	75,552
Other tax payable		171,264	184,108
Payable for other property, plant and equipment		13,838	13,838
Others		60,357	70,880
		681,292	964,641

Other payables and accruals are non-interest-bearing.

Note:

(a) Details of contract liabilities as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
<i>Advance received from customers</i>		
Sales of used vehicles	11,226	160,381
Contract liability related to credit award	38,285	51,841
Franchise related income	79	65
	49,590	212,287

Contract liabilities include advances received from sales of used vehicles, and from rendering credit award and franchise service. The decrease in contract liabilities in 2020 and 2019 was mainly due to the decrease in short-term advances received from customers in relation to sales of used vehicles at the end of each of the years.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:						
Lease liabilities (note 16(b))	6.30	2021	155,716	6.30	2020	203,615
Short-term bank loans						
– guaranteed	-	-	-	4.43-5.53	2020	359,286
– unsecured and unguaranteed	-	-	-	4.35-6.15	2020	1,330,040
– pledged	-	-	-	3.10	2020	522,953
Current portion of long-term bank loans						
– guaranteed	3.49-4.14	2021	348,412	5.30-5.92	2020	219,407
– unsecured and unguaranteed	-	-	-	6.41	2020	150,000
Current portion of sale and leaseback obligations						
– secured	2.85-6.40	2021	77,166	3.09-7.38	2020	669,122
Current portion of long-term other loans						
– guaranteed	6.85	2021	290,000	6.85	2020	100,000
			<u>871,294</u>			<u>3,554,423</u>
Non-current						
Lease liabilities (note 16(b))	6.30	2022-2030	164,526	6.30	2021-2024	278,426
Bank loans						
– guaranteed	3.49	2022-2023	181,201	5.30	2021-2022	1,141,746
– unsecured and unguaranteed	-	-	-	6.41	2021	75,000
Sale and leaseback obligations						
– secured	-	-	-	3.09-7.38	2021-2022	294,097
Other loans						
– guaranteed	6.85	2022	320,000	6.85	2022	800,000
			<u>665,727</u>			<u>2,589,269</u>
			<u>1,537,021</u>			<u>6,143,692</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2020	2019
	RMB'000	RMB'000
Analysed into:		
Lease liabilities:		
within one year or on demand	155,716	203,615
In the second year	89,440	154,583
In the third to fifth years, inclusive	59,107	111,388
Above five years	15,979	12,455
	320,242	482,041
Bank loans repayable:		
Within one year or on demand	348,412	2,581,686
In the second year	–	522,726
In the third to fifth years, inclusive	181,201	694,020
	529,613	3,798,432
Sale and leaseback obligations:		
Within one year or on demand	77,166	669,122
In the second year	–	283,832
In the third to fifth years, inclusive	–	10,265
	77,166	963,219
Other loans repayable:		
Within one year or on demand	290,000	100,000
In the second year	320,000	100,000
In the third to fifth years, inclusive	–	700,000
	610,000	900,000
	1,537,021	6,143,692

As at 31 December 2020, the Group's overdraft bank facilities amounted to RMB2,606,476,000 (31 December 2019: RMB6,032,384,000), of which RMB2,156,476,000 (31 December 2019: RMB5,083,574,000) had been utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Bank and other loans with the following amounts outstanding as at 31 December 2020 and 2019 were secured/guaranteed by the following:

Security or guarantee	2020 RMB'000	2019 RMB'000
Guaranteed by CAR Inc.	610,000	1,177,653
Guaranteed by CAR Inc. and Changle E-Commerce	-	100,000
Guaranteed by 7 offshore subsidiaries of the Group	529,613	1,342,786
Unsecured and unguaranteed	320,242	2,037,081
Pledged by restricted cash	-	522,953
	<u>1,459,855</u>	<u>5,180,473</u>

Sale and leaseback obligations with the following amounts outstanding as at 31 December 2020 and 2019 were secured/guaranteed by the followings:

Security or guarantee	2020 RMB'000	2019 RMB'000
Guaranteed by Lianhui and Changle E-Commerce and secured by certain of rental vehicles and deposits	-	177,730
Guaranteed by CAR Inc. and secured by certain of rental vehicles	-	148,657
Guaranteed by CAR Inc. and Changle E-Commerce and secured by certain of rental vehicles and deposits	-	19,700
Guaranteed by CAR Inc. and secured by certain of rental vehicles and deposits	66,000	454,211
Secured by certain of rental vehicles and deposits	11,166	162,921
	<u>77,166</u>	<u>963,219</u>

Sale and leaseback obligations of RMB77,166,000 (2019: RMB963,219,000) as at 31 December 2020 were secured by certain of the Group's rental vehicles, the total carrying amount of which at 31 December 2020 was RMB353,369,000 (2019: RMB1,570,536,000) (note 13).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES

(1) The 2015 Notes (A)

On 4 February 2015, the Company issued senior notes with an aggregate principal amount of US\$500,000,000 due 2020 (the "2015 Notes (A)"). The 2015 Notes (A) were listed on the Stock Exchange of Hong Kong Limited. The 2015 Notes (A) carry interest at the rate of 6.125% per annum, payable semi-annually on 4 February and 4 August in arrears, and will mature on 4 February 2020, unless redeemed earlier.

The 2015 Notes (A) may be redeemed in the following circumstances:

- (i) On or after 4 February 2018, the Company may on any one or more occasions redeem all or any part of the 2015 Notes (A), at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2015 Notes (A) redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on 4 February of the years indicated below, subject to the rights of holders of the 2015 Notes (A) on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2018	103.0625%
2019 and thereafter	101.53125%

- (ii) At any time prior to 4 February 2018, the Company may at its option redeem the 2015 Notes (A), in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2015 Notes (A) redeemed plus the applicable premium (as defined in the Indenture of the 2015 Notes (A)) as at the redemption date, and the accrued and unpaid interest, if any, up to (but not including) the redemption date.

- (iii) At any time and from time to time prior to 4 February 2018, the Company may redeem up to 35% of the aggregate principal amount of the 2015 Notes (A) with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 106.125% of the principal amount of the 2015 Notes (A) redeemed, plus accrued and unpaid interest, if any, up to (but not including) the redemption date, subject to certain conditions.

On 10 May 2019, the Company completed an exchange offer up to approximately US\$172,333,000 of the 2015 Notes (A), with interest at the rate of 8.875% per annum, payable semi-annually on 10 May and 10 November in arrears with the maturity date extended to 10 May 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES (continued)

(1) The 2015 Notes (A) (continued)

On February 2020, the Company has fully paid the principal of US\$327,667,000 of the 2015 Notes (A) which was due in 2020.

The carrying amount of the 2015 Notes (A) recognised in the statement of financial position was calculated as follows:

	2020	2019
	RMB' 000	RMB' 000
Total carrying amount at 1 January	3,584,908	3,493,988
Impact of senior notes modification	(3,500)	–
Impact of exchange offer	–	36,901
Exchange realignment	(110,610)	56,514
Interest expenses	108,013	243,367
Interest expense payment	(174,575)	(245,862)
Principal repayment	(2,256,086)	–
	<u>1,148,150</u>	<u>3,584,908</u>
Total carrying amount at 31 December		
Less: Interest payables due within one year reclassified to other payables and accruals	14,060	73,287
	<u>1,134,090</u>	<u>3,511,621</u>

Early redemption options are regarded as embedded derivatives not closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES (continued)

(2) The 2015 Notes (B)

On 11 August 2015, the Company issued senior notes with an aggregated nominal value of US\$300 million due 2021 (the "2015 Notes (B)"). The 2015 Notes (B) are listed on the Stock Exchange of Hong Kong Limited. The 2015 Notes (B) carry interest at the rate of 6.00% per annum, payable semi-annually on 11 February and 11 August in arrears, and will mature on 11 February 2021, unless redeemed earlier.

The 2015 Notes (B) may be redeemed in the following circumstances:

On or after 11 August 2018, the Company may on any one or more occasions redeem all or any part of the 2015 Notes (B), at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2015 Notes (B) redeemed, up to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on 11 August of the years indicated below, subject to the rights of holders of the 2015 Notes (B) on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2018	103.0%
2019 and thereafter	101.5%

The carrying amount of the 2015 Notes (B) recognised in the statement of financial position was calculated as follows:

	2020 RMB'000	2019 RMB'000
Total carrying amount at 1 January	2,128,067	2,082,414
Impact of senior notes modification	(5,830)	–
Exchange realignment	(140,052)	33,076
Interest expenses	138,779	135,252
Interest expense payment	(122,697)	(122,675)
Total carrying amount at 31 December	<u>1,998,267</u>	<u>2,128,067</u>
Less: Interest payables due within one year reclassified to other payables and accruals	<u>45,554</u>	<u>48,580</u>
	<u>1,952,713</u>	<u>2,079,487</u>

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES (continued)

(3) The 2018 Notes (A)

On 4 April 2018, the Company issued senior notes with an aggregate nominal value of RMB400 million due 2021 (the "2018 Notes (A)"). The 2018 Notes (A) are listed on the Stock Exchange of Hong Kong Limited. The 2018 Notes (A) carry interest at the rate of 6.50% per annum, payable semi-annually on 4 April and 4 October in arrears, and will mature on 4 April 2021, unless redeemed earlier.

The 2018 Notes (A) may be redeemed in the following circumstances:

- (i) At any time on or after 4 April 2020, the Company may at its option redeem the Notes, in whole or in part, at 103.25% of the principal amount of Notes redeemed plus accrued and unpaid interest, if any, up to (but not including) the redemption date.
- (ii) At any time and from time to time prior to 4 April 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture of the 2018 Notes (A)) as at the redemption date, plus accrued and unpaid interest, if any, up to (but not including) the redemption date.

The carrying amount of the 2018 Notes (A) recognised in the statement of financial position was calculated as follows:

	2020	2019
	RMB'000	RMB'000
Total carrying amount at 1 January	400,642	396,586
Impact of senior notes modification	(1,222)	–
Addition, net of issuance costs	–	–
Interest expenses	30,826	30,056
Interest expense payment	(26,107)	(26,000)
	404,139	400,642
Less: Interest payables due within one year reclassified to other payables and accruals	6,250	6,251
	397,889	394,391

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES (continued)

(4) The 2018 Notes (B)

On 2 May 2018, the Company issued the Additional Notes (the "2018 Notes (B)") in the aggregate principal amount of RMB350 million, to be consolidated and form a single series with the 2018 Notes (A). The 2018 Notes (B) will mature on 4 April, 2021, unless earlier redeemed pursuant to the terms thereof. The 2018 Notes (B) are listed on the Stock Exchange of Hong Kong Limited. The 2018 Notes (B) carry interest at the rate of 6.50% per annum, payable semi-annually on 4 April and 4 October in arrears, and will mature on 4 April 2021, unless redeemed earlier.

The 2018 Notes (B) may be redeemed in the following circumstances:

- (i) At any time on or after 4 April 2020, the Company may at its option redeem the Notes, in whole or in part, at 103.25% of the principal amount of Notes redeemed plus accrued and unpaid interest, if any, up to (but not including) the redemption date.
- (ii) At any time and from time to time prior to 4 April 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture of the 2018 Notes (B)) as at the redemption date, plus accrued and unpaid interest, if any, up to (but not including) the redemption date.

The carrying amount of the 2018 Notes (B) recognised in the statement of financial position was calculated as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Total carrying amount at 1 January	352,742	350,819
Impact of senior notes modification	(1,071)	–
Addition, net of issuance costs	–	–
Interest expenses	25,204	24,673
Interest expense payment	(22,777)	(22,750)
	<hr/> 354,098 <hr/>	<hr/> 352,742 <hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	5,469	5,403
	<hr/> 348,629 <hr/>	<hr/> 347,339 <hr/>

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES (continued)

(5) The 2019 Notes

On 10 May 2019, the Company issued senior notes with an aggregate principal amount of US\$200,000,000 due 2022 (the "2019 Notes"). The 2019 Notes are listed on the Stock Exchange of Hong Kong Limited. The 2019 Notes carries interest at the rate of 8.875% per annum, payable semi-annually on 10 May and 10 November in arrears, and will mature on 10 May 2022, unless redeemed earlier.

The 2019 Notes may be redeemed in the following circumstances:

At any time and from time to time prior to 10 May 2022, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the indenture) as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The carrying amount of the 2019 Notes recognised in the statement of financial position was calculated as follows:

	2020	2019
	RMB' 000	RMB' 000
Total carrying amount at 1 January	1,396,147	–
Impact of senior notes modification	(3,978)	–
Addition, net of issuance costs	–	1,338,656
Exchange realignment	(90,598)	36,812
Interest expenses	127,819	83,143
Interest expense payment	(122,417)	(62,464)
	1,306,973	1,396,147
Less: Interest payables due within one year reclassified to other payables and accruals	16,317	17,349
	1,290,656	1,378,798

NOTES TO FINANCIAL STATEMENTS

31 December 2020

28. SENIOR NOTES *(continued)*

(5) The 2019 Notes *(continued)*

Early redemption options are regarded as embedded derivatives closely related to the host contract.

References are made to 1) the 2015 Notes (A); 2) the 2015 Notes (B); 3) the 2018 Notes (A); 4) the 2018 Notes (B); and 5) the 2019 Notes (together with the "Notes", "Series of Notes"). On 16 November 2020, the Company commenced the solicitations of consent from the holders of the Notes to proposed amendments of a certain provision of each indenture constituting relevant particular Series of the Notes (each an "Indenture", and collectively, the "Indentures") including definitions of "Permitted Holders", "Change of Control" and "Rating Decline". The Company will make a payment to holders of any particular Series of Notes who validly deliver a consent to the proposed amendments with respect to such Series of Notes On 27 November 2020, the Company has received the required consents for the proposed amendments to each Indentures. On 2 December 2020, all conditions of the consent payment have been satisfied (or waived by the Company).

29. CORPORATE BONDS

The Company has received the Approval on the Public Issuance of the Corporate Bonds. (Zheng Jian Xu Ke [2016] No. 1536) (the "Approval") issued by China Securities Regulatory Commission (the "CSRC") dated 7 July 2016. Matters in relation to the issuance of Corporate Bonds are as follows: CSRC has approved the Company to publicly issue the Corporate Bonds not exceeding RMB2,000,000,000 to qualified investors in Mainland China; the Corporate Bonds shall be issued in tranches; the first tranche of issuance shall be completed within 12 months from the date of the Approval, and the remaining tranches of issuance shall be completed within 24 months from the date of the Approval.

(1) The 2017 Corporate Bonds (A)

The public issue of the first tranche of the Corporate Bonds (the "2017 Corporate Bonds (A)") was completed on 26 April 2017. The final principal amount of the 2017 Corporate Bonds (A) is RMB300,000,000 with a coupon rate of 5.5% per annum and with a tenure of five years. The Company has an option to adjust the coupon rate and the investors are entitled to request the Company to repurchase the Corporate Bonds after the end of the third year from the date of issuance. The Corporate Bonds are listed on the Shanghai Stock Exchange.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

29. CORPORATE BONDS (continued)

(1) The 2017 Corporate Bonds (A) (continued)

The carrying amount of the 2017 Corporate Bonds (A) recognised in the statement of financial position was calculated as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Total carrying amount at 1 January	309,009	308,169
Addition, net of issuance costs	-	-
Principal repayment	(300,000)	-
Interest expenses incurred	7,491	17,340
Interest expense payment	(16,500)	(16,500)
	<hr/>	<hr/>
Total carrying amount at 31 December	-	309,009
	<hr/>	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	-	11,225
	<hr/>	<hr/>
	-	297,784
	<hr/>	<hr/>

The options of the 2017 Corporate Bonds (A) entitled to the Company and the investors are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

29. CORPORATE BONDS (continued)

(2) The 2018 Corporate Bonds (B)

The public issue of the second tranche of the Corporate Bonds (the "2018 Corporate Bonds (B)") was completed on 25 April 2018. The final principal amount of the 2018 Corporate Bonds (B) is RMB730 million, at a coupon rate of 6.3% per annum, with a term of three years with the Company's option to adjust the coupon rate after the end of the second year upon issuance and the investors' entitlement to require the repurchase of the 2018 Corporate Bonds (B).

The carrying amount of the 2018 Corporate Bonds (B) recognised in the statement of financial position was calculated as follows:

	2020	2019
	RMB'000	RMB'000
Total carrying amount at 1 January	757,852	755,462
Addition, net of issuance costs	-	-
Principal repayment	(730,000)	-
Interest expenses incurred	18,138	48,380
Interest expense payment	(45,990)	(45,990)
	<hr/>	<hr/>
Total carrying amount at 31 December	-	757,852
	<hr/>	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	-	31,415
	<hr/>	<hr/>
	-	726,437
	<hr/>	<hr/>

The options of the 2018 Corporate Bonds (B) entitled to the Company and the investors are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Derivative financial instruments		
– current assets	<u>–</u>	<u>42,693</u>

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the years are as follows:

Deferred tax assets

	Right-of- use assets RMB' 000	Accumulated losses RMB' 000	Deductible temporary differences RMB' 000	Total RMB' 000
At 31 December 2019	865	49,623	190,107	240,595
(Charged)/credited to the statement of profit or loss during the year	<u>(587)</u>	<u>1,862</u>	<u>(83,330)</u>	<u>(82,055)</u>
At 31 December 2020	<u>278</u>	<u>51,485</u>	<u>106,777</u>	<u>158,540</u>
At 1 January 2019	–	8,627	223,568	232,195
Credited/(charged) to the statement of profit or loss during the year	<u>865</u>	<u>40,996</u>	<u>(33,461)</u>	<u>8,400</u>
At 31 December 2019	<u>865</u>	<u>49,623</u>	<u>190,107</u>	<u>240,595</u>

The Group had unused tax losses of RMB322,947,000 (2019: RMB58,697,000) available for offsetting against future profits in respect of certain subsidiaries as at 31 December 2020, and the deferred tax assets have not been recognised. Such tax losses will expire between 2021 and 2025.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. DEFERRED TAX (continued)

Deferred tax liabilities

	Lease liabilities RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 31 December 2019	3,485	11,316	194,754	209,555
(Credited)/charged to the statement of profit or loss during the year	11,084	(238)	(16,345)	(5,499)
At 31 December 2020	<u>14,569</u>	<u>11,078</u>	<u>178,409</u>	<u>204,056</u>
At 1 January 2019	–	11,854	201,426	213,280
(Credited)/charged to the statement of profit or loss during the year	3,485	(538)	(6,672)	(3,725)
At 31 December 2019	<u>3,485</u>	<u>11,316</u>	<u>194,754</u>	<u>209,555</u>

There was no significant unrecognised deferred tax liability as at 31 December 2020 and 31 December 2019 for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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 Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

As at 31 December 2020, no deferred tax (2019: Nil) has been recognised 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Authorised:		
26,000,000,000 ordinary shares of US\$0.00001 each	1,586	1,586
Issued and fully paid:		
2,122,454,581 (2019: 2,119,880,411) ordinary shares of US\$0.00001 each	131	131

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2014 by China Auto Rental Holdings Inc. ("CARH") with authorised share capital of US\$260,000 divided into 5,200,000,000 shares of US\$0.00005 each. On the date of incorporation, one ordinary share at par value of US\$0.00005 was allotted and issued as fully paid by CARH. On 12 June 2014, the Company further issued and allotted 373,444,013 shares to CARH at par value.

On 2 July 2014, the Company effected a share split, pursuant to which each ordinary share was subdivided into five ordinary shares, and the par value of the share was changed from US\$0.00005 per share to US\$0.00001 per share. Immediately after the share split, the authorised share capital of the Company became US\$260,000 divided into 26,000,000,000 ordinary shares of par value of US\$0.00001 each and issued share capital became 1,867,220,070 shares of par value of US\$0.00001 each.

On 19 September 2014, the Company issued 426,341,000 shares in its initial public offering at the price of HK\$8.50 per share.

