
OUR BUSINESS

OVERVIEW

We are a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China in terms of number of outlets and brand coverage, according to the ACMR Report. As of the Latest Practicable Date, we operated 25 outlets nationwide and held minority equity interests in two other outlets, the second most among dealerships that specialize exclusively in luxury and ultra-luxury brands in China, according to the ACMR Report. As of the Latest Practicable Date, our outlets in operation covered 10 luxury and ultra-luxury brands, namely, BMW, Lexus, Rolls-Royce, MINI, Land Rover, Jaguar, Aston Martin, Audi, Ferrari and Maserati, the most among dealership groups specializing in luxury and ultra-luxury brands in China, according to the ACMR Report. In addition, we had authorizations, preliminary approvals or letters of intent to establish 20 new outlets, among which 14 had entered into construction phase. In addition, our market share in the luxury and ultra-luxury market in Central China Region was 9.7% in terms of sales volume in 2012, the largest in the region according to the ACMR Report. In 2012, we were the second largest in terms of revenue among dealerships that specialize exclusively in luxury and ultra-luxury brands in China, according to the same report. We focus exclusively on luxury and ultra-luxury brands in order to provide our customers the high-quality services and purchase experiences they expect. We believe such strategic focus has enabled us to benefit from the exponential growth of market demand for luxury products in China in recent years as a result of the economic growth and accumulation of individual wealth, and is consistent with the strategic expansion plan of the automobile manufacturers. Most of our dealership outlets are strategically located in populous and affluent cities in China with rapidly-growing local economies.

Since the inception of our business in 2005, we have established a dominant presence in Henan Province, one of the largest provinces in China in terms of population and one of the fastest-growing regional markets for passenger vehicles, according to the ACMR Report. We opened the first BMW 4S store in Henan Province in 2005 and were the only BMW dealership in Henan Province until 2011. We have been the largest BMW dealership group in Henan Province in terms of sales volume since 2005 and, BMW passenger vehicles sold by us accounted for over 90% of BMW passenger vehicles sold in Henan Province during the Track Record Period, according to the ACMR Report. Since 2010, we have been quickly expanding into other major cities in China. Our BMW 4S store in Beijing is one of the largest and most well equipped BMW 4S stores in China. The 5S BMW stores we operate in Shanghai and Guangzhou are of a new and enhanced form of 4S store and among the few 5S stores BMW China has authorized so far. In addition, we have obtained authorizations, preliminary approvals and letters of intent for 4S stores for a number of luxury and ultra-luxury brands in other selected provincial capitals and affluent cities in China.

By leveraging our leading position in Henan Province and our accumulated operational capabilities and expertise, we have established strong and long-term relationships with leading international luxury and ultra-luxury automobile manufacturers. In addition, specializing in luxury and ultra-luxury brands enables us to align our business interests and strategies with those of the automobile manufacturers, whose sales and marketing efforts are often tailored to high-end customers. As an endorsement of our performance, existing and new automobile manufacturers continue to grant us authorizations to open new outlets for their brands. We have won various awards from automobile manufacturers, including awards for excellent outlets operations from BMW and Lexus and awards for speedy 4S store construction from BMW.

We achieved significant revenue and profit growth during the Track Record Period. Our revenues were RMB1.80 billion, RMB3.03 billion and RMB5.66 billion for the years ended December 31, 2010, 2011 and 2012, respectively, representing a CAGR of 77.3% from 2010 to 2012. Sales of new passenger vehicles are the main source of our revenues and accounted for 89.7%, 90.8% and 92.7% of the total revenues of the years ended December 31, 2010, 2011 and 2012, respectively. The gross profit margins for sales of new passenger vehicles were 9.8%, 11.4% and 9.2% for the years ended

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December 31, 2010, 2011 and 2012, respectively. Compared with sales of new passenger vehicles, after-sales services provide steady and recurring revenues with higher gross profit margin. The gross profit margins for after-sales services were 39.6%, 37.6% and 44.0% for the years ended December 31, 2010, 2011 and 2012, respectively. Gross profit generated from after-sales services accounted for 31.5%, 25.1% and 27.4% of the total gross profit of the years ended December 31, 2010, 2011 and 2012, respectively. Our net profit was RMB112.7 million, RMB220.5 million and RMB350.7 million for the years ended December 31, 2010, 2011 and 2012, respectively, representing a CAGR of 76.4% from 2010 to 2012.

OUR COMPETITIVE STRENGTHS

The following competitive strengths have contributed to our success and we believe will continue to help us to compete and expand in China's fast growing luxury and ultra-luxury passenger vehicle market:

A leading dealership group specialized exclusively in luxury and ultra-luxury passenger vehicles in China

Since the inception of our business in 2005, we have been dedicating our efforts to building one of the largest dealership group in China that deals exclusively in luxury and ultra-luxury passenger vehicles. As of the Latest Practicable Date, we operated 25 dealership outlets and held minority equity interests in two other dealership outlets for 10 luxury and ultra-luxury brands, namely, BMW, Lexus, Rolls-Royce, MINI, Land Rover, Jaguar, Aston Martin, Maserati, Ferrari and Audi. Our portfolio of 10 luxury and ultra-luxury brands was the most extensive brand coverage among dealerships specializing in luxury and ultra-luxury brands in China, according to the ACMR Report. According to the same report, in recent years the luxury and ultra-luxury passenger vehicle market has sustained strong growth while the growth of mid- and lower-level passenger vehicle market has slowed down or experienced contraction. Our strategy to focus exclusively on luxury and ultra-luxury brands is consistent with such market trends and has contributed to our strong growth in recent years.

We have been focusing on brands that are well-known in China and have established ourselves as a market leader in a number of popular luxury and ultra-luxury brands in China. We are one of the largest BMW and Rolls-Royce dealership groups in China in terms of numbers of outlets, according to the ACMR Report. In addition, we have been actively seeking to introduce premier international luxury and ultra-luxury brands into new regional markets. For example, we are the first dealership group to introduce Aston Martin into regional Chinese markets outside the tier-one cities. As of the Latest Practicable Date, we operated two Aston Martin 4S stores.