On 25 September 2014, the Company issued additional 63,951,000 shares at the price of HK\$8.50 per share as a result of exercise of over-allotment options by the underwriters. Total proceeds from the initial public offering (including the over-allotment) were HK\$4,167,482,000 (approximately RMB3,302,729,000), and net proceeds were HK\$4,026,035,684 (approximately RMB3,183,191,000) after deduction of related issuance costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's share capital for the year ended 31 December 2020 is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:				
As at 1 January 2019	2,118,717,220	131	1,572,069	1,572,200
Issuance of shares pursuant to the option scheme (note 33)	<u>1,163,191</u>	<u>–</u>	<u>5,246</u>	<u>5,246</u>
At 31 December 2019 and 1 January 2020	2,119,880,411	131	1,577,315	1,577,446
Issuance of shares pursuant to the option scheme (note 33) (a)	<u>2,574,170</u>	<u>–</u>	<u>11,039</u>	<u>11,039</u>
At 31 December 2020	<u>2,122,454,581</u>	<u>131</u>	<u>1,588,354</u>	<u>1,588,485</u>

- (a) The subscription rights attaching to 2,574,170 share options were exercised during the year ended 31 December 2020, at the average subscription price of US\$0.16 per share (note 33), resulting in the issue of 2,574,170 ordinary shares for a total cash consideration of RMB2,817,000, of which RMB2,817,000 was charged to share premium. Meanwhile, an amount of RMB8,222,000 was transferred from the share option reserve to share premium upon exercise of the share options.

33. SHARE OPTION SCHEME

China Auto Rental Holdings Inc. ("CARH") operated a share option scheme ("2013 CARH Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants within the Group who contributed to the success of the Group's operation. Eligible participants of the Scheme included the directors and other employees of the Group. The Scheme became effective on 18 December 2013.

The maximum number of share options currently permitted to be granted under the Scheme was in aggregate 14,035,595 shares, including the Tranche A Options granted for a total number of 7,017,798 shares and the Tranche B Options granted for a total number of 7,017,797 shares. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

On 18 December 2013, 7,017,798 Tranche A options and 7,017,797 Tranche B options have been granted with exercise prices of US\$0.29, and US\$0.87, respectively. The exercise prices of share options were determined by the directors. The Tranche A Options granted were fully vested on 31 December 2013 with no further service conditions attached, and the Tranche B Options granted become vested in four equal batches on 31 December 2014, 2015, 2016 and 2017, respectively.

In March 2014, CARH further adopted the 2014 share option scheme ("2014 CARH Pre-IPO Share Option Scheme") which was approved by a board resolution passed on 1 March 2014 and further approved by a resolution passed by CARH shareholders on 1 March 2014. The 2014 CARH Pre-IPO Share Option Scheme Options granted become vested in four equal batches on 1 May 2015, 2016, 2017 and 2018, respectively.

As part of the reorganisation, the Company was incorporated in the Cayman Islands on 25 April 2014. The Company subsequently became the fully-owned subsidiary of CARH and the holding company of the Group accordingly. In connection with the above restructuring, CARH cancelled the 2013 CARH Pre-IPO Share Option Scheme and the 2014 CARH Pre-IPO Share Option Scheme while the Company adopted a new share option scheme (the "2014 Pre-IPO Share Option Scheme") as a replacement. The replacement plan was approved by board resolutions of CARH and the Company, respectively, on 15 June 2014.

The cancelled and the replacement awards involve exactly the same conditions including exercise prices and the vesting year, and were treated as modification with the incremental fair value being recognised over the vesting year of the replacement share-based payment award.

On 14 August 2014, 4,456,688 Tranche C options have been granted with an exercise price of US\$0.87, of which 300,000 share options granted to certain management members were vested in three equal batches on each of 1 August 2015, 2016 and 2017. The remaining share options were vested on each of 1 August 2015, 2016, 2017 and 2018.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. SHARE OPTION SCHEME *(continued)*

On 3 July 2014, the Company effected a share split, pursuant to which each ordinary share was subdivided into five ordinary shares. Immediately after the share split, the exercise price of each share option was amended to one-fifth of the exercise price before split.

On 12 April 2016, the employment contracts of 21 executives of the Group were terminated, who then held 14,606,233 unvested share options. As approved by the directors of the Company as at 11 April 2016 and agreed with the employees, such share options became fully vested immediately before the terminations with the exercise price unchanged. The Group treated the immediate vesting as a simultaneous forfeiture of the unvested share options and a grant of an ex-gratia award, which resulted in a net charge of share option expense of RMB54,775,000 during the six months ended 30 June 2016.

On 5 April 2016, the Company adopted a Share Option Scheme by an ordinary resolution passed by its shareholders ("2016 Post-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants within the Group who contribute to the success of the Group's operation. The 2016 Post-IPO Share Option Scheme has become effective for the period of 10 years commencing on the effective date. The maximum number of the Company's shares in respect of which options may be granted pursuant to the 2016 Post-IPO Share Option Scheme is 239,494,759 shares, being 10% of the total issued shares of the Company on the date of approval of the 2016 Post-IPO Share Option Scheme.

The Board announced that on 18 October 2019, a total of 119,747,379 share options were granted to certain eligible persons pursuant to the 2016 Post-IPO Share Option Scheme. The exercise price was HK\$6.360 per share and the validity period of the share options was 10 years from date of grant, i.e. from 18 October 2019 to 17 October 2029 (both days inclusive). One-third of the share options granted will be vested on 18 October 2019, one-third of the share options granted will be vested on 18 October 2020 and one-third of the share options granted will be vested on 18 October 2021; and the share options granted will be exercisable until the expiry date of the validity period.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Pre-IPO Share Option Scheme during the years ended 31 December 2020 and 2019:

	2020		2019	
	Weighted average exercise price <i>US\$ per share</i>	Number of options	Weighted average exercise price <i>US\$ per share</i>	Number of options
At 1 January, after share split	0.15	27,536,766	0.15	28,699,957
Exercised during the year	0.16	(2,574,170)	0.17	(1,163,191)
At 31 December	0.15	<u>24,962,596</u>	0.15	<u>27,536,766</u>

The following share options were outstanding under the Post-IPO Share Option Scheme during the years ended 31 December 2020 and 2019:

	2020		2019	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options	Weighted average exercise price <i>HK\$ per share</i>	Number of options
At 1 January, after share split	6.36	119,747,379		–
Granted during the year		–	6.36	119,747,379
Forfeited during the year	6.36	(17,505,971)		–
At 31 December	6.36	<u>102,241,408</u>	6.36	<u>119,747,379</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. SHARE OPTION SCHEME (continued)

The exercise prices and exercise years of the share options outstanding as at the reporting date are as follows:

Number of options	Exercise price <i>per share</i>	Exercise year
6,049,090	US\$0.058	Till 31 December 2023
10,199,316	US\$0.174	Till 31 December 2023
8,714,190	US\$0.174	Till 31 August 2024
<u>102,241,408</u>	HK\$6.360	Till 17 October 2029
<u><u>127,204,004</u></u>		

The fair values of equity-settled share options granted during the reporting period were estimated as at the date of grant using a binomial model, taking into account of the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

2020

CARH share option scheme	Tranche A	Tranche B	Tranche C	2014 CARH Pre-IPO Share option Scheme	2016 CARI Post-IPO Share option Scheme
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Expected volatility	54.0%	54.0%	50.0%	53.0%	41.2%
Risk-free interest rate	2.54%	2.54%	2.58%	2.59%	2.19%
Expected life of options (year)	5.5	1.5-5.5	2-6	2-6	10
Weighted average exercise price, after share split	US\$0.058	US\$0.174	US\$0.174	US\$0.174	HK\$2.072

NOTES TO FINANCIAL STATEMENTS

31 December 2020

33. SHARE OPTION SCHEME (continued)

2019

CARH share option scheme	Tranche A	Tranche B	Tranche C	2014 CARH	2016 CARI
				Pre-IPO Share option Scheme	Post-IPO Share option Scheme
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Expected volatility	54.0%	54.0%	50.0%	53.0%	41.2%
Risk-free interest rate	2.54%	2.54%	2.58%	2.59%	2.19%
Expected life of options (year)	5.5	1.5-5.5	2-6	2-6	10
Weighted average exercise price, after share split	US\$0.058	US\$0.174	US\$0.174	US\$0.174	HK\$2.072

34. RESERVES

The amount of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity of the Group.

Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

36. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by certain assets of the Group, are included in notes 13 and 27, to the financial statements.

37. COMMITMENTS

The Group had the following capital commitments at the end of the year:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Buildings	<u>91,186</u>	<u>90,573</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS

a) Related party

Related party relationship for the years ended 31 December 2020 and 2019 was as follows:

Name	Relationship
MBK Partners	A shareholder of the Company
UCAR and its affiliates (i)	A former shareholder of the Company
Botpy Inc.	An associate of the Group

- (i) On 15 December 2020, UCAR sold all of 442,656,855 shares, which representing approximately 20.86% of the total issued share capital of the Company, to MBK Partners, through its affiliate Indigo Glamour Company Limited (the "Offeror") at a price of HK\$4.0 per share for a total consideration of HK\$1,770,627,420.

b) Related party transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years ended 31 December 2020 and 2019:

- (i) Vehicle rental services provided to related parties:

	2020	2019
	RMB'000	RMB'000
UCAR	92,326	407,374
Botpy Inc.	9,503	–
	101,829	407,374

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the Group, which are stated excluding value-added tax.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

b) Related party transactions (continued)

- (ii) Commission charged by a related party:

	2020 RMB'000	2019 RMB'000
UCAR	<u>-</u>	<u>1,482</u>

The commission expense was charged at agreed unit prices multiplied the number of successful sales orders of vehicles via UCAR's sales platform.

- (iii) Office rental income from a related party:

	2020 RMB'000	2019 RMB'000
UCAR	<u>793</u>	<u>3,171</u>

The prices on office rental from a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

- (iv) Office rental expense to a related party:

	2020 RMB'000	2019 RMB'000
UCAR	<u>3,380</u>	<u>5,059</u>

The prices on office rental to a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

b) Related party transactions (continued)

- (v) Purchase of rental vehicles and accessories from a related party:

	2020	2019
	RMB' 000	RMB' 000
UCAR	<u>22,070</u>	<u>2,604,859</u>

The purchases from a related party were made according to the published prices and conditions offered by the related party to their major customers.

- (vi) Test drive service rendered to a related party:

	2020	2019
	RMB' 000	RMB' 000
UCAR	<u>-</u>	<u>115,360</u>

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the Group, which are stated excluding value-added tax.

- (vii) Technology consulting service rendered to a related party:

	2020	2019
	RMB' 000	RMB' 000
UCAR	<u>-</u>	<u>22,256</u>

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the Group, which are stated excluding value-added tax.

- (viii) A total of 5,000 rental vehicles were leased from third-party finance lease companies, pursuant to which the Group has designated these companies to buy the rental vehicles from a related party. Further details are included in note 16(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS (continued)

c) Outstanding balances with related parties

	2020 RMB'000	2019 RMB'000
Current assets:		
Due from a related party:		
– UCAR	544,613	443,861
Less: Impairment provision	410,402	–
	134,211	443,861
Current liabilities:		
Due to related parties:		
– UCAR	134,211	101,831
– Botpy Inc.	2,404	–
	136,615	101,831

As at 31 December 2020 and 31 December 2019, balances with related parties were unsecured, non-interest-bearing and repayable on demand.

As at 31 December 2020, trade receivables from UCAR amounted to RMB544,613,000 whilst trade payables to UCAR by the Company amounted to RMB134,211,000. In light of uncertainty as to UCAR's ability to pay its trade receivables, the Company has recognised an impairment of RMB410,402,000, which was the net of trade receivables from UCAR and trade payables to UCAR as at 31 December 2020.

d) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Short term employee benefits	14,734	4,629
Equity-settled share option expenses	42,595	26,440
	57,329	31,069

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. RELATED PARTY TRANSACTIONS *(continued)*

d) Compensation of key management personnel of the Group: *(continued)*

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

The related party transactions in respect of items (b) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2020

Financial assets

	Financial assets at amortised cost RMB'000
Finance lease receivables – non-current (note 15)	182,470
Deposits for sale-leaseback borrowings – current	14,250
Restricted cash – current (note 24)	11,949
Other non-current assets	18,813
Trade receivables (note 22)	57,383
Amount due from a related party (note 38)	134,211
Financial assets included in prepayments, other receivables and other assets (note 23)	105,493
Finance lease receivables- current (note 15)	302,171
Cash and cash equivalents (note 24)	2,179,659
	<u>3,006,399</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

As at 31 December 2020 *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables (note 25)	66,742
Financial liabilities included in other payables and accruals (note 26)	379,001
Interest-bearing bank loans and other borrowings – current (note 27)	871,294
Due to related parties (note 38)	136,615
Senior notes – non-current (note 28)	2,424,746
Senior notes – current (note 28)	2,699,231
Corporate bonds (note 29)	–
Interest-bearing bank loans and other borrowings – non-current (note 27)	665,727
Deposits received for rental vehicles	400
	<hr/> 7,243,756 <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

As at 31 December 2019

Financial assets

	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Finance lease receivables – non-current (note 15)	–	855,952	855,952
Investment in equity shares (note 20)	2,800,641	–	2,800,641
Deposits for sale-leaseback borrowings – non-current	–	54,250	54,250
Restricted cash – current (note 24)	–	522,510	522,510
Restricted cash – non-current (note 24)	–	1,275	1,275
Other non-current assets	–	9,813	9,813
Trade receivables (note 22)	–	96,810	96,810
Amount due from a related party (note 38)	–	443,861	443,861
Financial assets included in prepayments, other receivables and other assets (note 23)	–	126,667	126,667
Finance lease receivables – current (note 15)	–	341,319	341,319
Derivative financial instruments (note 30)	42,693	–	42,693
Cash and cash equivalents (note 24)	–	5,360,520	5,360,520
	<u>2,843,334</u>	<u>7,812,977</u>	<u>10,656,311</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

As at 31 December 2019 *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables (note 25)	86,753
Financial liabilities included in other payables and accruals (note 26)	704,981
Interest-bearing bank loans and other borrowings – current (note 27)	3,554,423
Due to related parties (note 38)	101,831
Senior notes – non-current (note 28)	2,284,546
Senior notes – current (note 28)	5,427,090
Corporate bonds (note 29)	1,024,221
Interest-bearing bank loans and other borrowings – non-current (note 27)	2,589,269
Deposits received for rental vehicles	<u>604</u>
	<u>15,773,718</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. 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:

	Carrying amounts		Fair values	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial assets				
Investment in equity shares (note 20)	-	2,800,641	-	2,800,641
Derivative financial instruments (note 30)	-	42,693	-	42,693
	-	2,843,334	-	2,843,334

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivable, trade payables, financial assets included in prepayments, other receivables and other assets, amounts due from a related party, finance lease receivables, financial liabilities included in other payables and accruals, amounts due to related parties, and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits, finance lease receivables, other non-current assets, interest-bearing bank loans and other borrowings and senior notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts. The Group's own non-performance risk for interest-bearing bank loans and other borrowings and senior notes as at 31 December 2020 was assessed to be insignificant.

The Group entered into derivative financial instruments with various counterparties, principally financial institutions with good credit ratings. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to the discounted cash flow model and the Black-Scholes option pricing model. The models incorporate various market observable inputs including foreign exchange spot, forward rates, risk-free interest rate curves and implied volatility of the foreign exchange rate. The carrying amounts of forward currency contracts are the same as their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total <i>RMB'000</i>
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	
Investment in equity shares (note 20)	–	–	2,800,641	2,800,641
Derivative financial instruments (note 30)	–	42,693	–	42,693
	<u>–</u>	<u>42,693</u>	<u>2,800,641</u>	<u>2,843,334</u>

The movement in fair value measurements within Level 2 during the year is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Derivative financial instruments:		
At 1 January	42,693	–
Total gain recognised in the statement of profit or loss included in other income	(42,693)	42,693
At 31 December	<u>–</u>	<u>42,693</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

The movement in fair value measurements within Level 3 during the year is as follows:

	2020	2019
	RMB' 000	RMB' 000
Investment in financial assets at fair value through profit or loss		
At 1 January	2,800,641	2,809,641
Total (loss) recognised in the statement of profit or loss included in other income	(2,800,641)	(9,000)
Disposal	-	-
At 31 December	-	2,800,641

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

As at 31 December 2020

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Investment in equity shares of UCAR	Market approach	Concluded market multiples	1.1-5.3	5% increase/(decrease) in concluded market multiples would have no impact in fair value

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

As at 31 December 2019

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Investment in equity shares of UCAR	Market approach	Concluded market multiples	1.56-7.04	5% increase/(decrease) in concluded market multiples would result in increase/(decrease) in fair value by RMB156,311,000/(RMB156,311,000)

Liability measured at fair value:

The movement in fair value measurements within Level 2 during the year is as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Derivative financial instruments		
At 1 January	-	13,895
Total (gain)/loss recognised in the statement of profit or loss included in other income	-	(13,895)
Settlement	-	-
At the end of the year	<u>-</u>	<u>-</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, other interest-bearing loans, and cash and short term deposits. 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks as summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and loans from related parties with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	(Decrease)/ increase in basis points	Change in (loss)/profit before tax RMB'000	Change in equity* RMB'000
31 December 2020			
RMB	(100)	5,542	–
RMB	100	(5,542)	–
31 December 2019			
RMB	(100)	37,927	–
RMB	100	(37,927)	–

* Excluding retained earnings

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures which mainly arise from borrowings by operating units in currencies other than the functional currencies of the units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB-US\$ exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying values of monetary assets and liabilities and equity due to changes in the foreign currency exchange reserve.

	Fluctuation in foreign exchange rate %	Increase/ (decrease) in (loss)/profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2020			
If RMB weakens against US\$	(5)	284,029	–
If RMB strengthens against US\$	5	(284,029)	–
31 December 2019			
If RMB weakens against US\$	(5)	260,519	–
If RMB strengthens against US\$	5	(470,855)	–

* Excluding retained earnings

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

As at 31 December 2020

	12-month	Lifetime ECLs			Total
	ECLs			Simplified	
	Stage1	Stage2	Stage3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (note 15)	417,984	66,657	-	-	484,641
Trade receivables* (note 22)	-	-	-	57,383	57,383
Restricted cash					
– current (note 24)	11,949	-	-	-	11,949
Restricted cash					
– non-current (note 24)	-	-	-	-	-
Other non-current assets	18,813	-	-	-	18,813
Amount due from a related party (note 38)	134,211	-	-	-	134,211
Financial assets included in prepayments, other receivables and other assets (note 23)					
– Normal**	105,493	-	-	-	105,493
– Doubtful**	-	-	-	-	-
Cash and cash equivalents (note 24)					
– Not yet past due	2,179,659	-	-	-	2,179,659
	2,868,109	66,657	-	57,383	2,992,149

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2019

	12-month	Lifetime ECLs			Total RMB'000
	ECLs	Simplified			
	Stage1 RMB'000	Stage2 RMB'000	Stage3 RMB'000	approach RMB'000	
Finance lease receivables					
– non-current (note 15)	–	–	–	855,952	855,952
Trade receivables* (note 22)	–	–	–	96,810	96,810
Restricted cash					
– current (note 24)	522,510	–	–	–	522,510
Restricted cash					
– non-current (note 24)	1,275	–	–	–	1,275
Other non-current assets	9,813	–	–	–	9,813
Amount due from a related party (note 38)	443,861	–	–	–	443,861
Financial assets included in prepayments, other receivables and other assets (note 23)					
– Normal**	126,667	–	–	–	126,667
– Doubtful**	–	–	–	–	–
Finance lease receivables					
– current (note 15)	–	–	–	341,319	341,319
Cash and cash equivalents (note 24)					
– Not yet past due	5,360,520	–	–	–	5,360,520
	<u>6,464,646</u>	<u>–</u>	<u>–</u>	<u>1,294,081</u>	<u>7,758,727</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

Maximum exposure as at 31 December 2019

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, financial lease receivables, amounts due from a related party, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22.

Liquidity risk

The Group monitors its cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available, and obtaining borrowing loans from banks and other financial institutions.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2020			Total RMB'000
	On demand or less than 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	
Trade payables	66,742	–	–	66,742
Financial liabilities included in other payables and accruals	379,001	–	–	379,001
Interest-bearing bank and other borrowings	900,963	634,981	50,655	1,586,599
Due to related parties	136,615	–	–	136,615
Senior notes	3,006,182	2,537,242	–	5,543,424
	4,489,503	3,172,223	50,655	7,712,381

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	31 December 2019			
	On demand or less than 1 year	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	86,753	–	–	86,753
Financial liabilities included in other payables and accruals	704,981	–	–	704,981
Interest-bearing bank and other borrowings	3,817,269	2,771,421	–	6,588,690
Due to related parties	101,831	–	–	101,831
Senior notes	2,760,723	5,873,278	–	8,634,001
Corporate bonds	62,490	1,108,990	–	1,171,480
	<u>7,534,047</u>	<u>9,753,689</u>	<u>–</u>	<u>17,287,736</u>

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a net debt/asset ratio, which is net debt divided by total assets. Net debt includes bank loans and other borrowings, senior notes and corporate bonds less cash and cash equivalents and restricted cash. The gearing ratio as at the reporting date was as follows:

	2020	2019
	RMB'000	RMB'000
Interest-bearing bank and other borrowings – current	871,294	3,554,423
Interest-bearing bank and other borrowings – non-current	665,727	2,589,269
Senior notes – current	2,699,231	2,284,546
Senior notes – non-current	2,424,746	5,427,090
Corporate bonds	–	1,024,221
Cash and cash equivalents	(2,179,659)	(5,360,520)
Restricted cash	(11,949)	(523,785)
	<hr/> 4,469,390 <hr/>	<hr/> 8,995,244 <hr/>
Net debt		
	<hr/> 12,103,889 <hr/>	<hr/> 24,633,031 <hr/>
Total assets		
	<hr/> 37% <hr/>	<hr/> 37% <hr/>
Net debt/asset ratio		

NOTES TO FINANCIAL STATEMENTS

31 December 2020

42. EVENTS AFTER THE REPORTING PERIOD

- (i) In January 2021, the Company has completed the issuance of convertible bonds in the aggregate principal amount of US\$175,000,000 to Mcqueen SS Ltd. which will mature in 2026.
- (ii) In February 2021, the Company fully repaid the 2015 Notes (B) with US\$300 million.
- (iii) On 4 March 2021, a joint announcement was issued in relation to the satisfaction of a series of conditions for the privatisation of the Company by the Offeror.
- (iv) As previously reported, the outbreak of COVID-19 in January 2020 has caused certain impact on the car rental business of the Group due to travel restrictions and suppress on tourism. The Group's business operations have been disrupted by the outbreak of COVID-19 and the subsequent precautionary measures as well as restrictions on travel imposed around China.

The Group estimated that the degree of COVID-19 impact would depend on the pandemic preventive measures and the duration of the pandemic. Given the dynamic circumstance and uncertainties of COVID-19 situation, the Group will keep continuous attention on the development of COVID-19 situation and react actively to its impacts on the operation and financial position of the Group, and in the event that there are any significant financial impacts, the Company will reflect it in the Group's 2021 financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
CURRENT ASSETS		
Prepayments, other receivables and other assets	1,908	86,447
Restricted cash – current	6,733	–
Due from subsidiaries	4,669,793	8,530,697
Derivative financial instruments	–	42,693
Cash and cash equivalents	857,263	2,041,100
Total current assets	5,535,697	10,700,937
CURRENT LIABILITIES		
Other payables and accruals	108,666	224,495
Senior notes	2,699,231	2,284,546
Interest-bearing bank and other borrowings – current	348,412	740,486
Total current liabilities	3,156,309	3,249,527
NET CURRENT ASSETS	2,379,388	7,451,410
TOTAL ASSETS LESS CURRENT LIABILITIES	2,379,388	7,451,410
NON-CURRENT LIABILITIES		
Senior notes	2,424,746	5,427,090
Corporate bonds	–	1,024,221
Interest-bearing bank and other borrowings – non-current	181,201	1,125,254
Total non-current liabilities	2,605,947	7,576,565
Net liabilities	(226,559)	(125,155)
EQUITY		
Equity attributable to owners of the parent		
Share capital	131	131
Reserves	1,760,674	1,683,733
Treasury shares	–	–
Accumulated losses	(1,987,364)	(1,809,019)
Total equity	(226,559)	(125,155)

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Treasury shares RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total equity RMB'000
As at 1 January 2019	2,118,717,220	131	1,547,513	47,344	-	(1,153,109)	441,879
Loss for the year	-	-	-	-	-	(655,910)	(655,910)
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	(655,910)	(655,910)
Repurchase of shares	-	-	-	-	-	-	-
Cancellation of shares	-	-	-	-	-	-	-
Exercise of share options	1,163,191	-	1,270	-	-	-	1,270
Equity-settled share option arrangements	-	-	-	87,606	-	-	87,606
As at 31 December 2019	<u>2,119,880,411</u>	<u>131</u>	<u>1,548,783</u>	<u>134,950</u>	<u>-</u>	<u>(1,809,019)</u>	<u>(125,155)</u>
Loss for the year	-	-	-	-	-	(178,345)	(178,345)
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	(178,345)	(178,345)
Repurchase of shares	-	-	-	-	-	-	-
Cancellation of shares	-	-	-	-	-	-	-
Exercise of share options	2,574,170	-	11,039	(8,222)	-	-	2,817
Equity-settled share option arrangements	-	-	-	74,124	-	-	74,124
As at 31 December 2020	<u>2,122,454,581</u>	<u>131</u>	<u>1,559,822</u>	<u>200,852</u>	<u>-</u>	<u>(1,987,364)</u>	<u>(226,559)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2021.

INDEPENDENT AUDITORS' REPORT

To the shareholders of CAR Inc.

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CAR Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 104 to 257, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Lease classification for car rental arrangement

The Group's principal business is the provision of car rental services through arrangements with customers in the form of leases. The Group uses a lease management system to determine the classification and ongoing accounting of its leases.

The Group applies judgement at the initial inception of the leases to determine whether they should be classified as either operating leases or finance leases in accordance with IFRS 16 "Leases", depending on the lease terms. Classification of a finance lease also requires determining the appropriate discount rate implicit in the lease to discount the minimum lease payments, which in turn also affects the allocation of the rental income over the period of the lease.

Related disclosures are included in Note 5 "Revenue", Note 6 "Other income and expense, net" and Note 15 "Finance lease receivables", respectively, to the financial statements.

Our procedures included obtaining an understanding of management's controls and testing them on the recognition and classification of leases by the lease management system. For finance leases entered into during the year, we assessed the appropriateness of the discount rates by comparing them with historical data and industry benchmarks. We also reviewed and tested other aspects of the lease accounting on a sample basis, such as the formula used in the accounting models, the calculation of the minimum lease payments, and the calculation of the rental income.

We also assessed the adequacy of the related disclosures in the notes to the financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Accounting for investment in equity shares

At 31 December 2019, the Group held 6.27% of ordinary shares of UCAR Inc., operating in the online businesses for the trade-in of used cars and chauffeured car services. The investment was classified as a financial asset at fair value through profit or loss and recorded as "Investment in equity shares" on the statement of financial position.

The investment in ordinary shares was carried at fair value determined at each reporting period end date in accordance with IFRS 9 "Financial Instruments: Classification and Measurement". The investment in ordinary shares was stated at RMB2,800.64 million at 31 December 2019 and the Group recognised a net loss on fair value of RMB9.0 million, which was recorded as "Other income and expenses, net" in the statement of profit or loss. The investment was classified as Level 3 in the fair value hierarchy. The determination of the fair values involved the use of significant assumptions and estimations including the use of observable and unobservable inputs to the valuation model.

Related disclosures are included in Note 3 "Significant accounting judgements and estimations", Note 6 "Other income and expenses, net" and Note 22 "Investment in equity shares" to the financial statements.

Our procedures included checking if the registration forms and relevant documents agreed and ensuring that the investment in equity shares was properly classified in accordance with IFRS 9. We also evaluated the methodology adopted by the Group to determine the fair value of the equity share investment at 31 December 2019 and tested the key assumptions and estimations used in the valuation by testing the observable data to third party derived data sources and corroborating the reasonableness of unobservable inputs by comparing to available data sources. We employed EY internal valuation specialists to assist us with our audit of the valuation.

We also assessed the adequacy of the related disclosures in the notes to the financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Residual values of rental vehicles acquired outside of repurchase programs

The book amount of rental vehicles acquired outside of repurchase programs at 31 December 2019 was RMB8,147.91 million. As such rental vehicles constitute a significant portion of the Group's assets and its business requires the Group to constantly replenish its fleet, the Group faces significant risks related to the estimated residual values of these rental vehicles acquired outside of repurchase programs. The Group estimates the residual values as at the expected time of disposal and the vehicles are depreciated over the estimated holding period on a straight-line basis, taking into account the residual values. The Group periodically reviews and makes adjustments, if necessary, to the depreciation rates of rental vehicles acquired outside of repurchase programs in response to the latest market conditions and their effect on residual values as well as the estimated time of disposal. Significant estimation and judgement is required in determining the residual values of the Group's rental vehicles acquired outside of repurchase programs.

Related disclosures are included in Note 3 "Significant accounting judgements and estimates" to the financial statements.

We evaluated the design of controls and tested their operating effectiveness over the periodical review of the residual values of the rental vehicles acquired outside of repurchase programs. In addition, we assessed the key factors (primarily the available market information) applied by the Group to determine the estimated residual values, for a sample of disposals during the year, we evaluated the reasonableness of the estimated residual values by comparing them to the disposal proceeds.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai, Ricky.

Ernst & Young
Certified Public Accountants
Hong Kong
17 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Rental revenue	5	5,558,702	5,340,132
Sales of used vehicles	5	2,131,958	1,103,566
Total revenue		7,690,660	6,443,698
Depreciation of rental vehicles	8	(1,835,717)	(1,494,832)
Direct operating expenses of rental services		(1,829,445)	(1,718,188)
Cost of sales of used vehicles	8	(2,188,531)	(1,146,913)
Gross profit		1,836,967	2,083,765
Other income and expenses, net	6	47,914	(169,965)
Selling and distribution expenses		(27,755)	(78,258)
Administrative expenses		(607,429)	(468,228)
Finance costs	7	(983,940)	(782,185)
Share of profit of associates	21	6,286	9,426
Profit before tax	8	272,043	594,555
Income tax expense	10	(241,267)	(304,710)
Profit for the year		30,776	289,845
Attributable to:			
Owners of the parent		30,776	289,845
Earnings per share attributable to ordinary equity holders of the parent			
Basic	12	RMB0.015	RMB0.135
Diluted		RMB0.014	RMB0.134

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	<u>30,776</u>	<u>289,845</u>
Other comprehensive income for the year, net of tax	<u>—</u>	<u>—</u>
Total comprehensive income for the year	<u>30,776</u>	<u>289,845</u>
Attributable to: Owners of the parent	<u>30,776</u>	<u>289,845</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Rental vehicles	13	10,792,336	10,788,372
Other property, plant and equipment	14	659,383	573,644
Finance lease receivables – non-current	15	855,952	1,097,470
Prepayments	16	—	3,664
Right-of-use assets	18(b)	561,175	—
Prepaid land lease payments	18(a)	—	57,177
Goodwill	19	6,728	6,728
Other intangible assets	20	154,530	148,828
Investments in associates	21	117,048	41,911
Investment in equity shares	22	2,800,641	2,809,641
Rental deposits		—	145
Deposits for sale-leaseback borrowings		54,250	30,000
Restricted cash – non-current	26	1,275	1,275
Deferred tax assets	33	240,595	232,195
Other non-current assets		9,813	9,813
Total non-current assets		<u>16,253,726</u>	<u>15,800,863</u>
CURRENT ASSETS			
Inventories	23	227,634	190,648
Trade receivables	24	96,810	96,380
Due from a related party	39	443,861	360,129
Prepayments, other receivables and other assets	25	1,343,958	1,547,679
Finance lease receivables – current	15	341,319	250,299
Other current financial assets	17	—	522,510
Derivative financial instruments – current	32	42,693	—
Restricted cash – current	26	522,510	250,000
Cash and cash equivalents	26	5,360,520	3,186,401
Total current assets		<u>8,379,305</u>	<u>6,404,046</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	31 December 2019 RMB'000	31 December 2018 RMB'000
CURRENT LIABILITIES			
Trade payables	27	86,753	112,259
Other payables and accruals	28	964,641	869,708
Advances from customers		241,943	250,148
Interest-bearing bank and other borrowings – current	29	3,554,423	4,699,665
Senior notes – current	30	2,284,546	—
Due to a related party	39	101,831	305
Income tax payable		55,475	119,685
Total current liabilities		<u>7,289,612</u>	<u>6,051,770</u>
NET CURRENT ASSETS		<u>1,089,693</u>	<u>352,276</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,343,419</u>	<u>16,153,139</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT LIABILITIES			
Senior notes – non-current	30	5,427,090	6,176,503
Corporate bonds	31	1,024,221	1,020,834
Derivative financial instruments – non-current	32	—	13,895
Interest-bearing bank and other borrowings – non-current	29	2,589,269	754,846
Deposits received for rental vehicles		604	753
Deferred tax liabilities	33	209,555	213,280
Total non-current liabilities		9,250,739	8,180,111
Net assets		8,092,680	7,973,028
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	131	131
Treasury shares	34	—	—
Reserves	36	4,554,351	4,414,050
Retained earnings		3,538,198	3,558,847
Total equity		8,092,680	7,973,028

Yifan SONG

Director

Sam Hanhui SUN

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent							
	Share capital	Merger reserve*	Statutory reserve*	Share premium*	Share option reserve*	Treasury shares	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	134	2,382,719	246,025	1,886,096	168,566	(147,481)	3,336,574	7,872,633
Profit for the year	—	—	—	—	—	—	289,845	289,845
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	—	289,845	289,845
Appropriation of statutory reserve	—	—	67,572	—	—	—	(67,572)	—
Repurchase of shares	—	—	—	—	—	(198,440)	—	(198,440)
Cancellation of shares	(4)	—	—	(345,917)	—	345,921	—	—
Exercise of share options (note 35)	1	—	—	31,890	(24,556)	—	—	7,335
Equity-settled share option arrangements (note 35)	—	—	—	—	1,655	—	—	1,655
As at 31 December 2018	<u>131</u>	<u>2,382,719</u>	<u>313,597</u>	<u>1,572,069</u>	<u>145,665</u>	<u>—</u>	<u>3,558,847</u>	<u>7,973,028</u>
As at 1 January 2019	131	2,382,719	313,597	1,572,069	145,665	—	3,558,847	7,973,028
Profit for the year	—	—	—	—	—	—	30,776	30,776
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	—	30,776	30,776
Appropriation of statutory reserve	—	—	51,425	—	—	—	(51,425)	—
Repurchase of shares	—	—	—	—	—	—	—	—
Cancellation of shares	—	—	—	—	—	—	—	—
Exercise of share options (note 35)	—	—	—	5,246	(3,976)	—	—	1,270
Equity-settled share option arrangements (note 35)	—	—	—	—	87,606	—	—	87,606
As at 31 December 2019	<u>131</u>	<u>2,382,719</u>	<u>365,022</u>	<u>1,577,315</u>	<u>229,295</u>	<u>—</u>	<u>3,538,198</u>	<u>8,092,680</u>

* These reserve accounts comprise the consolidated reserves of RMB4,554,351,000 (2018: RMB4,414,050,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		272,043	594,555
Adjustments for:			
Finance costs	7	983,940	782,185
Share of profit of associates	21	(6,286)	(9,426)
Interest income	6	(81,449)	(89,888)
Loss on disposal of items of other property, plant and equipment	8	275	1,249
Fair value loss/(gain) on investment in equity shares	6	9,000	(2,397)
Fair value changes on derivative instrument transactions not qualifying as hedges	6	(56,588)	26,750
Depreciation of rental vehicles	13,18	1,835,717	1,494,832
Depreciation of right-of-use assets/ amortisation of prepaid land lease payments	18	158,840	1,614
Depreciation of other property, plant and equipment	14	64,728	69,770
Amortisation of other intangible assets	20	3,118	5,698
Impairment of trade receivables	24	4,231	5,146
Exchange loss	6	158,245	374,137
Equity-settled share option expenses	35	87,606	1,655
		3,433,420	3,255,880
Increase in rental vehicles		(1,839,681)	(2,744,376)
Increase in trade receivables		(4,661)	(10,352)
(Increase)/decrease in amounts due from a related party		(83,732)	398,823
Increase in inventories		(36,986)	(30,734)
Decrease/(increase) in prepayments, other receivables and other assets		226,049	(222,632)
Decrease/(increase) in finance lease receivables		150,498	(1,146,715)
(Decrease)/increase in trade payables		(25,506)	30,270
Increase/(decrease) in amounts due to a related party		101,526	(4,659)
Decrease in advances from customers		(8,205)	(134,971)
Increase in other payables and accruals		93,315	103,978
Tax paid		(330,011)	(287,700)
NET CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES		1,676,026	(793,188)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB' 000	2018 RMB' 000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of other property, plant and equipment		(150,980)	(173,833)
Proceeds from disposal of items of other property, plant and equipment		226	1,296
Purchases of other intangible assets		(8,820)	(7,624)
Decrease/(increase) in other current financial assets		522,510	(522,510)
Settlement of derivative financial instruments	41	–	(199,881)
Increase in investments in associates		(68,851)	–
Interest received		76,672	56,840
		370,757	(845,712)
NET CASH FLOWS GENERATED FROM/(USED IN) INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Addition of deposits for borrowings		(24,250)	(30,000)
Increase in restricted cash		(272,510)	(189,105)
Proceeds from bank and other borrowings		5,155,654	2,969,754
Repayments of bank and other borrowings		(5,045,948)	(3,371,297)
Proceeds from issuance of corporate bonds	31	–	722,268
Proceeds from issuance of senior notes	30	1,338,656	731,465
Compensation of senior notes exchange offer		(17,918)	–
Proceeds from exercise of share options		1,270	7,335
Principal portion of lease payments		(194,526)	–
Repurchase of shares		–	(198,440)
Interest paid		(813,442)	(646,444)
		126,986	(4,464)
NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES			
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		2,173,769	(1,643,364)
Cash and cash equivalents at beginning of year		3,186,401	4,813,311
Effect of foreign exchange rate changes, net		350	16,454
		5,360,520	3,186,401
CASH AND CASH EQUIVALENTS AT END OF YEAR			

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	3,485,538	2,506,401
Non-pledged time deposits with original maturity of less than three months when acquired	26	1,874,982	680,000
Cash and cash equivalents as stated in the statement of financial position		5,360,520	3,186,401
Cash and cash equivalents as stated in the statement of cash flows		5,360,520	3,186,401

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an investment holding company under the laws of the Cayman Islands on 25 April 2014 in the name of China Auto Rental Inc., and changed its name to CAR Inc. on 17 June 2014. The registered and correspondence address is P.O., Box 2681, Cricket Square, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the car rental business.