Our business scale has provided us competitive advantages in various aspects of our operations, including:

- *Standardized operations:* we have accumulated extensive experience from operating our outlets and translated such experience into standardized operational procedures across our sales network through periodic trainings;
- *Strategic relationships with automobile manufacturers:* we have strengthened our strategic relationships with manufacturers through our strong sales performance and extensive sales network coverage;
- *Cost efficiency:* we have achieved economies of scale and are continuing to improve our operational efficiency through central management of our sales network;
- *Human resources:* our large sales network and multilayered management positions provide our employees with progressive career opportunities and development potential; and

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- *Source of financing:* our business scale and track record of strong financial performance enhance our ability to obtain financing from local branches of commercial banks.

Extensive and strategically located sales network in China with a dominant presence in Henan Province

We have established an extensive sales network for luxury and ultra-luxury passenger vehicles in China, with a dominant presence in Henan Province as well as strong representation in tier-one cities. As of the Latest Practicable Date, we wholly or jointly owned, were constructing or planning to construct a total of 47 outlets, the most among dealerships specializing in luxury and ultra-luxury brands in China, according to the ACMR Report. Specifically, we operated 25 outlets in 14 cities, held minority equity interests in two other outlets in Henan, and had authorizations, preliminary approvals or letters of intent to establish 20 new outlets in 11 cities, among which five are cities where we do not yet have outlets. In addition, we are applying for authorizations from new luxury and ultra-luxury brands such as Porsche, Infiniti and Volvo.

Dominant presence in Henan Province resulting in enhanced pricing power

Since the inception of our business in 2005, we have quickly established and steadily maintained a dominant presence in Henan Province, by using Zhengzhou as a hub and expanding our sales network coverage into other major cities in the province, including Luoyang, Kaifeng, Xinxiang, Nanyang and Anyang. Our growth into the market leader in Henan Province was on pace with and contributed to the growth of the regional luxury and ultra-luxury passenger vehicle market, which is among the fastest growing regional markets in China. According to the ACMR Report, the number of registered new luxury and ultra-luxury passenger vehicles in Henan Province increased at a CAGR of 45.9% from 2006 to 2012, higher than the national average of 40.3%. As of the Latest Practicable Date, we had 11 out of 13 BMW outlets and two out of three Lexus outlets in Henan Province. As a result, during the Track Record Period, the BMW sold by us accounted for over 90% and over 80% of the total numbers of BMW and Lexus passenger vehicles sold in Henan Province according to the ACMR Report. Moreover, we operate the only Rolls-Royce 4S store in Henan Province. We focused on Henan Province in the initial phase of our growth as it is one of the largest provinces in terms of population and one of the fastest growing provinces in China in terms of nominal GDP. Moreover, Henan Province is one of China's focal points of economic development, as the PRC central government made the development of the "Central China Economic Region" one of the core missions in the Twelfth Five-Year Plan. We believe we are well-positioned to leverage our dominant position in the passenger vehicle market in Henan Province to fully benefit from this trend of further economic development in the region, and continue to grow in business scale and revenues as the market continues to grow.

Our dominant market position in Henan Province provided us enhanced pricing power in new passenger vehicle sales, especially for brands such as BMW, Rolls-Royce and Lexus. We make it our priority to set a high market standard in Henan Province and to satisfy our customers with excellent services, as our customers are in generally more sensitive to purchase experience as compared to competitive pricing. Our gross profit margin for sales of new passenger vehicles was 9.8%, 11.4% and 9.2% for the years ended December 31, 2010, 2011 and 2012, respectively.

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Prime outlet locations in tier-one cities with established passenger vehicle markets

Leveraging our operational experience and leading position in Henan Province, we have been quickly expanding into tier-one cities with established passenger vehicle markets since the end of 2011, as we believe presence in tier-one cities will increase our market recognition, complete our strategic deployment of sales network in China, and help our plan to improve our after-sales services. In tier-one cities such as Beijing, Shanghai and Guangzhou with numerous 4S stores that cover a wide variety of brands, we believe eminence and location are the two most critical factors of a 4S store's competitiveness, as potential purchasers and existing owners of luxury and ultra-luxury passenger vehicles tend to frequent upper-scale 4S stores with ease of access for purchase and after-sales services. Our 4S and 5S stores in Beijing, Shanghai and Guangzhou are all situated in central business districts with easy access to arteries. With our prime outlet locations, we believe we are well-positioned to compete and increase our market share in such tier-one cities.

Our 4S store in Beijing, Huadebao, benefited from the eminence of its scale and the ease of access of its location, as it operates in an intensively competitive market. In its first year of operation, Huadebao has fulfilled or exceeded all sales quota for both sales of new passenger vehicles and after-sales services, as well as other operational and financial benchmarks as set by BMW China. BMW China grant various rewards to Huadebao to accommodate its first year of operation.

Strategic positioning in other provincial capitals and affluent cities

In addition, we have also selectively expanded our network into other strategic regional markets. We have obtained authorizations, preliminary approvals and letters of intent for 4S stores in other provincial capitals and affluent cities, including Shenyang and Wuhan. Such strategic positioning of our sales network provides us with, among other things, operational efficiency as we can more effectively coordinate our inventory management of passenger vehicles and spare parts among our outlets. Locations for our outlets in such cities were chosen by taking into consideration many factors, such as income level and consumption habit of local residents, governmental zoning and economic development plan of the location and nearby region, and availability of subsidy and support from local government.