Information about subsidiaries and the controlled structured entity

Particulars of the Company's subsidiaries and the controlled structured entity are as follows:

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
北京神州汽車租賃 有限公司 Beijing China Auto Rental Co., Ltd. ("CAR Beijing")	PRC/ Mainland China/ limited liability company	RMB 378.8 million	—	100	Car rental
重慶神州汽車租賃 有限公司 Chongqing China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	Car rental
上海神州華東汽車租賃 有限公司 Shanghai Shenzhou Huadong Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 9 million	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
北京凱普停車管理 有限公司 Beijing Kaipu Parking Management Co., Ltd. ("Beijing Kaipu")	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Vehicle parking management
無錫神州汽車租賃 有限公司 Wuxi China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 2.01 million	—	100	Car rental
廣州神州汽車租賃 有限公司 Guangzhou China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Car rental
北京北辰汽車租賃 有限公司 Beijing Beichen Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 35 million	—	100	Car rental
貴陽敬呂商貿 有限公司 Guiyang Jinglv Trade Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30,000	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
北京達世行華威勞務 服務有限公司 Beijing Dashihang Warwick Labour Services Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Car rental
China Auto Rental Limited (formerly known as Legend Capital Management (Hong Kong) Limited and LC Industrial Investment Limited)	Hong Kong/ company limited by shares	US\$ 11.2 million	—	100	Investment holding
聯慧汽車(廊坊) 有限公司 Lianhui Auto (Langfang) Co., Ltd. (formerly known as United Auto (Langfang) Co., Ltd.) ("Lianhui")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 5 million	—	100	Processing and manufacture of auto parts
上海泰暢汽車駕駛 服務有限公司 Shanghai Taichang Auto Driving Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.2 million	—	100	Chauffeured services

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
北京卡爾汽車租賃 有限公司 Beijing Carl Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Car rental
Main Star Global Limited	British Virgin Islands/limited liability company	US\$2	—	100	Investment holding
Haike Leasing (China) Limited	Hong Kong/ company limited by shares	HK\$1	—	100	Investment holding
海科融資租賃(北京) 有限公司 Haike Leasing (Beijing) Limited	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 199 million	—	100	Car rental
海科融資租賃(福建) 有限公司 Haike Leasing (Fujian) Limited	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 49 million	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
浩科融資租賃(上海) 有限公司 Haoke Leasing (Shanghai) Limited	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 1,760 million	—	100	Car rental
神州准新車(中國) 有限公司 Shenzhou Used Car (China) Limited ("Zhunxinche")	Hong Kong/ company limited by shares	HK\$1	—	100	Investment holding
廣州神州汽車租賃 有限公司 Guangzhou Shenzhou Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Car rental
廣州市安淼汽車維修 有限公司 Guangzhou Anmiao Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
杭州國嘉名流汽車維修 有限公司 Hangzhou Guojia Mingliu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
廈門市駿洲汽車維修 服務有限公司 Xiamen Junzhou Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Auto repair service
南京兆和汽車服務 有限公司 Nanjing Zhaohe Auto Service Co., Ltd. ("Nanjing ZH")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
深圳市富港汽車維修 服務有限公司 Shenzhen Fugang Auto Repair Service Co., Ltd. ("Shenzhen Fugang")	PRC/ Mainland China/ limited liability company	RMB 0.58 million	—	100	Auto repair service
長沙神州汽車維修 有限責任公司 Changsha China Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
濟南申源汽車維修 有限公司 Jinan Shenyuan Auto Repair Co., Ltd. ("Jinan Shenyuan")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
武漢凱普汽車服務 有限公司 Wuhan Kaipu Auto Service Co., Ltd. ("Wuhan Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	Auto repair service
Premium Auto Rental (China) Limited ("Premium")	Hong Kong/ company limited by shares	US\$ 35.83 million	—	100	Investment holding
Rent A Car Holdings (HK) Limited ("Rent A Car")	Hong Kong/ company limited by shares	HK\$ 148.64 million	—	100	Investment holding
赫茲汽車租賃(上海) 有限公司 Hertz Rent A Car (Shanghai) Co., Ltd. ("RAC SH")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 31.14 million	—	100	Car rental
佑安汽車租賃(北京) 有限公司 You An Auto Rental (Beijing) Co., Ltd. (formerly known as Hertz Rent A Car (Beijing) Co., Ltd.) ("RAC BJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 22 million	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
廣州卓越汽車租賃 有限公司 Guangzhou Zhuoyue Auto Rental Co., Ltd. (formerly known as Hertz Rent A Car (Guangzhou) Co., Ltd.) ("RAC GZ")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 19 million	—	100	Car rental
上海必茲國際租車諮詢 有限責任公司 Shanghai Bizi International Car Rental Consulting Co., Ltd. ("Shanghai Hertz")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 0.14 million	—	100	Consultation service
海口神州暢行商旅服務 有限公司 Haikou Shenzhou Changxing Travel Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Consultation service
成都雙新汽車維修 有限公司 Chengdu Shuangxin Auto Repair Co., Ltd. ("Chengdu SX")	PRC/ Mainland China/ limited liability company	RMB 0.1 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
鄭州眾德立汽車維修 服務有限公司 Zhengzhou Zhongdeli Auto Repair Service Co., Ltd. ("Zhengzhou ZD")	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Auto repair service
三亞凱普汽車維修 有限公司 Sanya Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
重慶凱州汽車維修 服務有限公司 Chongqing Kaizhou Auto Repair Service Co., Ltd. ("CQ Kaizhou")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
上海凱普汽車維修 服務有限公司 Shanghai Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
北京華威汽車修理 有限責任公司 Beijing Huawei Auto Repair Co., Ltd. ("Beijing HW")	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
神州租車(天津) 有限公司 China Auto Rental (Tianjin) Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	—	100	Car rental
北京神州暢達汽車 服務有限公司 Beijing Shenzhou Changda Auto Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	—	100	Auto repair service
昆明萬眾汽車維修 服務有限公司 Kunming Wanzhong Auto Repair Service Co., Ltd. ("Kunming WZ")	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	Auto repair service
天津神州汽車租賃 有限公司 Tianjin China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 50 million	—	100	Car rental
天津優品汽車租賃 有限公司 Tianjin Youpin Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 50 million	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
青島福聯華信諾汽車 維修有限公司 Qingdao Fulianhua Xinruo Auto Repair Co., Ltd. ("Qingdao FLH")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
重慶州凱汽車銷售信息 諮詢有限公司 Chongqing Zhoukai Auto Sales Consulting Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	—	100	Sale of used cars and consultation service
海科(平潭)信息技術 有限公司 Haike (Pingtan) Information Technology Co., Ltd. ("Haike Pingtan")	PRC/ Mainland China/ limited liability company	RMB 100 million	—	100	Car rental information system service
拉薩神州租車 有限公司 Lhasa China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 100 million	—	100	Car rental and consultation service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
東莞市鑫發汽車維修服務 有限公司 Dongguan Xinfu Auto Repair Service Co., Ltd. ("Dongguan XF")	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	Sale of used cars and auto repair service
神州租車投資有限公司 China Auto Rental Investment Inc.	British Virgin Islands/limited liability company	US\$1	100	—	Investment holding
西安眾德汽車維修服務 有限公司 Xi'an Zhongde Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
陝西迪卡爾商務諮詢 有限公司 Shanxi Dika'er Business Consulting Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 3 million	—	100	Car rental and sale of used cars
蘇州神州汽車租賃 有限公司 Suzhou China Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Car rental

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
海科融資租賃(天津) 有限公司 Haike Leasing (Tianjin) Limited ("Haike Tianjin")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 1,600 million	—	100	Car rental
上海凱翎汽車維修服務 有限公司 Shanghai Kaixu Auto Repair Service Co., Ltd. ("Shanghai Kaixu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
神州租車(廈門) 有限公司 China Auto Rental (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	—	100	Car rental
蘇州凱普商務諮詢 有限公司 Suzhou Kaipu Business Consulting Co., Ltd. ("SZ Kaipu")	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Consultation service
太原神州汽車信息諮詢 有限公司 Taiyuan Shenzhou Auto Information Service Co., Ltd. ("Taiyuan SZ")	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Consultation service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
神州租車(中國) 有限公司 China Auto Rental Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 10 million	—	100	Car Rental
湖南神州暢元商務信息諮詢 有限公司 Hunan Shenzhou Changyuan Business Information Service Co., Ltd. ("HN SZ Changyuan")	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Management
北京翺翔嘉業科技 有限公司 Beijing AoXiang Jiaye Technology Co., Ltd. ("Beijing AX")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	IT service
北京群視創維科技 有限責任公司 Beijing Qunshi Chuang Wei Technology Co., Ltd. ("Beijing QS")	PRC/ Mainland China/ limited liability company	RMB 0.3 million	—	100	IT service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
神州租車電子商務(福建) 有限公司* China Auto Rental E-Commerce (Fujian) Co., Ltd. ("CAR EC Fujian")	PRC/ Mainland China/ limited liability company	RMB 20 million	—	100	IT service
神州租車信息技術(福建) 有限公司 China Auto Rental Information Technology (Fujian) Co., Ltd. ("CAR IT FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	—	100	IT service
神州租車服務管理(福建) 有限公司 China Auto Rental Service Management (Fujian) Co., Ltd. ("CAR FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 50 million	—	100	Car rental
長沙神州新喆商務諮詢 有限公司 Changsha Shenzhou Xin Zhe Business Consulting Co., Ltd. ("Changsha Xinzhe")	PRC/ Mainland China/ limited liability company	RMB 5 million	—	100	Consultation service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
廣東全程汽車租賃 有限公司 Guangdong Quancheng Auto Rental Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 10 million	—	100	Car rental
海神(福建)信息技術 有限公司 Haishen (Fujian) Information Technology Co., Ltd. ("Haishen FJ")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 100 million	—	100	IT service
天津海科信息技術 有限公司 Tianjin Haike Information Technology Co., Ltd. ("Tianjin Haike")	PRC/ Mainland China/ limited liability company	RMB 10 million	—	100	IT service
天津凱普汽車維修 有限公司 Tianjin Kaipu Auto Repair Co., Ltd. ("TJ Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
深圳市凱普汽車維修服務 有限公司 Shenzhen Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
廣州市安鑫汽車維修 有限公司 Guangzhou Anxin Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
武漢神州凱普機動車維修 有限公司 Wuhan Shenzhou Kaipu Auto Repair Co., Ltd. ("Wuhan Shenzhou Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
成都凱普汽車維修服務 有限公司 Chengdu Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
CAR Holdings Limited (HK)	Hong Kong/ company limited by shares	US\$1	—	100	Investment holding
蘇州晉善晉美汽車服務 有限公司 Suzhou Jin Shan Jin Mei Auto Service Co., Ltd. ("Jin Shan Jin Mei")	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
哈爾濱凱普汽車維修 服務有限公司 Harbin Kaipu Auto Repair Service Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
佛山市堅信汽車維修 有限公司 Foshan Jianxin Auto Repair Service Co., Ltd. ("Foshan Jianxin")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
福州凱普汽車維修 服務有限公司 Fuzhou Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 1 million	—	100	Auto repair service
西寧凱普汽車維修服務 有限公司 Xining Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
西安凱普汽車維修服務 有限公司 Xi'an Kaipu Auto Repair Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海凱申汽車維修服務 有限公司 Shanghai Kaishen Auto Repair Service Co., Ltd. ("Shanghai Kaishen")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
福州市長樂區神州租車 電子商務有限公司 Fuzhou Changle China Auto Rental E-Commerce Co., Ltd. (formerly known as China Auto Rental E-Commerce (Changle) Co., Ltd.) ("Changle E-Commerce")	PRC/ Mainland China/ limited liability company	RMB 200 million	—	100	IT service
合肥凱普汽車維修服務 有限公司 Hefei Kaipu Auto Repair Service Co., Ltd. ("Hefei Kaipu")	PRC/ Mainland China/ limited liability company	RMB 0.5 million	—	100	Auto repair service
海科(廈門)汽車服務 有限公司 Haikē (Xiāmen) Auto Service Co., Ltd. ("Haikē Xiāmen")	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 200 million	—	100	Car service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

Name	Place of incorporation/ registration and business/ nature of legal entity	Particulars of issued shares held	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
海科(廈門)融資租賃 有限公司 Haike (Xiamen) Leasing Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 300 million	—	100	Car rental
神州租車服務管理(廈門) 有限公司 China Auto Rental Service Management (Xiamen) Co., Ltd.	PRC/ Mainland China/ wholly foreign- owned enterprise	US\$ 30 million	—	100	Car rental
神州租車電子商務(廈門) 有限公司 China Auto Rental E-Commerce (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	—	100	IT service
神州租車信息技術(廈門) 有限公司 China Auto Rental Information Technology (Xiamen) Co., Ltd.	PRC/ Mainland China/ limited liability company	RMB 30 million	—	100	IT service
神州智慧(福建)出行 有限公司** China Wisdom (Fujian) Travel Co., Ltd. ("China Wise")	PRC/ Mainland China/ wholly foreign- owned enterprise	RMB 50 million	—	100	IT service

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries and the controlled structured entity *(continued)*

Particulars of the Company's subsidiaries and the controlled structured entity are as follows: *(continued)*

- * A series of contractual agreements (the "Structured Contracts") was effectuated on 1 July 2015 among CAR EC Fujian, Haike Pingtan, Mr. Chen Min and Mr. Wang Shuangyun (collectively, the "Registered Shareholders") who are employees of the Group and the legal shareholders of CAR EC Fujian.

The Structured Contracts provide the Group, through Haike Pingtan, with effective control over CAR EC Fujian. In particular, Haike Pingtan undertakes to provide CAR EC Fujian with certain technical services as required to support its operations. In return, Haike Pingtan is entitled to substantially all of the operating profits and residual benefits generated by CAR EC Fujian through intercompany charges levied on these services rendered. The Registered Shareholders are also required to transfer their interests in CAR EC Fujian to Haike Pingtan's designee upon a request made by Haike Pingtan when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in CAR EC Fujian have also been pledged by the Registered Shareholders to Haike Pingtan in respect of the continuing obligations of CAR EC Fujian. Haike Pingtan intends to continuously provide to or assist CAR EC Fujian in obtaining financial support when deemed necessary. Accordingly, Haike Pingtan has rights to variable returns from its involvement with CAR EC Fujian and has the ability to affect those returns through its power over CAR EC Fujian.

As a result, CAR EC Fujian was accounted for as a controlled structured entity of the Group. The formation of the Structured Contracts for CAR EC Fujian was accounted for as a transaction without substance and the Group consolidated CAR EC Fujian as if it was in the Group from date of incorporation of 29 April 2015.

- ** China Wisdom (Fujian) Travel Co., Ltd. was established on 23 January 2019 in Fujian, Mainland China, which is wholly owned by China Auto Rental Limited.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standard Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.1 BASIS OF PRESENTATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. 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 financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of leasehold land, rental vehicles, license plates, offices and stores, parking lots. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for one elective exemption for leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	292,006
Decrease in prepayments, other receivables and other assets	(15,816)
Decrease in prepaid land lease payments	<u>(57,177)</u>
Increase in total assets	<u><u>219,013</u></u>
Liabilities	
Increase in interest-bearing bank and other borrowings	<u>219,013</u>
Increase in total liabilities	<u><u>219,013</u></u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019 *(continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments at 31 December 2018	385,099
Less: Commitments relating to short-term lease and those leases with a remaining lease term ended on or before 31 December 2019	(60,059)
Add: Payments for optional extension periods not recognised as at 31 December 2018	—
	<hr style="width: 100%;"/>
	325,040
Weighted average incremental borrowing rate as at 1 January 2019	<hr style="width: 100%;"/> 6.30%
Discounted operating lease commitments as at 1 January 2019	219,013
Add: Finance lease liabilities recognised as at 31 December 2018	—
	<hr style="width: 100%;"/>
Lease liabilities as at 1 January 2019	<u><u>219,013</u></u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Definition of a Business¹</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material¹</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 clarify the criteria for determining whether to classify a liability as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and clarify the situations that are considered settlement of a liability. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised 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 unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting year. 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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 minimising 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), 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 recognised 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 the statement of profit or loss in the year 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 year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the year in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the year in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Rental vehicles

Rental vehicles are stated at cost, net of accumulated depreciation.

Certain rental vehicles were acquired under repurchase programs, pursuant to which the Group has the option to require the car dealer to repurchase vehicles at a specified price and date, subject to certain vehicle condition and mileage. The Group plans to execute the repurchase option and depreciates vehicles over the holding period with an amount equal to the difference of the initial purchase payment and the contractual repurchase price, thereby minimising any gain or loss.

Rental vehicles acquired outside of repurchase programs are depreciated over the estimated holding year on a straight-line basis. The initial estimated number of holding years of such rental vehicles is generally about 3 years. The Group also estimates the residual value of the rental vehicles acquired outside of repurchase programs at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values are based on factors including model, usage, age, mileage and location. Quarterly adjustments are made the Group to the depreciation rates of such rental vehicles in response to the latest market conditions and their effect on residual values as well as the estimated time of disposal. Such adjustments are accounted for as changes in accounting estimates. During 2019, rental vehicles acquired outside of repurchase programs were depreciated at rates ranging from 3.0% to 22.5% per annum.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Rental vehicles *(continued)*

When an item of rental vehicles is classified as held for sale, it is not depreciated and is accounted for as held for sale, as further explained in the accounting policy for "Inventories".

Other property, plant and equipment

Other property, plant and equipment primarily include buildings, office furniture and equipment, and certain in-car accessories that can be separated from rental vehicles and leasehold improvements.

Depreciation is calculated on the straight-line basis to write off the cost of each item of other property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

In-car accessories	15.83% to 33.33%
Leasehold improvements	20% to 100%
Office furniture and equipment	15.83% to 33.33%
Buildings	1.8% to 4.74%

Where parts of an item of other 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 other property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Vehicle rental business licences

Vehicle rental business licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 18 to 25 years.

Licence plates

Licence plates are estimated to have indefinite useful life.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Rental vehicles	3 years
Licence plates	1.2 to 3 years
Offices and stores	1.3 to 15 years
Parking lots	1.3 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of offices and stores and parking lots (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms. Where the Group is the lessor, the asset held should be presented as a receivable at an amount equal to the net investment in the lease. The finance lease income is recognised in accordance with the policy set out in "Revenue recognition" below.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable before 1 January 2019) *(continued)*

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 the statement of 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 recognised 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 subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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 amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 derecognised (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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the statement of 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories comprise used rental vehicles for sale, fuels and spare parts and are stated at the lower of cost and net realisable value. Cost of used rental vehicles for sale is calculated on a specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the vehicles to their present location and condition. Costs of fuels and spare parts are based on purchase costs and are determined by the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement 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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods 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 recognised for all taxable temporary differences, except:

- (a) 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
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, except:

- (a) 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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 realised 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised 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 recognised as income on a systematic basis over the periods that the costs, which is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised 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) Operating lease rental income

Rental revenue derived from operating lease contracts is classified as car rental revenue and fleet rental revenue base on the business natures. The minimum lease payment is recognised as revenue over the lease period on a straight-line basis.

Customer loyalty award credits granted in the rendering of operating leases services are accounted for as a separate component of the lease transaction in which they are granted. The consideration received in the lease transaction is allocated between the loyalty award credits and the other components of the lease. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

(b) Finance lease income

The Group records revenue attributable to finance leases over the lease term on a systematic and rational basis so as to produce a constant rate of return on the net investment in the finance lease.

(c) Sales of used rental vehicles

Revenue from the sales of used rental vehicles is recognised 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 rental vehicles sold.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(d) Royalty and franchise income

Royalty and franchise income are recognised on an accrual basis in accordance with the terms of the relevant agreements.

(e) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(f) Other service income

Other service income is generally derived from auto repair and maintenance services, leasing of parking spaces, advertisement income and referral fee from other vehicle rental companies, and is recognised upon the provision of services.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute 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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The cost of equity-settled transactions is recognised 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 recognised 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 recognised 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 recognised. 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 recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 recognised for the award is recognised 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

During the reporting period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

Housing benefits

Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 capitalised as part of the cost of those assets. The capitalisation 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 capitalised. 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.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. 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 translated 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 recognised in the statement of profit or loss.

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 in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The resulting exchange differences are recognised 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 recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 overseas subsidiaries are translated into RMB at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas 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 recognised in the financial statements:

Lease accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases and, in respect of finance leases, determining the appropriate discount rate implicit in the lease to discount minimum lease payments. In respect of leases classified as finance leases, it has not been possible to reliably estimate lessors' residual values and management has been required to independently estimate an appropriate discount rate. The accounting policy for leases is set out in note 2.4.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Lease accounting *(continued)*

The Group entered into sale-leaseback arrangements with certain financial institutions (the “Lenders”) to obtain financing. Under such arrangements, the Group received the sales proceeds which represented the principal upon the lease inception, and would make monthly instalments during the lease term. The Group is subject to substantially the entire benefits and risks incidental to the ownership of such rental vehicles through leaseback. Under the sale-leaseback agreements, ownership of the underlying vehicles is transferred to the lenders upon the lease inception, and the Group is entitled to obtain their ownership for nil consideration at the end of the lease term. The leaseback was a finance lease due to the transfer of ownership back to the Group at the end of the lease term. The Group accounted for such arrangements as long term borrowings collateralised by rental vehicles and no gain or loss was recognised from these sale-leaseback transactions.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The renewal options for leases of offices and stores and parking lots are not included as part of the lease term as these are not reasonably certain to be exercised.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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.

Useful lives and residual values of rental vehicles acquired outside of repurchase programs

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's rental vehicles. This estimate is based on the estimated holding period of such rental vehicles. Management will increase the depreciation charge where useful lives are less than previously estimated, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. Actual holding period may differ from estimated useful lives. Periodic review could result in a change in useful lives and residual values which impact depreciation charges in the future periods.

The Group's management determines the estimated residual values at the expected time of disposal. The Group makes use of currently available market information and the estimated residual values for rental vehicles are based on factors including model, age, mileage and location. Management will increase the depreciation charge where residual values are less than previously estimated values, or will write off or write down technically obsolete or damaged rental vehicles that have been abandoned or sold. Actual value at the time of disposal may differ from estimated residual values. Periodic review could result in a change in residual values and therefore depreciation charge in the future periods. The net carrying value of rental vehicles was RMB10,792,336,000 (2018: RMB10,788,372,000) as at 31 December 2019.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in used car market conditions. Management reassesses these estimates at each reporting date. The net carrying value of inventories was RMB227,634,000 (2018: RMB190,648,000) as at 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 24 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group determine the interest rate implicit for the leases of rental vehicles. The Group cannot readily determine the interest rate implicit for other leases of license plates, offices and stores, parking lots, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Contract liabilities related to credit award

The amount of revenue attributable to the credit award earned by the customers of the Group's loyalty program is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed. Before the adoption of IFRS 15, the Group recognised deferred revenue included in advance from customers. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals. The carrying value of contract liabilities related to credit award was RMB51,841,000 (2018: RMB49,138,000) as at 31 December 2019.

Useful lives and residual values of other property, plant and equipment

In determining the useful life and residual value of an item of other property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvement in production, or from a change in the market demand for the products or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of other property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on the changes in circumstances. The net carrying value of other property, plant and equipment was RMB659,383,000 (2018: RMB573,644,000) as at 31 December 2019.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB240,595,000 (2018: RMB232,195,000) as at 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Fair value of investments in equity shares

The fair value of the equity shares investment in UCAR Inc. ("UCAR") was based on the market approach, with reference to the market multiples from comparable companies with consideration of the size, profitability and development stage of the industry and those comparable companies. This valuation requires the Group to make estimates about expected future sales forecast, adjusted market multiple, volatility and dividend yield, and hence they are subject to uncertainty. The fair value loss on the equity share investment in UCAR was RMB9,000,000 for the year ended 31 December 2019 (2018 fair value gain: RMB2,397,000). Further details are included in note 22 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying value of goodwill was RMB6,728,000 (2018: RMB6,728,000) as at 31 December 2019.

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the provision of car rental and related services to its customers. For management purposes, the Group operates in one business unit based on its services, and has one reportable segment which is the provision of car rental and other related services.

Information about geographical area

Since all of the Group's revenue was generated from the car rental and related services in Mainland China and all of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented in accordance with IFRS 8 *Operating Segments*.

Information about major customers

Revenue of approximately RMB469,769,000 (2018: RMB893,989,000), accounting for 6.1% (2018: 13.9%) of the Group's revenue, was derived from a single customer for the year ended 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

5. REVENUE

An analysis of revenue with the adoption of IFRS 15 and IAS 17 is as follows:

	2019	2018
	RMB'000	RMB'000
<i>Revenue from other sources</i>		
Car rental revenue	4,916,440	4,484,784
Fleet rental revenue	434,391	756,605
Sales of used rental vehicles under lease contracts	307,270	115,282
Finance lease income	173,453	84,597
	5,831,554	5,441,268
<i>Revenue from contracts with customers</i>		
Sales of used rental vehicles	1,824,688	988,284
Franchise related income	1,186	1,903
Other service income	33,232	12,243
	1,859,106	1,002,430
	7,690,660	6,443,698

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

5. REVENUE (continued)

Revenue from contracts with customers
Disaggregated revenue information

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Type of goods or service		
Sales of used rental vehicles	1,824,688	988,284
Franchise related income	1,186	1,903
Other service income	33,232	12,243
	<hr/>	<hr/>
Total revenue from contracts with customers	1,859,106	1,002,430
	<hr/> <hr/>	<hr/> <hr/>
Timing of revenue recognition		
Goods transferred at a point in time	1,824,688	988,284
Services transferred over time	34,418	14,146
	<hr/>	<hr/>
Total revenue from contracts with customers	1,859,106	1,002,430
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

6. OTHER INCOME AND EXPENSES, NET

	2019 RMB'000	2018 RMB'000
Interest income	81,449	89,888
Exchange loss	(158,245)	(374,137)
Fair value (loss)/gain on investment in equity shares	(9,000)	2,397
Fair value changes on derivative instrument transactions not qualifying as hedges (note 32)	56,588	(26,750)
Government grants*	69,417	114,246
Loss on disposal of items of other property, plant and equipment	(275)	(1,249)
Donations	(193)	(100)
Default income	4,226	12,029
Others	3,947	13,711
	47,914	(169,965)

* There were no unfulfilled conditions or other contingencies attaching to government grants that had been recognised.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings	309,936	338,328
Interest on lease liabilities	22,280	—
Interest on senior notes (note 30)	586,004	393,354
Interest on corporate bonds (note 31)	65,720	50,503
	983,940	782,185

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	RMB' 000	RMB' 000
Cost of sales of used vehicles	2,188,531	1,146,913
Depreciation of rental vehicles (note 13, note 18)	1,835,717	1,494,832
Depreciation of other property, plant and equipment	64,728	69,770
Depreciation of right-of-use assets (excluding depreciation of rental vehicles) (2018: amortisation of prepaid land lease payments) (note 18)	158,840	1,614
Amortisation of other intangible assets*	3,118	5,698
Minimum lease payments under operating leases in respect of offices and stores	—	102,133
Minimum lease payments under operating leases in respect of rental vehicles	—	20,039
Lease payments not included in the measurement of lease liabilities (note 18)	60,059	—
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):		
Wages and salaries	676,360	677,090
Equity-settled share option expenses (note 9, note 35)	72,649	1,655
Pension scheme contributions**	170,143	144,659
Insurance expenses	272,502	218,762
Repair and maintenance	264,598	263,011
Exchange loss (note 6)	158,245	374,137
Finance costs (note 7)	983,940	782,185
Auditors' remuneration	4,500	4,200
Impairment of trade receivables	4,231	5,146
Loss on disposal of items of other property, plant and equipment (note 6)	275	1,249
Advertising and promotion expenses	2,341	19,289
Share of profit of associates (note 21)	(6,286)	(9,426)
Fair value changes on derivative instrument transactions not qualifying as hedges (note 32)	(56,588)	26,750
Fair value loss/(gain) on investment in equity shares (note 22)	9,000	(2,397)

* The amortisation of other intangible assets for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

** Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Fees	2,067	1,879
Other emoluments		
– Salaries, allowances and benefits in kind	1,968	1,768
– Equity-settled share option expense	14,957	—
– Pension scheme contributions	158	155
	17,083	1,923
	19,150	3,802

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Sun Hanhui	689	662
Ding Wei	689	662
Zhang Li	689	555
	2,067	1,879

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive director and chief executive and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019						
Executive director and the chief executive:						
– Song Yifan	—	927	—	14,957	126	16,010
Non-executive directors:						
– Lu Zhengyao	—	1,041	—	—	32	1,073
– Li Xiaogeng	—	—	—	—	—	—
– Zhu Linan	—	—	—	—	—	—
– Wei Zhen	—	—	—	—	—	—
	—	1,968	—	14,957	158	17,083
2018						
Executive director and the chief executive:						
– Song Yifan	—	927	—	—	125	1,052
Non-executive directors:						
– Lu Zhengyao	—	841	—	—	30	871
– Li Xiaogeng	—	—	—	—	—	—
– Zhu Linan	—	—	—	—	—	—
– Wei Zhen	—	—	—	—	—	—
	—	1,768	—	—	155	1,923

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(b) Executive director and chief executive and non-executive directors *(continued)*

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the companies now comprising the Group during the year. There were no arrangements under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(c) Five highest paid employees

The five highest paid employees during the year included the chief executive (2018: the chief executive), details of whose remuneration are set out in note 9(b) above. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	3,072	2,696
Equity-settled share option expense	11,483	—
Pension scheme contributions	504	463
	15,059	3,159

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees (continued)

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

	2019	2018
	Number of Individuals	Number of individuals
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	—
Over HK\$2,000,000	1	—
	4	4

During the year and in prior years, share options were granted to some of the above non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosure.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

10. INCOME TAX

The major components of income tax expense of the Group during the year are as follows:

	2019 RMB'000	2018 RMB'000
Current income tax:		
Mainland China	253,392	294,970
Deferred tax (note 33)	(12,125)	9,740
	<hr/>	<hr/>
Total tax charge for the year	241,267	304,710
	<hr/> <hr/>	<hr/> <hr/>

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

The provision for current income tax in Mainland China is based on a statutory rate of 25% of the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 except for Haike (Pingtan) Technology Co., Ltd. ("Haike Pingtan"). Haike Pingtan is qualified as a promising industry company established in the comprehensive experimentation area in Pingtan, Fujian Province, and therefore is entitled a preferential corporate income tax rate of 15% pursuant to CaiShui [2014] No. 26 issued by the Ministry of Finance of the People's Republic of China.

No Hong Kong profits tax on the Group's subsidiaries has been provided at the rate of 16.5% as there was no assessable profit arising in Hong Kong during the year.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on earnings of non-resident enterprise derivatives from the operations in Mainland China. The withholding tax derives from inter-company charges from certain overseas subsidiaries to PRC subsidiaries amounted to RMB36,504,000 for the year ended 31 December 2019 (2018: RMB32,998,000).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

10. INCOME TAX (continued)

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. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2019, no deferred tax has been recognised 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. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB334,958,000 at 31 December 2019 (2018: RMB368,180,000).

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	272,043	594,555
Tax at the PRC statutory tax rate of 25%	68,011	148,639
Tax effect of tax rate differences between PRC entities and overseas entities	155,887	168,219
Tax losses not recognised	3,640	(336)
True up of income tax in respect of prior year	17,649	(13,244)
PRC entity with preferential tax rate	(42,664)	(33,511)
Income not subject to tax	(1,603)	—
Expenses not deductible for tax	3,843	1,945
Withholding tax on the deemed income	36,504	32,998
Total charge for the year	241,267	304,710

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

10. INCOME TAX *(continued)*

The effective tax rate of the Group was 88.7% (2018: 51.3%) for the year ended 31 December 2019.

The share of tax attributable to associates amounting to RMB390,000 (2018: RMB605,000), respectively, is included in "Share of profit of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

The board of the directors did not recommend the payment of any dividend to the ordinary equity holders of the Company for the year ended 31 December 2019 (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,119,511,942 (2018: 2,142,067,772) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>30,776</u>	<u>289,845</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,119,511,942	2,142,067,772
Effect of dilution – weighted average number of ordinary shares: Share options	<u>9,047,485</u>	<u>25,580,329</u>
	<u>2,128,559,427</u>	<u>2,167,648,101</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

13. RENTAL VEHICLES

	Total RMB'000
At 1 January 2019:	
Cost	13,769,773
Accumulated depreciation	(2,981,401)
	10,788,372
At 1 January 2019, net of accumulated depreciation	10,788,372
Additions	4,075,475
Disposals and transfers to inventories	(2,207,455)
Transfers to finance leases	(70,062)
Depreciation provided during the year	(1,793,994)
	10,792,336
At 31 December 2019, net of accumulated depreciation	10,792,336
At 31 December 2019:	
Cost	14,266,149
Accumulated depreciation	(3,473,813)
	10,792,336
At 1 January 2018:	
Cost	11,593,572
Accumulated depreciation	(2,054,744)
	9,538,828
At 1 January 2018, net of accumulated depreciation	9,538,828
Additions	5,236,639
Disposals and transfers to inventories	(1,174,673)
Transfers to finance leases	(1,317,590)
Depreciation provided during the year	(1,494,832)
	10,788,372
At 31 December 2018, net of accumulated depreciation	10,788,372

Vehicles with a total carrying value of RMB1,570,536,000 as at 31 December 2019 (2018: RMB427,290,000) were pledged as securities for certain of the Group's interest-bearing loans (note 29).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

13. RENTAL VEHICLES (continued)

Included in the Group's rental vehicles as at 31 December 2019 were rental vehicles with a net carrying amount of RMB2,644,424,000 (2018: RMB150,787,000) purchased from car dealers and the Group has the option to require the car dealers to repurchase vehicles at a specified price and date, subject to certain vehicle condition and mileage. The Group currently plans to execute the repurchase option and depreciates the vehicles with an amount equal to the difference of the initial purchase payment and the contractual repurchase price, thereby minimising any gain or loss.

14. OTHER PROPERTY, PLANT AND EQUIPMENT

	In-car accessories RMB'000	Leasehold improvements RMB'000	Office furniture and equipment RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:						
Cost	164,893	36,922	105,975	309,282	185,334	802,406
Accumulated depreciation	(103,600)	(12,033)	(74,805)	(38,324)	—	(228,762)
Net carrying amount	<u>61,293</u>	<u>24,889</u>	<u>31,170</u>	<u>270,958</u>	<u>185,334</u>	<u>573,644</u>
At 1 January 2019, net of accumulated depreciation	61,293	24,889	31,170	270,958	185,334	573,644
Additions	19,050	6,925	1,804	13,353	109,836	150,968
Depreciation provided during the year	(35,067)	(9,450)	(8,858)	(11,353)	—	(64,728)
Disposals	(249)	—	(252)	—	—	(501)
At 31 December 2019, net of accumulated depreciation	<u>45,027</u>	<u>22,364</u>	<u>23,864</u>	<u>272,958</u>	<u>295,170</u>	<u>659,383</u>
At 31 December 2019:						
Cost	177,233	43,847	106,333	322,635	295,170	945,218
Accumulated depreciation	(132,206)	(21,483)	(82,469)	(49,677)	—	(285,835)
Net carrying amount	<u>45,027</u>	<u>22,364</u>	<u>23,864</u>	<u>272,958</u>	<u>295,170</u>	<u>659,383</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

14. OTHER PROPERTY, PLANT AND EQUIPMENT (continued)

	In-car accessories <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office furniture and equipment <i>RMB'000</i>	Buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018:						
Cost	139,722	74,670	99,382	309,282	72,334	695,390
Accumulated depreciation	(79,253)	(51,370)	(66,771)	(27,202)	—	(224,596)
Net carrying amount	<u>60,469</u>	<u>23,300</u>	<u>32,611</u>	<u>282,080</u>	<u>72,334</u>	<u>470,794</u>
At 1 January 2018, net of accumulated depreciation						
	60,469	23,300	32,611	282,080	72,334	470,794
Additions	42,276	11,748	8,141	—	113,000	175,165
Depreciation provided during the year	(39,457)	(9,935)	(9,256)	(11,122)	—	(69,770)
Disposals	(1,995)	(224)	(326)	—	—	(2,545)
At 31 December 2018, net of accumulated depreciation	<u>61,293</u>	<u>24,889</u>	<u>31,170</u>	<u>270,958</u>	<u>185,334</u>	<u>573,644</u>
At 31 December 2018:						
Cost	164,893	36,922	105,975	309,282	185,334	802,406
Accumulated depreciation	(103,600)	(12,033)	(74,805)	(38,324)	—	(228,762)
Net carrying amount	<u>61,293</u>	<u>24,889</u>	<u>31,170</u>	<u>270,958</u>	<u>185,334</u>	<u>573,644</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

15. FINANCE LEASE RECEIVABLES

Certain rental vehicles have been leased out through finance leases entered into by the Group. These leases have remaining terms ranging generally from 0 to 4 years. Finance lease receivables are comprised of the following:

	2019	2018
	RMB' 000	RMB' 000
Net minimum lease payments receivable	1,639,128	2,113,634
Unearned finance income	(441,857)	(765,865)
	<hr/>	<hr/>
Total net finance lease receivables	1,197,271	1,347,769
	<hr/>	<hr/>
Less: current portion	341,319	250,299
	<hr/>	<hr/>
Non-current portion	855,952	1,097,470
	<hr/>	<hr/>

Future minimum lease payments to be received under non-cancellable finance lease arrangements as at 31 December 2019 and 2018 are as follows:

	2019	2018
	RMB' 000	RMB' 000
Within one year	485,816	479,194
In the second to fifth years, inclusive	1,153,312	1,634,440
	<hr/>	<hr/>
	1,639,128	2,113,634
	<hr/>	<hr/>

The present values of minimum lease payments to be received under non-cancellable finance lease arrangements as at 31 December 2019 and 2018 are as follows:

	2019	2018
	RMB' 000	RMB' 000
Within one year	341,319	250,299
In the second to fifth years, inclusive	855,952	1,097,470
	<hr/>	<hr/>
	1,197,271	1,347,769
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

16. PREPAYMENTS

	2019 RMB'000	2018 <i>RMB'000</i>
Prepayments for rental vehicles	<u>—</u>	<u>3,664</u>

17. OTHER CURRENT FINANCIAL ASSETS

	2019 RMB'000	2018 <i>RMB'000</i>
Debt instruments at amortised cost:		
Other current financial assets	<u>—</u>	<u>522,510</u>

As at 31 December 2019, no other current financial assets (31 December 2018: 522,510,000) had been pledged to secure the Group's bank loans (note 29).

18. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold land, rental vehicles, license plates, offices and stores, parking lots used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of rental vehicles generally have lease terms of 3 years, license plates generally have lease terms between 1.2 and 3 years, offices and stores generally have lease terms between 1.3 and 15 years and parking lots generally have lease terms between 1.3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

18. LEASES (continued)

The Group as a lessee (continued)

(a) Prepaid land lease payments (before 1 January 2019)

	2018 RMB'000
Carrying amount at beginning of the year	60,405
Additions	—
Recognised during the year	<u>(1,614)</u>
Carrying amount at end of the year	58,791
Current portion included in prepayments, other receivables and other assets	<u>(1,614)</u>
Non-current portion	<u><u>57,177</u></u>

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Rental vehicle* RMB'000	License plates RMB'000	Offices and stores RMB'000	Parking lots RMB'000	Total RMB'000
As at 1 January 2019	58,791	—	20,600	149,388	63,227	292,006
Additions	—	250,334	10,714	71,347	137,337	469,732
Depreciation expense	<u>(1,614)</u>	<u>(41,723)</u>	<u>(16,268)</u>	<u>(58,135)</u>	<u>(82,823)</u>	<u>(200,563)</u>
As at 31 December 2019	<u><u>57,177</u></u>	<u><u>208,611</u></u>	<u><u>15,046</u></u>	<u><u>162,600</u></u>	<u><u>117,741</u></u>	<u><u>561,175</u></u>

* A total of 5,000 rental vehicles were leased from third-party finance lease companies, pursuant to which the Group has designated these companies to buy the rental vehicles from a related party.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

18. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	219,013
New leases	457,554
Accretion of interest recognised during the year	22,953
Payments	<u>(217,479)</u>
Carrying amount at 31 December	<u><u>482,041</u></u>
Analysed into:	
Current portion	203,615
Non-current portion	<u><u>278,426</u></u>

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	22,953
Depreciation charge of right-of-use assets	200,563
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in direct operating expenses of rental services)	<u>60,059</u>
Total amount recognised in profit or loss	<u><u>283,575</u></u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

19. GOODWILL

	2019 RMB' 000	2018 <i>RMB' 000</i>
Cost and net carrying amount at beginning and end of the year	<u>6,728</u>	<u>6,728</u>

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing to the balances of goodwill as at 31 December 2019 and 2018:

Vehicle rental cash-generating unit

The recoverable amount of the vehicle rental cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A terminal growth rate of 3% (2018: 3%) has been projected beyond five years and the discount rate applied to the cash flow projections is 13.5% (2018: 13.5%).