Prudent capital expenditure in outlet construction with relatively low initial capital investment while ensuring long-term stability

Luxury and ultra-luxury passenger vehicle dealerships are capital-intensive, and capital expenditure and cost of financing have major impacts on profitability. A major capital expenditure for a passenger vehicle dealership is the acquisition of land use right for its outlets. Most of our outlets are located in primary locations in major cities where land use right tend to be expensive. Instead of acquiring land use rights, we generally secure long-term leases, typically for 10 years or more, of the land where our outlets are to be built. In choosing locations for our outlets, we also take into consideration zoning plans of local governments to make sure there are no significant zoning changes during the lease terms. Such measures significantly reduced our initial capital expenditure and the amount of financing needed for the opening of new outlets. Lower initial capital investment in outlets enables us to allocate more available capital to outlet development, such as purchase of new passenger vehicles and other working capital needs of such outlets.

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Strong relationships with luxury and ultra-luxury automobile manufacturers

Our significant growth in recent years is attributable in part to our ability to establish and maintain strong relationships with selected leading international luxury and ultra-luxury automobile manufacturers, which typically require strong management and high operational capability of their dealerships. During the Track Record Period, we had consistently met and exceeded manufacturers' annual sales quota and various other requirements, such as 4S store scale, service quality and management qualification.

As one of the biggest dealership groups that deals luxury and ultra-luxury passenger vehicles in China, we have proved ourselves as an important business partner to automobile manufacturers. In particular, our dominant market position in Henan Province contributed significantly to the growth of luxury and ultra-luxury brands such as BMW, Lexus and Rolls-Royce in the province. We have won various awards from manufacturers during the Track Record Period. For example, Zhongdebao won the BMW Top Dealer Management Award in 2010, and Yudebao won the BMW Top Dealership Award in both 2011 and 2012. In 2012, Zhongdebao won the Top Sales Performance Award and Yudebao won the Top Service Performance Award granted by BMW, respectively. In its first full-year operation, Beijing Huadebao won the BMW 2012 Excellent Public Relation Award and the BMW North Region 2012 Aftersales New Dealer Award. In their first years of operations, our exhibition galleries for Rolls-Royce in Zhengzhou and Xi'an won the Best Service Facility in China 2012 and the Best Performance New Dealer in China 2012, respectively. We also won Lexus National Excellent Dealership Awards in 2009 and 2010. In addition, BMW granted us a preliminary approval to establish a 4S store in Shenyang, Liaoning Province, where its largest production base in China is located.

In addition, we have accumulated and maintained a customer base consisting mainly of affluent individuals who we believe value service quality and purchasing experience over competitive pricing. We believe such customer base is valuable to automobile manufacturers who want to capture the growth of the luxury and ultra-luxury passenger vehicle market in recent years.

As a result, we have successfully obtained 43 authorizations, preliminary approvals or letters of intent to establish new outlets since 2009 and expanded our brand coverage from two as of January 1, 2009 to 10 as of the Latest Practicable Date. Such authorizations are crucial to our plans of strategic expansion in the near future as we believe most luxury and ultra-luxury brands are completing their sales network deployment in China and additional authorizations of outlets will be increasingly difficult to obtain going forward. In addition, in November 2012 BMW China granted preliminary approvals to three of our outlets, namely, Zhongdebao, Shangdebaojun, and Guangdebao, to distribute its new electric passenger vehicles, BMW i.

Experienced senior and mid-level management team with high employee retention rate

Our senior management team has a track record of successfully implementing our strategies and orchestrating the recent fast growth of our business. In particular, Mr. Feng, our founder and chairman, and Mr. Yu Feng, our chief executive officer, are both experienced in the passenger vehicle dealership business with over seven years of experience each and have been involved in our operations since the inception of our business. Other key managements such as our chief operating officer and vice president, Mr. Yang Lei, has also been working at our Company since the inception of our business.

We believe our employees are key assets to our business. We provide our employees ample career development opportunities by regularly offering a wide variety of training programs across seniority and job functions. We reward employees with promotion to various management roles as they improve and progress. We design a three-to-five-year career plan for each of our new employee,

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which gives the employee choices over a wide range of career trainings. Such training plans provide the employee multiple career paths. If the employee satisfies relevant qualifications at the end of the plan, we give the employee choice to further develop into a management or operational role. In addition, we provide our employees a harmonious and constructive working environment, as we believe our corporate culture, which can be characterized as “simplicity, transparency, generosity, harmony and congeniality”, is crucial to our human resource management.

We have achieved a stable employee workforce as we have retained all our management from store manager level and above during the Track Record Period. Moreover, substantially all of our management at the store manager level and above was appointed through internal promotion as of the Latest Practicable Date. The stability of our senior and mid-level management team is an important asset of our business, which also helps us build a solid and long-term relationship with automobile manufacturers.

OUR STRATEGIES

Our goal is to strengthen our market position and to become the leading luxury and ultra-luxury dealership group in China and to further capture the opportunities in the large and fast-growing luxury and ultra-luxury passenger vehicle market by pursuing the following strategies:

Continue to expand our sales network and brand coverage for luxury brands in central and western China and for ultra-luxury brands in affluent cities

We plan to strengthen our leading position in the luxury and ultra-luxury passenger vehicle dealership market in China by continuing to implement our strategic expansion and extend our geographic and brand coverage for luxury brands in central and western China and for ultra-luxury brands in affluent cities. According to the ACMR Report, in recent years demand for luxury passenger vehicles in central and western China has experienced fast growth as economy in such regions grows. We plan to leverage our dominant market position in central China region to further expand into central and western China to capture the growth of the luxury passenger vehicle market. According to the same report, Beijing, Shanghai and Guangzhou, were among the top four cities in terms of number of newly registered ultra-luxury passenger vehicles in 2012. We had opened our first Maserati & Ferrari outlet in Suzhou, Jiangsu in December 2012. We plan to solidify our leading market position by expanding into such tier-one cities and selected cities in Jiangsu Province and other affluent regions. We expect to implement such strategic expansion mainly by organic growth in the near future, although we will also actively evaluate acquisition opportunities in a selective and prudent manner, especially in cities with established passenger vehicle markets.