Assumptions were used in the value in use calculation of the above cash-generating unit for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on the market development of the vehicle rental industry and the discount rate are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

20. OTHER INTANGIBLE ASSETS

	Software RMB'000	Customer relationship RMB'000	Vehicle rental business licences RMB'000	Auto repair service business licences RMB'000	Licence plates RMB'000	Trademark use right RMB'000	Total RMB'000
At 1 January 2019:							
Cost	35,913	180	42,525	3,144	116,879	7,030	205,671
Accumulated amortisation	(34,085)	(180)	(12,526)	(3,022)	—	(7,030)	(56,843)
Net carrying amount	<u>1,828</u>	<u>—</u>	<u>29,999</u>	<u>122</u>	<u>116,879</u>	<u>—</u>	<u>148,828</u>
At 1 January 2019, net of accumulated depreciation	1,828	—	29,999	122	116,879	—	148,828
Additions	—	—	—	—	8,820	—	8,820
Amortisation provided during the year	(1,183)	—	(1,867)	(68)	—	—	(3,118)
At 31 December 2019, net of accumulated depreciation	<u>645</u>	<u>—</u>	<u>28,132</u>	<u>54</u>	<u>125,699</u>	<u>—</u>	<u>154,530</u>
At 31 December 2019:							
Cost	35,913	180	42,525	3,144	125,699	7,030	214,491
Accumulated amortisation	(35,268)	(180)	(14,393)	(3,090)	—	(7,030)	(59,961)
Net carrying amount	<u>645</u>	<u>—</u>	<u>28,132</u>	<u>54</u>	<u>125,699</u>	<u>—</u>	<u>154,530</u>
At 1 January 2018:							
Cost	35,913	180	42,525	3,144	109,255	7,030	198,047
Accumulated amortisation	(30,907)	(180)	(10,657)	(2,840)	—	(6,561)	(51,145)
Net carrying amount	<u>5,006</u>	<u>—</u>	<u>31,868</u>	<u>304</u>	<u>109,255</u>	<u>469</u>	<u>146,902</u>
At 1 January 2018, net of accumulated depreciation	5,006	—	31,868	304	109,255	469	146,902
Additions	—	—	—	—	7,624	—	7,624
Amortisation provided during the year	(3,178)	—	(1,869)	(182)	—	(469)	(5,698)
At 31 December 2018, net of accumulated depreciation	<u>1,828</u>	<u>—</u>	<u>29,999</u>	<u>122</u>	<u>116,879</u>	<u>—</u>	<u>148,828</u>
At 31 December 2018:							
Cost	35,913	180	42,525	3,144	116,879	7,030	205,671
Accumulated amortisation	(34,085)	(180)	(12,526)	(3,022)	—	(7,030)	(56,843)
Net carrying amount	<u>1,828</u>	<u>—</u>	<u>29,999</u>	<u>122</u>	<u>116,879</u>	<u>—</u>	<u>148,828</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

21. INVESTMENTS IN ASSOCIATES

	2019 RMB' 000	2018 <i>RMB' 000</i>
Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司)(a)	46,222	41,911
Botpy Inc. (b)	70,826	—
	117,048	41,911

(a) Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司)

	2019 RMB' 000	2018 <i>RMB' 000</i>
Share of net assets	37,916	33,605
Goodwill on acquisition	8,306	8,306
	46,222	41,911

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司) ("QWOM")	Ordinary shares	PRC/Mainland China	30	Providing mobile internet digital marketing solutions based on big data analytics

The Group, through its wholly-owned subsidiary Haike Pingtan, acquired a 30% equity interest in QWOM in April 2016. The Group's interest in QWOM is accounted for using the equity method in the consolidated financial statements. QWOM had completed listing on the National Equities Exchange and Quotations ("NEEQ") in December 2016.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

21. INVESTMENTS IN ASSOCIATES (continued)

(a) Beijing QWOM Technology Co., Ltd. (北京氫動益維科技股份有限公司) (continued)

The following table illustrates the financial information of the Group's associate that is not material:

	2019	2018
	RMB'000	RMB'000
Share of the associate's profit for the year	4,311	9,426
Share of the associate's total comprehensive income	4,311	9,426
Carrying amount of the Group's investment in the associate	46,222	41,911

(b) Botpy Inc.

	2019
	RMB'000
Share of net assets	4,576
Goodwill on acquisition	66,250
	70,826

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

21. INVESTMENTS IN ASSOCIATES (continued)

(b) Botpy Inc. (continued)

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Botpy Inc.	Preference shares	Cayman	40	Providing automotive insurance business and solutions of the automotive aftermarket

The Group, through its wholly-owned subsidiary Premium Auto Rental (China) Limited, acquired a 40% equity interest in Botpy Inc. in February 2019. The Group's interest in Botpy Inc. is accounted for using the equity method in the consolidated financial statements.

The following table illustrates the financial information of the Group's associate that is not material:

	2019 RMB'000
Share of the associate's profit for the year	1,975
Share of the associate's total comprehensive income	1,975
Carrying amount of the Group's investment in the associate	<u>70,826</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

22. INVESTMENT IN EQUITY SHARES

	2019 RMB'000	2018 RMB'000
Investment in equity shares of a publicly held company – UCAR Inc. (神州優車股份有限公司) (formerly, Huaxia United Science & Technology Co., Ltd. "Huaxia United")	<u>2,800,641</u>	<u>2,809,641</u>

In December 2015, UCAR Cayman implemented a corporate restructuring (the "UCAR Cayman Restructuring"), whereby the then shareholders of UCAR Cayman would acquire equity interests and increase capital in Huaxia United. The amount of the capital increase in Huaxia United was contributed by the distribution from UCAR Cayman to its then shareholders. Upon completion of the UCAR Cayman Restructuring, the percentage of equity interests held by the Group, through China Auto Rental Limited ("CAR HK", a wholly-owned subsidiary of the Company), in Huaxia United will be the same as the Company's then shareholding percentage in UCAR (i.e. 9.35%). In January 2016, UCAR Cayman transferred its chauffeured car services business to Huaxia United, and the business transfer resulting in an accounting reclassification of RMB1,542,409,000 from the preference share investment in UCAR Cayman to the ordinary share investment in Huaxia United. Huaxia United subsequently changed its name to UCAR Inc. (神州優車股份有限公司). The equity interest held by CAR HK in UCAR was diluted from 9.35% as at 31 December 2015 to 7.42% as at 31 December 2016 after a series of capital injections in UCAR from third parties before the completion of UCAR's listing on the NEEQ in July 2016. The equity interest held by CAR HK in UCAR was further diluted to 6.27% as at 31 December 2017 after a series of new capital injections in UCAR from third parties in 2017.

The directors of the Company are of the opinion that the Group does not have significant influence over Huaxia United or UCAR and the Group designated such equity investment in Huaxia United or UCAR as a financial asset at fair value through profit or loss upon initial recognition.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

22. INVESTMENT IN EQUITY SHARES (continued)

The equity shares of UCAR were measured at fair value and were classified as Level 3 fair value measurement. The fair value of the ordinary share investment in UCAR was estimated with the assistance of an independent valuation company. The fair value of the ordinary share investment in UCAR as at 31 December 2019 was based on the market approach, with reference to the market multiples from comparable companies with consideration of the size, profitability and development stage of the industry and those comparable companies. The associated fair value loss of RMB9,000,000 for the year ended 31 December 2019 (2018 fair value gain: RMB2,397,000) was recognised through profit or loss under "other income and expenses, net".

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Used rental vehicles held for sale	137,458	120,248
Fuel	55,102	56,168
Others	35,074	14,232
	227,634	190,648

24. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	100,836	100,475
Impairment provision	(4,026)	(4,095)
	96,810	96,380

The Company generally does not provide credit terms to car rental customers. The credit period for fleet customers and finance lease customers is generally one to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables to minimise 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

24. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables as at the end of 2019, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Within 3 months	54,488	70,884
3 to 6 months	12,161	14,821
6 to 12 months	18,130	10,232
Over 1 year	12,031	443
	96,810	96,380

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
At beginning of the year	4,095	3,752
Impairment losses, net	(69)	343
At end of the year	4,026	4,095

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

24. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Current	Past due			Total
		Less than 3 months	4 to 12 months	Over 1 year	
Expected credit loss rate	1.18%	1.18%	4.53%	14.50%	3.99%
Gross carrying amount	1,330	56,735	28,698	14,073	100,836
Expected credit losses	16	669	1,300	2,041	4,026

As at 31 December 2018

	Current	Past due			Total
		Less than 3 months	4 to 12 months	Over 1 year	
Expected credit loss rate	2.63%	2.63%	7.38%	40.93%	4.08%
Gross carrying amount	12,817	62,383	24,525	750	100,475
Expected credit losses	337	1,641	1,810	307	4,095

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	RMB'000	RMB'000
Deductible VAT input	921,331	944,840
Prepayments	295,960	388,329
Other receivables	41,704	146,294
Rental deposits	53,653	23,961
Others	31,310	44,255
	1,343,958	1,547,679

Included in other receivables, no interest receivables from other current financial assets as at 31 December 2019 (2018: RMB17,434,000) had been pledged to secure the Group's bank loans (note 29).

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.

For the other receivables, rental deposits and others due from debtors without financial difficulties, impairment analysis is performed on collective basis. Such receivables relate to a large number of diversified debtors for whom there was no recent history of default. Under IAS 39, no provision for impairment is necessary. With the adoption of IFRS 9 from 1 January 2018, the Group applies the general approach in calculating ECLs. All these other receivables, rental deposits and others are classified as Stage 1. Stage 1 ECL rate for collective assessment is set at nil based on historical credit loss experience and forward-looking factor adjustment is insignificant. Therefore, there is still no collective provision for impairment under IFRS 9.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

26. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2019 RMB' 000	2018 <i>RMB' 000</i>
Cash and bank balances	3,485,538	2,506,401
Time deposits	2,398,767	931,275
	<u>5,884,305</u>	<u>3,437,676</u>
Less: Pledged time deposits:		
Pledged for bank loans*	522,510	250,000
Pledged for bank overdraft facilities	1,275	1,275
Cash and cash equivalents	<u>5,360,520</u>	<u>3,186,401</u>

* The Group pledged certain deposits of RMB522,510,000 and RMB250,000,000 to secure the Group's bank loans as at 31 December 2019 and 31 December 2018.

The cash and bank balances of the Group denominated in RMB amounted to RMB3,407,502,000 and RMB2,259,467,000 as at 31 December 2019 and 31 December 2018, respectively. The 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

27. TRADE PAYABLES

An ageing analysis of the outstanding trade payables as at 31 December 2019 and 31 December 2018, based on the invoice date, is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Within 3 months	55,049	110,039
3 to 6 months	10,329	753
Over 6 months	21,375	1,467
	86,753	112,259

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

28. OTHER PAYABLES AND ACCRUALS

	<i>Note</i>	2019 RMB'000	2018 <i>RMB'000</i>
Interest payables		205,735	207,055
Deposits by customers		202,241	120,337
Contract liabilities	(a)	212,287	185,024
Payroll payable		75,552	89,120
Other tax payable		184,108	185,953
Payable for other property, plant and equipment		13,838	13,838
Others		70,880	68,381
		964,641	869,708

Other payables and accruals are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

28. OTHER PAYABLES AND ACCRUALS (continued)

Note:

(a) Details of contract liabilities as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
<i>Advance received from customers</i>		
Sales of used vehicles	160,381	135,706
Contract liability related to credit award	51,841	49,138
Franchise related income	65	180
	<hr/> 212,287 <hr/>	<hr/> 185,024 <hr/>

Contract liabilities include advances received from sales of used vehicles, and from rendering credit award and franchise service. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to sales of used vehicles at the end of each of the years.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:						
Lease liabilities (note 18(c))	6.30	2020	203,615	—	—	—
Short-term bank loans						
– guaranteed	4.43-5.53	2020	359,286	3.15-5.00	2019	524,483
– unsecured and unguaranteed	4.35-6.15	2020	1,330,040	4.61-5.94	2019	672,588
– pledged	3.10	2020	522,953	0.31	2019	199,742
Current portion of long-term bank loans						
– guaranteed	5.30-5.92	2020-2021	219,407	4.75-6.00	2019	1,889,254
– unsecured and unguaranteed	6.41	2021	150,000	4.99-6.18	2019	616,292
Current portion of sale and leaseback obligations						
– secured	3.09-7.38	2021-2022	669,122	6.03-6.20	2019	97,306
Current portion of long-term other loans						
– guaranteed	6.85	2022	100,000	5.80	2019	700,000
			<u>3,554,423</u>			<u>4,699,665</u>
Non-current						
Lease liabilities (note 18(c))	6.30	2021-2024	278,426	—	—	—
Bank loans						
– guaranteed	5.30	2021-2022	1,141,746	4.91-6.23	2020-2021	736,374
– unsecured and unguaranteed	6.41	2021	75,000	—	—	—
Sale and leaseback obligations						
– secured	3.09-7.38	2021-2022	294,097	6.20	2020	18,472
Other loans						
– guaranteed	6.85	2022	800,000	—	—	—
			<u>2,589,269</u>			<u>754,846</u>
			<u>6,143,692</u>			<u>5,454,511</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Lease liabilities:		
within one year or on demand	203,615	—
In the second year	154,583	—
In the third to fifth years, inclusive	111,388	—
Above five years	12,455	—
	482,041	—
Bank loans repayable:		
Within one year or on demand	2,581,686	3,902,359
In the second year	522,726	223,404
In the third to fifth years, inclusive	694,020	512,970
	3,798,432	4,638,733
Sale and leaseback obligations:		
Within one year or on demand	669,122	97,306
In the second year	283,832	18,472
In the third to fifth years, inclusive	10,265	—
	963,219	115,778
Other loans repayable:		
Within one year or on demand	100,000	700,000
In the second year	100,000	—
In the third to fifth years, inclusive	700,000	—
	900,000	700,000
	6,143,692	5,454,511

As at 31 December 2019, the Group's overdraft bank facilities amounted to RMB6,032,384,000 (31 December 2018: RMB8,822,756,000), of which RMB5,083,574,000 (31 December 2018: RMB6,175,923,000) had been unutilized.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Bank and other loans with the following amounts outstanding as at 31 December 2019 and 2018 were secured/guaranteed by the following:

Security or guarantee	2019 RMB'000	2018 <i>RMB'000</i>
Guaranteed by CAR Inc.	1,177,653	1,130,754
Guaranteed by CAR Inc. and Changle E-Commerce	100,000	—
Guaranteed by 7 offshore subsidiaries of the Group	1,342,786	2,204,874
Unsecured and unguaranteed	2,037,081	1,288,880
Pledged by restricted cash	522,953	199,742
Secured by certain other current financial assets and interests (a)	—	514,483
	5,180,473	5,338,733

- (a) No bank loans at 31 December 2019 (31 December 2018: RMB514,483,000) were secured by the Group's other current financial assets and its interest set forth in note 17 and note 25 above.

Sales and leaseback obligations with the following amounts outstanding as at 31 December 2019 and 2018 were secured/guaranteed by the following:

Security or guarantee	2019 RMB'000	2018 <i>RMB'000</i>
Guaranteed by Lianhui and Changle E-Commerce and secured by certain of rental vehicles and deposits	177,730	—
Guaranteed by CAR Inc. and secured by certain of rental vehicles	148,657	—
Guaranteed by CAR Inc. and Changle E-Commerce and secured by certain of rental vehicles and deposits	19,700	—
Guaranteed by CAR Inc. and secured by certain of rental vehicles and deposits	454,211	—
Secured by certain of rental vehicles and deposits	162,921	115,778
	963,219	115,778

Sales and leaseback obligations of RMB963,219,000 (2018: RMB115,778,000) as at 31 December 2019 were secured by certain of the Group's rental vehicles, the total carrying amount of which at 31 December 2019 was RMB1,570,536,000 (2018: RMB427,290,000) (note 13).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES

(1) The 2015 Notes (A)

On 4 February 2015, the Company issued senior notes with an aggregate principal amount of US\$500,000,000 due 2020 (the "2015 Notes (A)"). The 2015 Notes (A) were listed on the Stock Exchange of Hong Kong Limited. The 2015 Notes (A) carries interest at the rate of 6.125% per annum, payable semi-annually on 4 February and 4 August in arrears, and will mature on 4 February 2020, unless redeemed earlier.

The 2015 Notes (A) may be redeemed in the following circumstances:

- (i) On or after 4 February 2018, the Company may on any one or more occasions redeem all or any part of the 2015 Notes (A), at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2015 Notes (A) redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on 4 February of the years indicated below, subject to the rights of holders of the 2015 Notes (A) on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2018	103.0625%
2019 and thereafter	101.53125%

- (ii) At any time prior to 4 February 2018, the Company may at its option redeem the 2015 Notes (A), in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2015 Notes (A) redeemed plus the applicable premium (as defined in the Indenture of the 2015 Notes (A)) as at the redemption date, and the accrued and unpaid interest, if any, up to (but not including) the redemption date.

- (iii) At any time and from time to time prior to 4 February 2018, the Company may redeem up to 35% of the aggregate principal amount of the 2015 Notes (A) with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 106.125% of the principal amount of the 2015 Notes (A) redeemed, plus accrued and unpaid interest, if any, up to (but not including) the redemption date, subject to certain conditions.

On 10 May 2019, the Company completed an exchange offer up to approximately US\$172,333,000 of the 2015 Notes (A), with interest at the rate of 8.875% per annum, payable semi-annually on 10 May and 10 November in arrears with the maturity date extended to 10 May 2022.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES (continued)

(1) The 2015 Notes (A) (continued)

The carrying amount of 2015 Notes (A) recognised in the statement of financial position was calculated as follows:

	2019	2018
	RMB'000	RMB'000
Total carrying amount at 1 January	3,493,988	3,305,841
Impact of exchange offer	36,901	—
Exchange realignment	56,514	165,737
Interest expenses	243,367	223,682
Interest expense payment	(245,862)	(201,272)
	<hr/>	<hr/>
Total carrying amount at 31 December	3,584,908	3,493,988
	<hr/>	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	73,287	87,577
	<hr/>	<hr/>
	3,511,621	3,406,411
	<hr/>	<hr/>

Early redemption options are regarded as embedded derivatives not closely related to the host contract. The directors of the Company considered that the fair value of the above early redemption options was not significant on initial recognition and as at 31 December 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES *(continued)*

(2) The 2015 Notes (B)

On 11 August 2015, the Company issued senior notes with an aggregated nominal value of US\$300 million due 2021 (the "2015 Notes (B)"). The 2015 Notes (B) were listed on the Stock Exchange of Hong Kong Limited. The 2015 Notes (B) carry interest at the rate of 6.00% per annum, payable semi-annually on 11 February and 11 August in arrears, and will mature on 11 February 2021, unless redeemed earlier.

The 2015 Notes (B) may be redeemed in the following circumstances:

On or after 11 August 2018, the Company may on any one or more occasions redeem all or any part of the 2015 Notes (B), at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the 2015 Notes (B) redeemed, up to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on 11 August of the years indicated below, subject to the rights of holders of the 2015 Notes (B) on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2018	103.0%
2019 and thereafter	101.5%

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES (continued)

(2) The 2015 Notes (B) (continued)

The carrying amount of 2015 Notes (B) recognised in the statement of financial position was calculated as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Total carrying amount at 1 January	2,082,414	1,972,615
Exchange realignment	33,076	98,765
Interest expenses	135,252	129,290
Interest expense payment	(122,675)	(118,256)
	<hr/>	<hr/>
Total carrying amount at 31 December	2,128,067	2,082,414
	<hr/>	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	48,580	48,008
	<hr/>	<hr/>
	2,079,487	2,034,406
	<hr/>	<hr/>

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES (continued)

(3) The 2018 Notes (A)

On 4 April 2018, the Company issued senior notes with an aggregated nominal value of RMB400 million due 2021 (the "2018 Notes (A)"). The 2018 Notes (A) were listed on the Stock Exchange of Hong Kong Limited. The 2018 Notes (A) carries interest at the rate of 6.50% per annum, payable semi-annually on 4 April and 4 October in arrears, and will mature on 4 April 2021, unless redeemed earlier.