In addition, we will continue to diversify our brand coverage to strengthen our leading position as an exclusive luxury and ultra-luxury brand dealership group. For example, we have obtained 4S store authorizations, preliminary approvals or letters of intent for a number of new ultra-luxury brands, such as Ferrari and Maserati since August 2012. Moreover, we are currently applying for authorizations for outlets from new brands including Porsche, Infiniti and Volvo.

Further diversify our revenue sources

We plan to continue to improve our revenue mix and profit margin by further diversifying our revenue sources. We plan to further strengthen our after-sales services to improve our profit margin. We are currently constructing two BMW service centers in Zhengzhou and we plan to apply for authorizations of large-scale full-service centers for other brands as well. Such service centers will significantly enhance the capacity and cost-efficiency of our after-sales services and serve as service hubs for the 4S stores we operate in the region, which will provide operational synergy. In addition, we plan to further emphasis after-sales service in our newly opened stores in tier-one cities, as we

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believe the eminence and ease of access of our stores in such cities will help attract after-sales service customers. In addition, according to ACMR Report, the volume of luxury and ultra-luxury passenger vehicles in tier-one cities is much larger than other cities in China, which we believe creates more market demand for after-sales services in tier-one cities as compared to cities in central and western China. The emphasis on after-sales services will help us compete and improve our overall gross profit margin in such established markets.

We plan to further develop our ability to generate revenues from sales of accessories, as well as insurance and finance consulting services in connection with sales of new passenger vehicles. We also plan to expand our BMW VIP Club coverage to other regional markets and offer similar membership services to customers of other brands.

In addition, our existing pre-owned passenger vehicle trading business is complementary to our new passenger vehicle sales. While this business is currently small in scale, we plan to leverage our know-how in sales and services and expand our pre-owned passenger vehicle trading business, both in volume and brand.

Further strengthen our strategic relationship with automobile manufacturers

We believe maintaining and improving relationship with automobile manufacturers is critical to our business, especially in the highly competitive luxury and ultra-luxury passenger vehicles dealership market. We plan to maintain our proven track record of meeting and exceeding manufacturer annual sales quota and other specifications by a number of measures, including continuing to expand our operational scale, intensifying our sales and marketing initiatives, further aligning our various operational procedures with manufacturers' standards, and improving our informational technology system and internal control.

In addition, we are seeking other innovative initiatives to strengthen our relationship with manufacturers. For example, we obtained approval from BMW China to sponsor a program titled "BMW Class" at Henan Institute of Transportation. Such program will feature a number of courses related to BMW passenger vehicles, and top graduates of the program will be offered employment opportunities at our various BMW outlets. We are looking into similar and other forms of cooperation with other brands we serve.

Continue to focus on employee recruitment, training and retention

Employee training is an on-going process and we need to retain and expand our work force as we continue to expand our sales network. In addition, we expect employee retention to become increasingly important as competition intensifies. To meet the needs of our expansion plan, we plan to continue to refine our career plans for new employees by providing them with hands-on trainings and meaningful career choices, which need to be constantly adjusted as the market changes. We will also offer competitive compensation packages to selected domestic- and foreign-educated candidates to join our management. It is also important to maintain a high ratio of employees who passed various qualifications as set by automobile manufacturers. We will keep active communications with automobile manufacturers in terms of employee trainings, giving them regular updates and obtaining feedbacks. Moreover, we will continue our tradition of internal promotion for management positions while actively attracting local management talents with competitive incentives as we expand into new regional markets.

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OUR DEALERSHIP BUSINESS

Overview

We are a leading dealership group in China that specializes exclusively in the sales and after-sales services of luxury and ultra-luxury passenger vehicles. The services we provide our customers include:

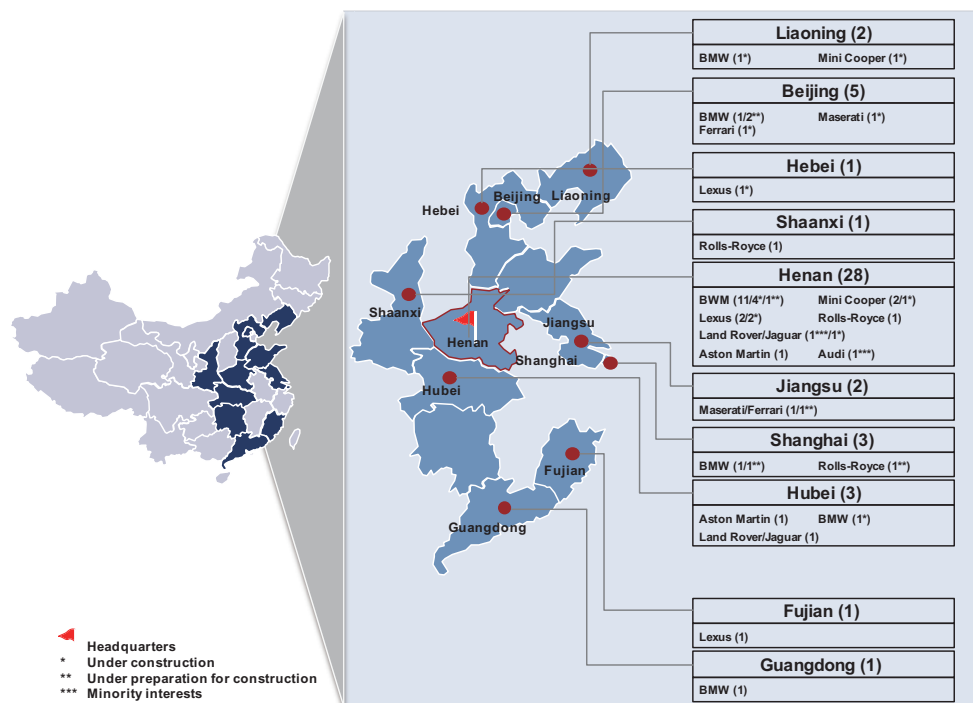
- sales of new passenger vehicles of luxury and ultra-luxury brands;
- after-sales services such as repair and maintenance, sales of spare parts and accessories and detailing services;
- financing and insurance consulting services in connection with the sales of new passenger vehicles; and
- sales of pre-owned passenger vehicles which is complementary to our sales of new passenger vehicles business.

We conduct our business through our sales network of manufacturer-authorized dealership outlets, which include 4S and 5S stores, exhibition galleries and services centers. As of the Latest Practicable Date, we operated 25 outlets in 14 cities in China. The following table sets forth our outlets in operation in China by brand as of the indicated dates:

	As of December 31,			As of the Latest Practicable Date
	2010	2011	2012	
BMW	4	7	13	14
Rolls-Royce	nil	nil	2	2
Lexus	1	1	2	3
MINI	1	1	1	2
Aston Martin	nil	nil	2	2
Land Rover & Jaguar	nil	nil	1	1
Maserati & Ferrari	nil	nil	1	1
Total	6	9	22	25

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The vast majority of our outlets are located in populous and affluent cities in China with a strategic focus on Henan Province and tier-one cities. The following map illustrates the geographic coverage of our sales network in China, including outlets in operation, under construction and under preparation of construction, as of the Latest Practicable Date:



4S/5S dealership stores

The majority of our outlets are 4S dealership stores. As of the Latest Practicable Date, we operated 16 4S and 5S stores in 12 cities, held minority equity interests in two other 4S stores in Zhengzhou, and had authorizations, preliminary approvals or letters of intent to establish 14 new 4S stores in 11 cities, five of which we did not yet have outlets. Each 4S store is authorized by an automobile manufacturer, and exclusively deals and services passenger vehicles of that brand. A 4S store provides comprehensive and integrated passenger vehicle related services, as the 4 “S” stands for:

- *Sales*, referring to sales of new passenger vehicles of the authorized brand;
- *Spare parts*, referring to sales of spare parts of the authorized brand;
- *Service*, referring to various services provided to passenger vehicles of the authorized brand, including maintenance, repair and detailing services; and
- *Survey*, referring to the gathering of customer information and feedback for manufacturers’ market research purposes.

As of the Latest Practicable Date, we operated a 5S store in Shanghai and a 5S store in Guangzhou. A 5S store is a 4S store with “sustainability”, and is equipped with certain recycling capacities and operated according to eco-friendly procedures set by the authorizing manufacturer.

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Other outlets

In addition to 4S and 5S stores, we operated eight exhibition galleries and had obtained authorizations, preliminary approvals or letters of intent to establish three new exhibition galleries as of the Latest Practicable Date. Unlike a 4S or 5S store which also offers after-sales and other related services, an exhibition gallery is authorized by a manufacturer to showcase such manufacturer's passenger vehicles, usually the latest or most popular models, to attract potential customers and facilitate sales of new passenger vehicles. Four of our operating exhibition galleries are authorized by BMW, two are authorized by Rolls-Royce, and the other two are authorized by MINI and Lexus. In addition, we also operated a service center in Xinxiang, Henan Province and had authorizations, preliminary approvals or letters of intent for another two service centers in Henan Province as of the Latest Practicable Date. We also had a preliminary approval to establish our first BMW brand store in Beijing in collaboration with BMW as of the Latest Practicable Date. A brand store is a flagship outlet to showcase the newest passenger vehicle models of an automobile manufacturer.

Brand Coverage

As of the Latest Practicable Date, we had the most extensive brand coverage among dealership groups that specialize exclusively in luxury and ultra-luxury passenger vehicles in China, according to the ACMR Report. As of the Latest Practicable Date, we wholly or jointly owned outlets that cover 10 luxury and ultra-luxury brands, namely, BMW, Lexus, Rolls-Royce, Aston Martin, Land Rover, Jaguar, MINI, Maserati, Ferrari and Audi. In addition, we are currently applying for authorizations for outlets from new brands including Porsche, Infiniti and Volvo.

Sales Network

Henan Province

Since we opened our first 4S store in July 2005, we have built a dominant presence in major cities in Henan Province including Zhengzhou, Luoyang, Kaifeng, Nanyang, Xinxiang and Anyang. Henan Province is one of the fastest growing provinces in China in terms of nominal GDP and one of China's focal points of economic development as set forth in the Twelfth Five-Year Plan. As of the Latest Practicable Date, we operated 17 outlets in Henan Province with 11 outlets in Zhengzhou, as of the Latest Practicable Date. During the Track Record Period, we accounted for over 90%, 80% and 100% of the total numbers of BMW, Lexus and Rolls-Royce passenger vehicles sold in Henan Province, respectively. We plan to continue to expand our sales network and brand coverage in Henan Province and other major cities in the Central China region. We have built a long-term relationship with local commercial banks and 4S store construction contractors, which facilitates the financing and construction of our newly authorized outlets in Henan Province. We believe we are well-positioned to maintain our dominant presence in Henan Province in the near future.

Network expansion

Starting from 2010, we have been selectively expanding our sales network outside of Henan Province. According to the ACMR Report, the luxury and ultra-luxury passenger vehicle market in China has been in development for approximately 10 years, and many manufacturers are in the process of completing the deployment of their sales network nationwide. As such, we believe it is essential to our long-term growth to establish our presence in major regional passenger vehicle markets in China in the near future. In July 2011, we started construction of a BMW 4S store in Beijing, which opened for business in November 2011. This was our first 4S store outside of Henan Province. Since then, we have been executing an expansion plan that focuses on tier-one cities with established regional passenger vehicle markets, such as Beijing, Shanghai and Guangzhou, as well as selected provincial capitals and affluent cities, including Wuhan, Shenyang, Xi'an, Xiamen and Yichang.