The 2018 Notes (A) may be redeemed in the following circumstances:

- (i) At any time on or after 4 April 2020, the Company may at its option redeem the Notes, in whole or in part, at 103.25% of the principal amount of Notes redeemed plus accrued and unpaid interest, if any, up to (but not including) the redemption date.
- (ii) At any time and from time to time prior to 4 April 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture of the 2018 Notes (A)) as at the redemption date, plus accrued and unpaid interest, if any, up to (but not including) the redemption date.

The carrying amount of 2018 Notes (A) recognised in the statement of financial position was calculated as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Total carrying amount at 1 January	396,586	—
Addition, net of issuance costs	—	387,447
Interest expenses	30,056	22,139
Interest expense payment	(26,000)	(13,000)
	<hr/> 400,642 <hr/>	<hr/> 396,586 <hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	6,251	6,286
	<hr/> 394,391 <hr/>	<hr/> 390,300 <hr/>

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES (continued)

(4) The 2018 Notes (B)

On 2 May 2018, the Company issued the Additional Notes (the "2018 Notes (B)") in the aggregate principal amount of RMB350 million, to be consolidated and form a single series with the 2018 Notes (A). The 2018 Notes (B) will mature on 4 April, 2021, unless earlier redeemed pursuant to the terms thereof. The 2018 Notes (B) were listed on the Stock Exchange of Hong Kong Limited. The 2018 Notes (B) carries interest at the rate of 6.50% per annum, payable semi-annually on 4 April and 4 October in arrears, and will mature on 4 April 2021, unless redeemed earlier.

The 2018 Notes (B) may be redeemed in the following circumstances:

- (i) At any time on or after 4 April 2020, the Company may at its option redeem the Notes, in whole or in part, at 103.25% of the principal amount of Notes redeemed plus accrued and unpaid interest, if any, up to (but not including) the redemption date.
- (ii) At any time and from time to time prior to 4 April 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture of the 2018 Notes (B)) as at the redemption date, plus accrued and unpaid interest, if any, up to (but not including) the redemption date.

The carrying amount of 2018 Notes (B) recognised in the statement of financial position was calculated as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Total carrying amount at 1 January	350,819	—
Addition, net of issuance costs	—	344,018
Interest expenses	24,673	18,243
Interest expense payment	(22,750)	(11,442)
Total carrying amount at 31 December	352,742	350,819
Less: Interest payables due within one year reclassified to other payables and accruals	5,403	5,433
	347,339	345,386

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

30. SENIOR NOTES (continued)

(5) The 2019 Notes

On 10 May 2019, the Company issued senior notes with an aggregate principal amount of US\$200,000,000 due 2022 (the "2019 Notes"). The 2019 Notes were listed on the Stock Exchange of Hong Kong Limited. The 2019 Notes carries interest at the rate of 8.875% per annum, payable semi-annually on 10 May and 10 November in arrears, and will mature on 10 May 2022, unless redeemed earlier.

The 2019 Notes may be redeemed in the following circumstances:

At any time and from time to time prior to 10 May 2022, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus an applicable premium (as defined in the Indenture) as of, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The carrying amount of 2019 Notes recognised in the statement of financial position was calculated as follows:

	2019 RMB'000
Total carrying amount at 1 January	—
Addition, net of issuance costs	1,338,656
Exchange realignment	36,812
Interest expenses	83,143
Interest expense payment	(62,464)
	<hr/>
Total carrying amount at 31 December	1,396,147
	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	17,349
	<hr/>
	1,378,798
	<hr/>

Early redemption options are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

31. CORPORATE BONDS

The Company has received the Approval on the Public Issuance of the Corporate Bonds. (Zheng Jian Xu Ke [2016] No. 1536) (the "Approval") issued by China Securities Regulatory Commission (the "CSRC") dated 7 July 2016. Matters in relation to the issuance of Corporate Bonds are as follows: CSRC has approved the Company to publicly issue the Corporate Bonds not exceeding RMB2,000,000,000 to qualified investors in Mainland China; the Corporate Bonds shall be issued in tranches; the first tranche of issuance shall be completed within 12 months from the date of the Approval, and the remaining tranches of issuance shall be completed within 24 months from the date of the Approval.

(1) The 2017 Corporate Bonds (A)

The public issue of the first tranche of the Corporate Bonds (the "2017 Corporate Bonds (A)") was completed on 26 April 2017. The final principal amount of the 2017 Corporate Bonds (A) is RMB300,000,000 with a coupon rate of 5.5% per annum and with a tenure of five years. The Company has an option to adjust the coupon rate and the investors are entitled to request the Company to repurchase the Corporate Bonds after the end of the third year from the date of issuance. The Corporate Bonds are listed on the Shanghai Stock Exchange.

The carrying amount of 2017 Corporate Bonds (A) recognised in the statement of financial position was calculated as follows:

	2019 RMB'000	2018 RMB'000
Total carrying amount at 1 January	308,169	307,360
Addition, net of issuance costs	—	—
Interest expenses incurred	17,340	17,309
Interest expense payment	(16,500)	(16,500)
	<hr/> 309,009 <hr/>	<hr/> 308,169 <hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	11,225	11,257
	<hr/> 297,784 <hr/>	<hr/> 296,912 <hr/>

The options of the 2017 Corporate Bonds (A) entitled to the Company and the investors are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

31. CORPORATE BONDS (continued)

(2) The 2018 Corporate Bonds (B)

The public issue of the second tranche of the Corporate Bonds (the "2018 Corporate Bonds (B)") was completed on 25 April 2018. The final principal amount of the 2018 Corporate Bonds (B) is RMB730 million, at a coupon rate of 6.3% per annum, with a term of three years with the Company's option to adjust the coupon rate after the end of the second year upon issuance and the investors' entitlement to require the repurchase of the 2018 Corporate Bonds (B).

The carrying amount of 2018 Corporate Bonds (B) recognised in the statement of financial position was calculated as follows:

	2019 RMB' 000	2018 RMB' 000
Total carrying amount at 1 January	755,462	—
Addition, net of issuance costs	—	722,268
Interest expenses incurred	48,380	33,194
Interest expense payment	(45,990)	—
	<hr/>	<hr/>
Total carrying amount at 31 December	757,852	755,462
	<hr/>	<hr/>
Less: Interest payables due within one year reclassified to other payables and accruals	31,415	31,540
	726,437	723,922
	<hr/>	<hr/>

The options of the 2018 Corporate Bonds (B) entitled to the Company and the investors are regarded as embedded derivatives closely related to the host contract.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

32. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Derivative financial instruments– current assets	42,693	—
Derivative financial instruments– non-current liabilities	—	13,895

As at 31 December 2019, the Group has entered into derivative financial instruments of forward currency contracts, with an aggregate contractual amount of US\$300,000,000 to manage its exchange rate exposures. Such currency forwards represent commitments to purchase nominal amount of United States Dollar (“US\$”) against RMB at the strike rate with undelivered spot transactions. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The aggregate changes in the fair value of non-hedging currency derivatives were charged to the statement of profit or loss.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the years are as follows:

Deferred tax assets

	Right-of- use assets RMB'000	Deductible Accumulated losses RMB'000	temporary differences RMB'000	Total RMB'000
At 31 December 2018	—	8,627	223,568	232,195
Credited to the statement of profit or loss during the year	865	40,996	(33,461)	8,400
At 31 December 2019	865	49,623	190,107	240,595
At 1 January 2018	—	1,392	181,924	183,316
Credited to the statement of profit or loss during the year	—	7,235	41,644	48,879
At 31 December 2018	—	8,627	223,568	232,195

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

33. DEFERRED TAX (continued)

Deferred tax assets (continued)

The Group had unused tax losses of RMB58,697,000 (2018: RMB44,137,000) available for offsetting against future profits in respect of certain subsidiaries as at 31 December 2019, and the deferred tax assets have not been recognised. Such tax losses will expire between 2020 and 2024.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

	Lease liabilities RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 31 December 2018	—	11,854	201,426	213,280
(Credited)/charged to the statement of profit or loss during the year	3,485	(538)	(6,672)	(3,725)
At 31 December 2019	<u>3,485</u>	<u>11,316</u>	<u>194,754</u>	<u>209,555</u>
At 1 January 2018	—	12,569	142,092	154,661
(Credited)/charged to the statement of profit or loss during the year	—	(715)	59,334	58,619
At 31 December 2018	<u>—</u>	<u>11,854</u>	<u>201,426</u>	<u>213,280</u>

There was no significant unrecognised deferred tax liability as at 31 December 2019 and 31 December 2018 for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

33. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

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 Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

As at 31 December 2019, no deferred tax (2018: Nil) has been recognised 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares

	2019 RMB'000	2018 RMB'000
Authorised:		
26,000,000,000 ordinary shares of US\$0.00001 each	1,586	1,586
Issued and fully paid:		
2,119,880,411 (2018: 2,118,717,220) ordinary shares of US\$0.00001 each	131	131

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2014 by China Auto Rental Holdings Inc. ("CARH") with authorised share capital of US\$260,000 divided into 5,200,000,000 shares of US\$0.00005 each. On the date of incorporation, one ordinary share at par value of US\$0.00005 was allotted and issued as fully paid by CARH. On 12 June 2014, the Company further issued and allotted 373,444,013 shares to CARH at par value.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

34. SHARE CAPITAL (continued)

Shares (continued)

On 2 July 2014, the Company effected a share split, pursuant to which each ordinary share was subdivided into five ordinary shares, and the par value of the share was changed from US\$0.00005 per share to US\$0.00001 per share. Immediately after the share split, the authorised share capital of the Company became US\$260,000 divided into 26,000,000,000 ordinary shares of par value of US\$0.00001 each and issued share capital became 1,867,220,070 shares of par value of US\$0.00001 each.

On 19 September 2014, the Company issued 426,341,000 shares in its initial public offering at the price of HK\$8.50 per share.

On 25 September 2014, the Company issued additional 63,951,000 shares at the price of HK\$8.50 per share as a result of exercise of over-allotment options by the underwriters. Total proceeds from the initial public offering (including the over-allotment) were HK\$4,167,482,000 (approximately RMB3,302,729,000), and net proceeds were HK\$4,026,035,684 (approximately RMB3,183,191,000) after deduction of related issuance costs.

A summary of movements in the Company's share capital for the year ended 31 December 2019 is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:				
As at 1 January 2018	2,173,420,201	134	1,886,096	1,886,230
Issuance of shares pursuant to the option scheme (note 35)	7,311,019	1	31,890	31,891
Cancellation of shares	(62,014,000)	(4)	(345,917)	(345,921)
At 31 December 2018 and 1 January 2019	2,118,717,220	131	1,572,069	1,572,200
Issuance of shares pursuant to the option scheme (note 35) (a)	1,163,191	—	5,246	5,246
Cancellation of shares (b)	—	—	—	—
At 31 December 2019	<u>2,119,880,411</u>	<u>131</u>	<u>1,577,315</u>	<u>1,577,446</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

34. SHARE CAPITAL *(continued)*

Shares *(continued)*

- (a) The subscription rights attaching to 1,163,191 share options were exercised during the year ended 31 December 2019, at the average subscription price of US\$0.17 per share (note 35), resulting in the issue of 1,163,191 ordinary shares for a total cash consideration of RMB1,270,000, of which RMB1,270,000 was charged to share premium. Meanwhile, an amount of RMB3,976,000 was transferred from the share option reserve to share premium upon exercise of the share options.
- (b) On 14 May 2019, the Company's shareholders granted a general mandate (the "Repurchase Mandate") to the directors of the Company to repurchase shares of the Company at the annual general meeting (the "AGM"). Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 211,954,326 shares, being 10% of the total number of issued shares of the Company as at the date of the AGM, on the Stock Exchange. For the year ended 31 December 2019, the Company has not repurchased any shares through the Stock Exchange (2018: 35,829,000). There is no share recorded as treasury shares as at 31 December 2019 and 31 December 2018.

35. SHARE OPTION SCHEME

China Auto Rental Holdings Inc. ("CARH") operated a share option scheme ("2013 CARH Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants within the Group who contributed to the success of the Group's operation. Eligible participants of the Scheme included the directors and other employees of the Group. The Scheme became effective on 18 December 2013.

The maximum number of share options currently permitted to be granted under the Scheme was in aggregate 14,035,595 shares, including the Tranche A Options granted for a total number of 7,017,798 shares and the Tranche B Options granted for a total number of 7,017,797 shares. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

On 18 December 2013, 7,017,798 Tranche A options and 7,017,797 Tranche B options have been granted with exercise prices of US\$0.29, and US\$0.87, respectively. The exercise prices of share option were determined by the directors. The Tranche A Options granted were fully vested on 31 December 2013 with no further service conditions attached, and the Tranche B Options granted become vested in four equal batches on 31 December 2014, 2015, 2016 and 2017, respectively.

In March 2014, CARH further adopted the 2014 share option scheme ("2014 CARH Pre-IPO Share Option Scheme") which was approved by a board resolution passed on 1 March 2014 and further approved by a resolution passed by CARH shareholders on 1 March 2014. The 2014 CARH Pre-IPO Share Option Scheme Options granted become vested in four equal batches on 1 May 2015, 2016, 2017 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

35. SHARE OPTION SCHEME *(continued)*

As part of the reorganisation, the Company was incorporated in Cayman Islands on 25 April 2014. The Company subsequently became the fully-owned subsidiary of CARH and the holding company of the Group accordingly. In connection with the above restructuring, CARH cancelled the 2013 CARH Pre-IPO Share Option Scheme and the 2014 CARH Pre-IPO Share Option Scheme while the Company adopted a new share option scheme (the "2014 Pre-IPO Share Option Scheme") as a replacement. The replacement plan was approved by board resolutions of CARH and the Company, respectively, on 15 June 2014.

The cancelled and the replacement awards involve exactly the same conditions including exercise prices and vesting year, and were treated as modification with the incremental fair value being recognised over the vesting year of the replacement share-based payment award.

On 14 August 2014, 4,456,688 Tranche C options have been granted with an exercise price of US\$0.87, of which 300,000 share options granted to certain management members were vested in three equal batches on each of 1 August 2015, 2016 and 2017. The remaining share options were vested on each of 1 August 2015, 2016, 2017 and 2018.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 3 July 2014, the Company effected a share split, pursuant to which each ordinary share was subdivided into five ordinary shares. Immediately after the share split, the exercise price of each share option was amended to one-fifth of the exercise price before split.

On 12 April 2016, the employment contracts of 21 executives in the Group were terminated, who then held 14,606,233 unvested share options. As approved by the directors of the Company as at 11 April 2016 and agreed with the employees, such share options became fully vested immediately before the terminations with the exercise price unchanged. The Group treated the immediate vesting as a simultaneous forfeiture of the unvested share options and a grant of an ex-gratia award, which resulted in a net charge of share option expense of RMB54,775,000 during the six months ended 30 June 2016.

On 5 April 2016, the Company adopted a Share Option Scheme by an ordinary resolution passed by its shareholders ("2016 Post-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants within the Group who contribute to the success of the Group's operation. The 2016 Post-IPO Share Option Scheme has become effective for the period of 10 years commencing on the effective date. The maximum number of the Company's shares in respect of which options may be granted pursuant to the 2016 Post-IPO Share Option Scheme is 239,494,759 shares, being 10% of the total issued shares of the Company on the date of approval of the 2016 Post-IPO Share Option Scheme.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

35. SHARE OPTION SCHEME (continued)

The Board announced that on October 18 2019, a total of 119,747,379 share options were granted to certain eligible persons pursuant to the 2016 Post-IPO Share Option Scheme. The exercise price was HK\$6.360 per share and the validity period of the share options was 10 years from date of grant, i.e. from October 18 2019 to October 17 2029 (both days inclusive). One-third of the share options granted have been vested on October 18, 2019, one-third of the share options granted will be vested on October 18 2020 and one-third of the share options granted will be vested on October 18 2021; and the share options granted will be exercisable until the expiry date of the validity period.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the years ended 31 December 2019 and 2018:

	2019		2018	
	Weighted average exercise price <i>US\$ per share</i>	Number of options	Weighted average exercise price <i>US\$ per share</i>	Number of options
At 1 January, after share split	0.15	28,699,957	0.15	36,034,099
Forfeited during the year	—	—	0.17	(23,123)
Exercised during the year	0.17	(1,163,191)	0.16	(7,311,019)
At 31 December		<u>27,536,766</u>	0.15	<u>28,699,957</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

35. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Post-IPO Share Option Scheme during the year ended 31 December 2019:

	2019
	Weighted average exercise price HKD per share
	Number of options
At 1 January	—
Granted during the year	6.36
Forfeited during the year	—
Exercised during the year	—
	<hr/>
At 31 December	6.36
	<hr/> <hr/>

The exercise prices and exercise years of the share options outstanding as at the reporting date are as follows:

Number of options	Exercise price per share	Exercise year
6,382,570	US\$0.058	Till 31 December 2023
11,920,006	US\$0.174	Till 31 December 2023
—	US\$0.174	Till 1 May 2024
9,234,190	US\$0.174	Till 31 August 2024
<u>119,747,379</u>	HK\$6.360	Till 17 October 2029
<u>147,284,145</u>		

A total of 119,747,379 new share options were granted in year of 2019 (2018: Nil). The Group recognised a share option expense of RMB87,606,000 (2018: RMB1,655,000) during the year ended 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

35. SHARE OPTION SCHEME (continued)

The fair values of equity-settled share options granted during the reporting period were estimated as at the date of grant using a binomial model, taking into account of the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

2019

CARH share option scheme	Tranche A	Tranche B	Tranche C	2014 CARH	2016 CARH
				Pre-IPO Share option Scheme	Post-IPO Share option Scheme
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Expected volatility	54.0%	54.0%	50.0%	53.0%	41.2%
Risk-free interest rate	2.54%	2.54%	2.58%	2.59%	2.19%
Expected life of options (year)	5.5	1.5-5.5	2 – 6	2 – 6	10
Weighted average exercise price, after share split	US\$0.058	US\$0.174	US\$0.174	US\$0.174	HK\$2.072

2018

CARH share option scheme	Tranche A	Tranche B	Tranche C	2014 CARH	2016 CARH
				Pre-IPO Share option Scheme	Post-IPO Share option Scheme
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	—
Expected volatility	54.0%	54.0%	50.0%	53.0%	—
Risk-free interest rate	2.54%	2.54%	2.58%	2.59%	—
Expected life of options (year)	5.5	1.5-5.5	2 – 6	2 – 6	—
Weighted average exercise price, after share split	US\$0.058	US\$0.174	US\$0.174	US\$0.174	—

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

36. RESERVES

The amount of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity of the Group.

Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

37. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by certain assets of the Group, are included in notes 13 and 26, respectively, to the financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

38. COMMITMENTS

(a) The Group had the following capital commitments at the end of the year:

	2019 RMB'000	2018 <i>RMB'000</i>
Contracted, but not provided for:		
Rental vehicles	—	37,457
Buildings	90,573	201,858
	90,573	239,315

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office and stores, parking lots and rental vehicles under operating lease arrangements. Leases for office and stores, parking lots and rental vehicles are negotiated for terms ranging from one to six years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	192,075
In the second to fifth years, inclusive	161,002
After five years	32,021
	385,098

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

39. RELATED PARTY TRANSACTIONS

a) Related party

Related party for the years ended 31 December 2019 and 2018 was as follows:

Name	Relationship
UCAR and its affiliates	Entities controlled by the Chairman of the Board

b) Related party transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years ended 31 December 2019 and 2018:

(i) Vehicle rental services provided to a related party:

	2019 RMB'000	2018 RMB'000
UCAR	<u>407,374</u>	<u>677,895</u>

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the Group, which are stated excluding value-added tax.