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We perform feasibility study in respect of each new outlet to ascertain, among other things, the expected amount of capital expenditure for the new outlet, whether there will be sufficient financial and human resources to support the opening of such new outlet and the local market demand and existing dealership outlets for the relevant brand. Such feasibility study is typically submitted to the automobile manufacturer as part of the application for a new outlet. One of the approval criteria of automobile manufacturers when reviewing a new outlet application is to assess, among other things, the financial state, relevant operational experience and the management personnel of the applicant. The fact that we have been continuously successful in obtaining authorizations, preliminary approvals or letters of intent for new outlets from a number of automobile manufacturers shows that the automobile manufacturers are satisfied with our financial resources available to the establishment of new outlets.

We had demonstrated the ability, financial or otherwise, to open and operate new outlets during the Track Record Period. Our Directors are confident that our expansion plan for the foreseeable future is both reasonable and achievable, for the following reasons:

Feasibility study: we perform detailed feasibility assessment on each new outlets before we submit the application to an automobile manufacturer. An automobile manufacturer's approval of the application is also an indication that our planned new outlet is consistent with their strategic expansion in China.

Financial resource: our strategy and ability to lease land at primary locations for our new outlets instead of acquiring land use rights enable us to incur relatively low initial capital expenditure for the opening of new outlets. Historically we use a combination of internal operating cash and bank borrowings to fund the opening of new outlets. For the 20 newly authorized outlets, we have already obtained sufficient capital for their construction and initial operations. We plan to use part of the net proceeds of the Global Offering for additional new outlets in the future. For more details, see "Future Plans and Use of Proceeds."

Human resource: for each of the new outlets, we follow a general practice of selecting an outlet manager from our existing management team and hiring operational staff locally. Substantially all of our management at the store manager level and above was appointed through internal promotion as of the Latest Practicable Date. Since the inception of our business in 2005, we have been building a solid and stable team of mid-level management mainly through systemic training and internal promotion. The Directors believe we have enough potential managers to lead new outlets in the foreseeable future.

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Existing outlets

The following table sets forth details of the 25 outlets that we operated as of the Latest Practicable Date:

Outlet Name	Type	Location	Date of commencement of operation	Dealership Authorization Agreement Expiration Date
BMW				
Henan Zhongdebao	4S store	Zhengzhou, Henan	July 15, 2005	December 31, 2013
Xinxiang Xindebao	Service center	Xinxiang, Henan	July 27, 2009	December 31, 2013
Luoyang Yudebao	4S store	Luoyang, Henan	October 21, 2009	December 31, 2013
Zhengzhou Zhengdebao	4S store	Zhengzhou, Henan	October 29, 2010	December 31, 2013
Nanyang Wandebao	4S store	Nanyang, Henan	September 14, 2011	December 31, 2014
Beijing Huadebao	4S store	Beijing	November 14, 2011	December 31, 2014
Zhengzhou Yuedebao	Exhibition gallery	Zhengzhou, Henan	December 27, 2011	December 31, 2013
Zhengzhou Chengdebao	Exhibition gallery	Zhengzhou, Henan	February 27, 2012	December 31, 2013
Anyang Andebao	4S store	Anyang, Henan	June 21, 2012	December 31, 2015
Kaifeng Biandebao	4S store	Kaifeng, Henan	July 25, 2012	December 31, 2015
Luoyang Luodebao	Exhibition gallery	Luoyang, Henan	July 27, 2012	December 31, 2013
Zhengzhou Hengdebao	Exhibition gallery	Zhengzhou, Henan	September 20, 2012	December 31, 2013
Shanghai Shangdebaojun	5S store	Shanghai	September 22, 2012	(1)
Guangzhou Guangdebao	5S store	Guangzhou, Guangdong	March 26, 2013	December 31, 2016
Land Rover & Jaguar				
Yichang Lushun	4S store	Yichang, Hubei	September 27, 2012	(1)
Lexus				
Zhengzhou Yuanda Lexus	4S store	Zhengzhou, Henan	January 16, 2007	December 31, 2013
Zhengzhou Yuanda Lexus	Exhibition gallery	Zhengzhou, Henan	February 28, 2012	December 31, 2013
Xiamen Yuanda Lexus	4S store	Xiamen, Fujian	March 28, 2013	(1)
Rolls-Royce				
Zhengzhou Huacheng Auto	Exhibition gallery	Zhengzhou, Henan	February 7, 2012	(1)
Xi'an Huadu	Exhibition gallery	Xi'an, Shaanxi	May 9, 2012	No expiration date ⁽²⁾
Aston Martin				
Zhengzhou Huading	4S store	Zhengzhou, Henan	July 13, 2012	(1)
Wuhan Huazheng	4S store	Wuhan, Hubei	July 13, 2012	(1)
MINI				
Henan Zhongdebao	Exhibition gallery	Zhengzhou, Henan	September 29, 2010	December 31, 2013
Henan Yingzhiyi	4S store	Zhengzhou, Henan	April 9, 2013	(1)
Maserati & Ferrari				
Suzhou Maserati/Ferrari	4S store	Suzhou, Jiangsu	December 17, 2012	No expiration date ⁽³⁾

(1) Official commencement of operation authorized by automobile manufacturers. In the process of finalizing dealership authorization agreement.

(2) Effective until terminated for cause by the automobile manufacturer or by 24-month notice by either party.

(3) Effective until breach of certain provisions or by notice no less than 180 days by either party.

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In addition, the following table sets forth details of the two dealership outlets in which we held minority equity interests as of the Latest Practicable Date:

Outlet Name	Type	Location	Ownership percentage	Date of acquisition of equity interests
Audi				
Xinxiang Dongxin.	4S store	Xinxiang, Henan	40%	September 29, 2012
Land Rover & Jaguar				
Zhengzhou Yongda Hexie.	4S store	Zhengzhou, Henan	30%	December 26, 2011

In choosing the cities we expand into, factors we consider include:

- regional passenger vehicle market condition;
- expansion plan of the authorizing manufacturer;
- logistics and transportation of the city;
- purchase habits of the residents;
- existing 4S store dealerships and their operational scales and competitiveness; and
- economic scale, planning and growth potential of the city or region.

In addition, an important aspect of our network expansion strategy is to achieve sales efficiency, by opening outlets within geographical proximity, as operating a cluster of stores can achieve efficiencies through targeted local marketing and better coordination of inventory management among stores.

New outlets establishment

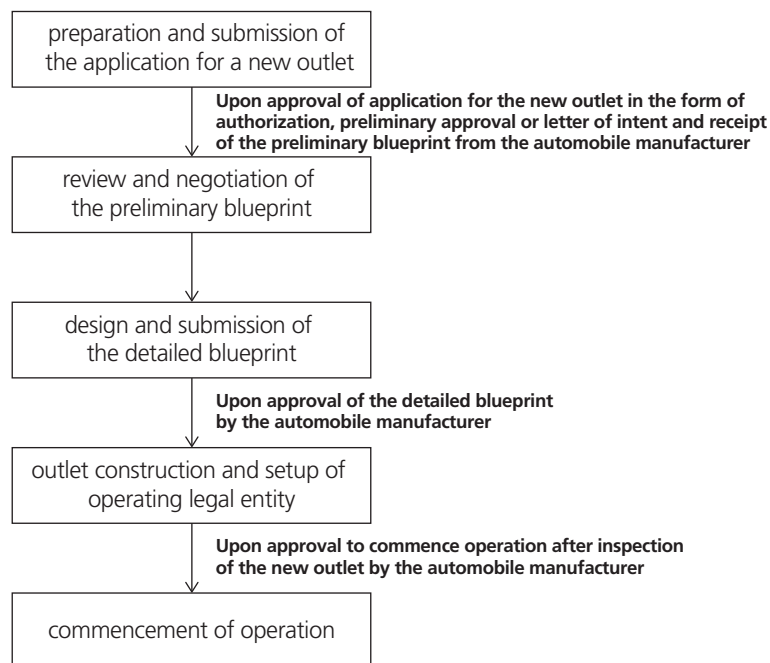
Typical steps of new outlet establishment

For each new store we plan to open, we first submit to the automobile manufacturer an application which include, among other things, a feasibility study and the planned location. The automobile manufacturer will review the application and send us an approval of the new outlet construction in a form of authorization, preliminary approval or letter of intent depending on the particular automobile manufacturer's practice. An authorization, preliminary approval or letter of intent usually sets out minimal share capital amounts of a new outlet and certain milestone dates for the construction, such as date to commence or complete construction, date to set up legal entity or date to acquire land use right or enter into lease agreement. We are advised by our PRC legal adviser that such authorizations, preliminary approvals and letters of intent to construction are not legally binding on either party. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulty in entering into a definitive dealership authorization agreement with the relevant automobile manufacturer for each authorization, preliminary approval or letter of intent we received after the respective outlet was constructed. The automobile manufacturer makes decisions on the fundamental aspects of a new outlet, such as total area and number of mechanical stations, and will typically provide us with a preliminary blueprint of the new outlet a few months after it sent us the authorization, preliminary approval or letter of intent. We can suggest revisions of the preliminary blueprint or request a total redesign of such blueprints. Once we reach an agreement on the preliminary blueprint with the automobile manufacturer, we will then use the preliminary blueprint to design a detailed blueprint, which will, among other things, set out the

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floor layout and decoration of the new outlet. We will send the detailed blueprint to the automobile manufacturer for approval, and once such approval is obtained, we can commence construction. During the construction, we provide regular status updates to the automobile manufacturer. Upon completion of the construction of the new outlet, the automobile manufacturer will inspect the outlet and enter into a definite dealership authorization agreement with us if the result of the inspection is satisfactory. There is no bidding process involved in such applications and approvals and we do not need to pay any fee to automobile manufacturers in connection with the applications.

The following chart illustrates the typical establishment process of a new outlet:



Status of our authorized new outlets

The requirements for establishing new outlets vary depending on the automobile manufacturers. As of the Latest Practicable Date, we had satisfied all relevant requirements except for the requirements to set up the legal operating entities for Zhengzhou Huadebao as it is still under construction. We notified BMW China on the status of Zhengzhou Huadebao and were notified by BMW China regarding the extension to set up the operating entity. In addition, we were still awaiting approvals by BMW China on the new proposed sites for the Beijing and Shanghai exhibition galleries. We provide regular updates on the preparation or construction of the 20 new outlets to the relevant automobile manufacturers, and do not expect any significant impediments or additional requirements from the automobile manufacturers in connection with the establishment of such outlets.

All the capital expenditure required for the 20 new outlets will be financed through a combination of internal operating cash and bank borrowings. We do not intend to use any net proceeds of the Global Offering to fund the establishment of the 20 new outlets. Typically, capital expenditure for 4S stores are much higher than that of the exhibition galleries due to the requirements to construct mechanical stations within 4S stores, which are facilities for after sales services. The capital expenditure of a particular 4S store also depends on the number of mechanical stations of such store, which is usually determined by the relevant automobile manufacturer. For example, each of Guangzhou Guangdebao and Wuhan Handebao will have 14,119 square meters total construction areas with 50 mechanical stations, the most among all BMW 4S stores in China.

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As a result, the estimated capital expenditure for both stores are over RMB120 million. In comparison, Zhengzhou Hengdebao and Zhengzhou Yuedeobao, our largest and second largest exhibition galleries current in operation, has approximately 1,200 and 650 square meters total construction area and capital expenditure of RMB3.1 million and 1.3 million, respectively. We estimate that the total expected capital expenditure for the 20 new outlets to be approximately RMB609 million, of which we had incurred approximately RMB118 million as of the Latest Practicable Date, primarily on 14 outlets whose construction had commenced. We expect to commence construction for the other six outlets, in the second or third quarter of 2013. As of April 30, 2013, we had undrawn credit lines of approximately RMB3.5 billion and over RMB1.3 billion can be drawn on demand to finance the opening of new outlets. In addition, we had a total cash balance of approximately RMB342.7 million as of December 31, 2012. Our Directors believe that our available resources would be sufficient to fund the total capital expenditure required to open the 20 new outlets without materially affecting our liquidity position.