(ii) Sales of used vehicles to a related party:

	2019 RMB'000	2018 RMB'000
UCAR	<u>—</u>	<u>214,977</u>

The prices on sales of used vehicles to a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

39. RELATED PARTY TRANSACTIONS (continued)

b) Related party transactions (continued)

(iii) Provision of reconditioning services to a related party:

	2019 RMB'000	2018 RMB'000
UCAR	<u>—</u>	<u>1,117</u>

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the Group, which are stated excluding value-added tax.

(iv) Auto repair and maintenance services provided by a related party:

	2019 RMB'000	2018 RMB'000
UCAR	<u>—</u>	<u>20,193</u>

The prices for the above services were determined in accordance with the prevailing market prices and conditions offered to other customers of the related party.

(v) Commission charged by a related party:

	2019 RMB'000	2018 RMB'000
UCAR	<u>1,482</u>	<u>45,759</u>

The commission expense was charged at agreed unit prices multiplying the numbers of successful sales orders of vehicles via UCAR's sales platform.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

39. RELATED PARTY TRANSACTIONS (continued)

b) Related party transactions (continued)

(vi) Office rental income from a related party:

	2019 RMB' 000	2018 <i>RMB' 000</i>
UCAR	<u>3,171</u>	<u>3,171</u>

The prices on office rental to the related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

(vii) Office rental expense to a related party:

	2019 RMB' 000	2018 <i>RMB' 000</i>
UCAR	<u>5,059</u>	<u>5,010</u>

The prices on office rental to a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

39. RELATED PARTY TRANSACTIONS *(continued)*

b) Related party transactions *(continued)*

(viii) Purchase of rental vehicles and accessories from a related party:

	2019 RMB'000	2018 RMB'000
UCAR	781,888	—

The prices on purchase of rental vehicles and accessories from a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax. The Group has the right to request UCAR to repurchase the vehicles at a pre-determined annual depreciation rate.

(ix) Test drive service rendered to a related party:

	2019 RMB'000	2018 RMB'000
UCAR	59,224	—

The prices on test drive service rendered to a related party were determined in accordance with the prevailing market prices, which are stated excluding value-added tax.

(x) A total of 5,000 rental vehicles were leased from third-party finance lease companies, pursuant to which the Group has designated these companies to buy the rental vehicles from a related party. Further details are included in note 18(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

39. RELATED PARTY TRANSACTIONS (continued)

c) Outstanding balances with related parties

	2019 RMB' 000	2018 <i>RMB' 000</i>
Current assets:		
Due from a related party:		
– UCAR	<u>443,861</u>	<u>360,129</u>
Current liabilities:		
Due to a related party:		
– UCAR	<u>101,831</u>	<u>305</u>

As at 31 December 2019 and 31 December 2018, balances with related parties were unsecured, non-interest-bearing and repayable on demand.

d) Compensation of key management personnel of the Group:

	2019 RMB' 000	2018 <i>RMB' 000</i>
Short term employee benefits	4,629	3,820
Equity-settled share option expenses	<u>26,440</u>	<u>—</u>
	<u>31,069</u>	<u>3,820</u>

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets

	Financial assets at fair value through profit and loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Finance lease receivables			
– non-current (note 15)	—	855,952	855,952
Investment in equity shares (note 22)	2,800,641	—	2,800,641
Rental deposits	—	—	—
Deposits for sale-leaseback borrowings – non-current	—	54,250	54,250
Restricted cash – current (note 26)	—	522,510	522,510
Restricted cash – non-current (note 26)	—	1,275	1,275
Other non-current assets	—	9,813	9,813
Trade receivables (note 24)	—	96,810	96,810
Amount due from a related party (note 39)	—	443,861	443,861
Financial assets included in prepayments, other receivables and other assets (note 25)	—	126,667	126,667
Finance lease receivables			
– current (note 15)	—	341,319	341,319
Other current financial assets (note 17)	—	—	—
Derivative financial instruments (note 32)	42,693	—	42,693
Cash and cash equivalents (note 26)	—	5,360,520	5,360,520
	2,843,334	7,812,977	10,656,311

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

As at 31 December 2019 (continued)

Financial liabilities

	Financial liabilities fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables (note 27)	—	86,753	86,753
Financial liabilities included in other payables and accruals (note 28)	—	704,981	704,981
Interest-bearing bank loans and other borrowings – current (note 29)	—	3,554,423	3,554,423
Due to a related party (note 39)	—	101,831	101,831
Senior notes – non-current (note 30)	—	2,284,546	2,284,546
Senior notes -current (note 30)	—	5,427,090	5,427,090
Corporate bonds (note 31)	—	1,024,221	1,024,221
Interest-bearing bank loans and other borrowings – non-current (note 29)	—	2,589,269	2,589,269
Deposits received for rental vehicles	—	604	604
	—	15,773,718	15,773,718

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

As at 31 December 2018

Financial assets

	Financial assets at fair value through profit and loss <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Finance lease receivables – non-current (note 15)	—	1,097,470	1,097,470
Investment in equity shares (note 22)	2,809,641	—	2,809,641
Rental deposits	—	145	145
Deposits for sale-leaseback borrowings – non-current	—	30,000	30,000
Restricted cash – current (note 26)	—	250,000	250,000
Restricted cash – non-current (note 26)	—	1,275	1,275
Other non-current assets	—	9,813	9,813
Trade receivables (note 24)	—	96,380	96,380
Amount due from a related party (note 39)	—	360,129	360,129
Financial assets included in prepayments, other receivables and other assets (note 25)	—	214,510	214,510
Finance lease receivables – current (note 15)	—	250,299	250,299
Other current financial assets (note 17)	—	522,510	522,510
Cash and cash equivalents (note 26)	—	3,186,401	3,186,401
	<u>2,809,641</u>	<u>6,018,932</u>	<u>8,828,573</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

As at 31 December 2018 (continued)

Financial liabilities

	Financial liabilities fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables (note 27)	—	112,259	112,259
Financial liabilities included in other payables and accruals (note 28)	—	594,635	594,635
Interest-bearing bank loans and other borrowings – current (note 29)	—	4,699,665	4,699,665
Due to a related party (note 39)	—	305	305
Derivative financial instruments – non-current (note 32)	13,895	—	13,895
Senior notes (note 30)	—	6,176,503	6,176,503
Corporate bonds (note 31)	—	1,020,834	1,020,834
Interest-bearing bank loans and other borrowings – non-current (note 29)	—	754,846	754,846
Deposits received for rental vehicles	—	753	753
	<u>13,895</u>	<u>13,359,800</u>	<u>13,373,695</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

41. 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:

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial assets				
Investment in equity shares (note 22)	2,800,641	2,809,641	2,800,641	2,809,641
Derivative financial instruments (note 32)	42,693	—	42,693	—
	<u>2,843,334</u>	<u>2,809,641</u>	<u>2,843,334</u>	<u>2,809,641</u>
Financial liabilities				
Derivative financial instruments(note 32)	—	13,895	—	13,895

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivable, trade payables, financial assets included in prepayments, other receivables and other assets, amounts due from a related party, finance lease receivables, financial liabilities included in other payables and accruals, an amounts due to a related party, interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits, finance lease receivables, other non-current assets, interest-bearing bank loans and other borrowings and senior notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts. The Group's own non-performance risk for interest-bearing bank loans and other borrowings and senior notes as at 31 December 2019 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with good credit ratings. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to the discounted cash flow model and the Black-Scholes option pricing model. The models incorporate various market observable inputs including foreign exchange spot, forward rates, risk-free interest rate curves and implied volatility of the foreign exchange rate. The carrying amounts of forward currency contracts are the same as their fair values.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment in equity shares (note 22)	—	—	2,800,641	2,800,641
Derivative financial instruments (note 32)	—	42,693	—	42,693
	—	42,693	2,800,641	2,843,334

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment in equity shares (note 22)	—	—	2,809,641	2,809,641

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

The movement in fair value measurements within Level 2 during the year is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Derivative financial instruments:		
At 1 January	—	—
Total gain recognised in the statement of profit or loss included in other income	42,693	—
At 31 December	42,693	—

The movement in fair value measurements within Level 3 during the year is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Investment in financial assets at fair value through profit or loss		
At 1 January	2,809,641	2,807,244
Total (loss)/gain recognised in the statement of profit or loss included in other income	(9,000)	2,397
Disposal	—	—
At 31 December	2,800,641	2,809,641

The Group has changed the valuation method from income approach to market approach to better reflect the fair value of Investment in equity shares of UCAR since 2019, due to strategic change with significant business combination and the uncertainty of forecast used by income approach.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

As at 31 December 2019

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Investment in equity shares of UCAR	Market approach	Concluded market multiples	1.56-7.04	5% increase/(decrease) in concluded market multiples would result in increase/(decrease) in fair value by RMB156,311,000/ (RMB156,311,000)
Investment in equity shares of UCAR	Income approach	Terminal growth rate	3%	20% increase/(decrease) in terminal growth rate would result in increase/(decrease) in fair value by RMB37,885,000/ (RMB35,858,000)
		Weighted average cost of capital (WACC)	24% to 26%	20% increase/(decrease) in weighted average cost of capital (WACC) would result in (decrease)/increase in fair value by (RMB525,622,000)/ RMB845,366,000
		Discount for lack of marketability	18%	20% increase/(decrease) in discount for lack of marketability would result in (decrease)/increase in fair value by (RMB123,350,000)/ RMB123,350,000

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liability measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	—	—	—

The movement in fair value measurements within Level 2 during the year is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Derivative financial instruments		
At 1 January	13,895	187,026
Total (gain)/loss recognised in the statement of profit or loss included in other income	(13,895)	26,750
Settlement	—	(199,881)
At the end of the year	—	13,895

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, other interest-bearing loans, and cash and short term deposits. 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks as summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and loans from related parties with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	(Decrease)/ increase in basis points	Change in profit before tax RMB'000	Change in equity* RMB'000
31 December 2019			
RMB	(100)	37,927	—
RMB	100	(37,927)	—
31 December 2018			
RMB	(100)	39,006	—
RMB	100	(39,006)	—

* Excluding retained earnings

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures which mainly arise from borrowings by operating units in currencies other than the functional currencies of the units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB-US\$ exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying values of monetary assets and liabilities and equity due to changes in the foreign currency exchange reserve.

	Fluctuation in foreign exchange rate %	Increase/ (decrease) in profit before tax RMB' 000	Increase/ (decrease) in equity* RMB' 000
31 December 2019			
If RMB weakens against US\$	(5)	260,519	—
If RMB strengthens against US\$	5	(470,855)	—
31 December 2018			
If RMB weakens against US\$	(5)	303,929	—
If RMB strengthens against US\$	5	(303,929)	—

* Excluding retained earnings

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2019

	12-month	Lifetime ECLs			RMB'000
	ECLs			Simplified	
	Stage1	Stage2	Stage3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables					
– non-current (note 15)	—	—	—	855,952	855,952
Trade receivables* (note 24)	—	—	—	96,810	96,810
Restricted cash					
– current (note 26)	522,510	—	—	—	522,510
Restricted cash					
– non-current (note 26)	1,275	—	—	—	1,275
Other non-current assets	9,813	—	—	—	9,813
Amount due from					
a related party (note 39)	443,861	—	—	—	443,861
Financial assets included in					
prepayments, other receivables					
and other assets (note 25)					
– Normal**	126,667	—	—	—	126,667
– Doubtful**	—	—	—	—	—
Finance lease receivables					
– current (note 15)	—	—	—	341,319	341,319
Cash and cash equivalents (note 26)					
– Not yet past due	5,360,520	—	—	—	5,360,520
	6,464,646	—	—	1,294,081	7,758,727

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2018

	12-month	Lifetime ECLs			RMB'000
	ECLs	Simplified			
	Stage1	Stage2	Stage3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables					
– non-current (note 15)	—	—	—	1,097,470	1,097,470
Rental deposits	145	—	—	—	145
Trade receivables*					
(note 24)	—	—	—	96,380	96,380
Restricted cash					
– current (note 26)	250,000	—	—	—	250,000
Restricted cash					
– non-current (note 26)	1,275	—	—	—	1,275
Other non-current assets	9,813	—	—	—	9,813
Amount due from a					
related party (note 39)	360,129	—	—	—	360,129
Financial assets included in					
prepayments, other receivables					
and other assets (note 25)					
– Normal**	214,510	—	—	—	214,510
– Doubtful**	—	—	—	—	—
Finance lease receivables					
– current (note 15)	—	—	—	250,299	250,299
Cash and cash equivalents (note 26)					
– Not yet past due	3,186,401	—	—	—	3,186,401
	<u>4,022,273</u>	<u>—</u>	<u>—</u>	<u>1,444,149</u>	<u>5,466,422</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 24 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2018

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, financial lease receivables, amounts due from a related party, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24.

Liquidity risk

The Group monitors its cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available, and obtaining borrowing loans from banks and other financial institutions.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2019			Total RMB'000
	On demand or less than 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	
Trade payables	86,753	—	—	86,753
Financial liabilities included in other payables and accruals	704,981	—	—	704,981
Interest-bearing bank and other borrowings	3,817,269	2,771,421	—	6,588,690
Due to a related party	101,831	—	—	101,831
Senior notes	2,760,723	5,873,278	—	8,634,001
Corporate bonds	62,490	1,108,990	—	1,171,480
	7,534,047	9,753,689	—	17,287,736

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	31 December 2018			Total RMB'000
	On demand or less than 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	
Trade payables	112,259	—	—	112,259
Financial liabilities included in other payables and accruals	594,635	—	—	594,635
Interest-bearing bank and other borrowings	4,937,076	814,817	—	5,751,893
Due to a related party	305	—	—	305
Senior notes	382,474	6,604,084	—	6,986,558
Corporate bonds	62,490	854,980	316,500	1,233,970
Deposits received for vehicle rental	—	753	—	753
	<u>6,089,239</u>	<u>8,274,634</u>	<u>316,500</u>	<u>14,680,373</u>

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability 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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a net debt/asset ratio, which is net debt divided by total assets. Net debt includes bank loans and other borrowings, senior notes and corporate bonds less cash and cash equivalents and restricted cash. The gearing ratio as at the reporting date was as follows:

	2019	2018
	RMB'000	RMB'000
Interest-bearing bank and other borrowings		
– current	3,554,423	4,699,665
Interest-bearing bank and other borrowings		
– non-current	2,589,269	754,846
Senior notes – current	2,284,546	–
Senior notes – non-current	5,427,090	6,176,503
Corporate bonds	1,024,221	1,020,834
Cash and cash equivalents	(5,360,520)	(3,186,401)
Restricted cash	(523,785)	(251,275)
	8,995,244	9,214,172
Net debt	8,995,244	9,214,172
	24,633,031	22,204,909
Total assets	24,633,031	22,204,909
	37%	41%
Net debt/asset ratio	37%	41%

43. EVENTS AFTER THE REPORTING PERIOD

In February, the Company fully repaid the USD-denominated senior notes due 2020.

In early 2020, the outbreak of novel coronavirus (COVID-19) has certain impact on the car rental business of the Company due to travel restrictions and suppress on tourism. The degree of the impact depends on the epidemic preventive measures and the duration of the epidemic. Given the dynamic circumstances and high uncertainties, the financial impact could not be reasonably estimated at this stage and will be reflected in the Company's 2020 financial statements.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Investment in equity shares	—	—
Total non-current assets	—	—
CURRENT ASSETS		
Prepayments, other receivables and other assets	86,447	87,146
Restricted cash – current	—	—
Due from subsidiaries	8,530,697	10,289,881
Derivative financial instruments	42,693	—
Cash and cash equivalents	2,041,100	221,426
Total current assets	10,700,937	10,598,453
CURRENT LIABILITIES		
Other payables and accruals	224,495	225,984
Senior notes	2,284,546	—
Interest-bearing bank and other borrowings – current	740,468	2,210,637
Total current liabilities	3,249,527	2,436,621
NET CURRENT ASSETS	7,451,410	8,161,832
TOTAL ASSETS LESS CURRENT LIABILITIES	7,451,410	8,161,832
NON-CURRENT LIABILITIES		
Senior notes	5,427,090	6,176,503
Corporate bonds	1,024,221	1,020,834
Derivative financial instruments – non-current	—	13,895
Interest-bearing bank and other borrowings – non-current	1,125,254	508,721
Total non-current liabilities	7,576,565	7,719,953
Net (liabilities)/assets	(125,155)	441,879
EQUITY		
Equity attributable to owners of the parent		
Share capital	131	131
Reserves	1,683,733	1,594,857
Treasury shares	—	—
Accumulated losses	(1,809,019)	(1,153,109)
Total equity	(125,155)	441,879

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Number of shares in issue	Share capital RMB' 000	Share premium RMB' 000	Share option reserve RMB' 000	Treasury shares RMB' 000	Retained earnings/ (accumulated losses) RMB' 000	Total equity RMB' 000
As at 1 January 2018	2,173,420,201	134	1,886,096	45,689	(147,481)	(447,302)	1,337,136
Loss for the year	—	—	—	—	—	(705,807)	(705,807)
Other comprehensive income for the year	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	(705,807)	(705,807)
Repurchase of shares	—	—	—	—	(198,440)	—	(198,440)
Cancellation of shares	(62,014,000)	(4)	(345,917)	—	345,921	—	—
Exercise of share options	7,311,019	1	7,334	—	—	—	7,335
Equity-settled share option arrangements (note 35)	—	—	—	1,655	—	—	1,655
As at 31 December 2018	<u>2,118,717,220</u>	<u>131</u>	<u>1,547,513</u>	<u>47,344</u>	<u>—</u>	<u>(1,153,109)</u>	<u>441,879</u>
Loss for the year	—	—	—	—	—	(655,910)	(655,910)
Other comprehensive income for the year	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	(655,910)	(655,910)
Repurchase of shares	—	—	—	—	—	—	—
Cancellation of shares	—	—	—	—	—	—	—
Exercise of share options	1,163,191	—	1,270	—	—	—	1,270
Equity-settled share option arrangements (note 35)	—	—	—	87,606	—	—	87,606
As at 31 December 2019	<u>2,119,880,411</u>	<u>131</u>	<u>1,548,783</u>	<u>134,950</u>	<u>—</u>	<u>(1,809,019)</u>	<u>(125,155)</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2019

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2020.

PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

<i>Head office</i>	<i>Principal place of business in Hong Kong</i>	<i>Registered office</i>
3F, Lead International Building 2A Zhonghuan South Road Wangjing, Chaoyang District Beijing, PRC	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Island

TRUSTEE

Citicorp International Limited
20/F, Citi Tower, One Bay East
83 Hoi Bun Road, Kwun Tong
Kowloon, Hong Kong

PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Citibank, N.A., London Branch
c/o Citibank, N.A., Dublin Branch
1 North Wall Quay, Dublin 1
Ireland

LEGAL ADVISORS TO THE COMPANY

*as to U.S. federal and New York state law
and Hong Kong law*

Kirkland & Ellis
26th Floor, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

as to Cayman Islands law

Conyers Dill & Pearman
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY 1-1111, Cayman Islands

as to British Virgin Islands law

Conyers Dill & Pearman
29th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

as to the PRC law

King & Wood Mallesons
18th Floor, East Tower, World Financial Center
No. 1 Dongsanhuan Zhonglu, Chaoyang District
Beijing, PRC

LEGAL ADVISORS TO THE INITIAL PURCHASERS

as to U.S. federal and New York state law

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central, Hong Kong

as to the PRC law

JunHe LLP
Suite 2803-04, 28/F, Tower Three
Kerry Plaza, Futian District
Shenzhen, PRC

INDEPENDENT ACCOUNTANTS

Ernst & Young
22nd Floor, Citic Tower
1 Tim Mei Avenue
Central, Hong Kong