The following table sets forth details of the 20 authorized new outlets as of the Latest Practicable Date:

Outlet Name	Type	Location	Expected time of completion of construction	Capital expenditure incurred as of the Latest Practicable Date (*) (RMB'000)	Estimated total capital expenditure (RMB'000)
BMW					
Shenyang					
Shendebao ⁽¹⁾⁽³⁾	4S store	Shenyang, Liaoning	October, 2013	5,000	45,500
Wuhan Handebao ⁽¹⁾⁽⁵⁾	4S store	Wuhan, Hubei	August, 2013	49,430	122,900
Zhengzhou					
Huadebao ⁽¹⁾⁽⁴⁾⁽⁵⁾	4S store	Zhengzhou, Henan	August, 2013	nil	40,000
Henan Hedebao ⁽¹⁾⁽⁵⁾	Service center	Zhengzhou, Henan	July, 2013	1,520	40,000
Zhengzhou					
Zhengdebao ⁽¹⁾⁽⁵⁾	Service center	Zhengzhou, Henan	July, 2013	2,000	5,000
Beijing Exhibition Gallery ⁽¹⁾⁽⁴⁾⁽⁵⁾	Exhibition gallery	Beijing	September, 2013	nil	10,000
Beijing BMW Brand Store ⁽¹⁾⁽⁴⁾⁽⁵⁾	Brand store	Beijing	October, 2013	nil	60,000
Shanghai Exhibition Gallery ⁽¹⁾⁽⁴⁾⁽⁵⁾	Exhibition gallery	Shanghai	September, 2013	nil	10,000
Luohe Luodebao ⁽¹⁾⁽⁴⁾⁽⁵⁾	4S store	Luohe, Henan	August, 2013	2,470	24,000
Xinxiang Hedebao ⁽¹⁾⁽⁵⁾	4S store	Xinxiang, Henan	August, 2013	2,900	24,000

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Outlet Name	Type	Location	Expected time of completion of construction	Capital expenditure incurred as of the Latest Practicable Date (*) (RMB'000)	Estimated total capital expenditure (RMB'000)
MINI					
Shenyang Shenzhiyi ⁽¹⁾⁽³⁾	4S store	Shenyang, Liaoning	October, 2013	5,000	22,400
	Exhibition gallery				
Luoyang Yudebao ⁽¹⁾⁽⁵⁾	gallery	Luoyang, Henan	August, 2013	1,300	3,100
Lexus					
Jiaozuo Yuanda Lexus ⁽²⁾⁽⁵⁾	4S store	Jiaozuo, Henan	May, 2013	1,700	5,000
Luoyang Yuanda Lexus ⁽²⁾⁽⁵⁾	4S store	Luoyang, Henan	October, 2013	1,000	40,000
Handan Yuanda Lexus ⁽²⁾⁽⁵⁾	4S store	Handan, Hebei	October, 2013	1,000	40,000
Land Rover & Jaguar					
Luoyang Luhe ⁽²⁾⁽⁵⁾	4S store	Luoyang, Henan	October, 2013	30,800	55,640 ⁽⁶⁾
Maserati & Ferrari					
Wuxi Maserati/Ferrari ⁽¹⁾⁽⁴⁾⁽⁵⁾	4S store	Wuxi, Jiangsu	August, 2013	5,000	15,400
Beijing Maserati ⁽²⁾⁽⁵⁾	4S store	Beijing	August, 2013	6,500	15,400
Beijing Ferrari ⁽¹⁾⁽⁵⁾	4S store	Beijing	August, 2013	2,500	15,400
Rolls-Royce					
Shanghai ⁽¹⁾⁽⁴⁾⁽⁵⁾	4S store	Shanghai	August, 2013	nil	15,000
Total				118,120	608,740

Notes:

- (*) Capital expenditure of nil incurred as of the Latest Practicable Date reflects the fact that the outlet was still in design phase and construction had not started.
- (1) We had received the written preliminary approval for this outlet.
- (2) We had entered into a formal letter of intent with automobile manufacturer for this outlet.
- (3) We have executed a framework agreement with the competent governmental authority, and is in the process of obtaining the land use right certificate.
- (4) We have not commenced construction for this outlet.
- (5) We had entered into a lease agreement and made prepayment of the rent for the premises of this outlet.
- (6) Our working capital should not be less than RMB90,000,000.

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The successful experiences we have accumulated in 4S and 5S stores construction and operations are crucial to our expansion plans, which we apply to every aspect of the establishment of new stores, including site selection, financing and construction.

Site selection

We believe location is crucial to an outlet's success. In choosing the site of a store, the factors we consider include:

- local government's zoning and urban planning of the neighborhood;
- ease of access and proximity to main arteries;
- distribution of existing outlets in the area;
- income level and purchase habit of nearby residents; and
- leasing price for business properties of the location.

Our BMW 4S and 5S stores in Beijing, Shanghai and Guangzhou are all situated at primary central business districts with easy access to main arteries.

Financing for outlets constructions

Capital expenditure associated with establishment of a new outlet is primarily related to acquiring or leasing land use right, construction costs and purchase of equipment. We finance the establishment of our 4S stores primarily through bank loans and our operating cash flow. We have built relationship with a number of nation-wide commercial banks, including China CITIC Bank, China Minsheng Bank, and Bank of East Asia, and we typically apply for financing for construction of a store from a local branch of such banks. For more details, see "Financial Information – capital expenditure."

Store Construction

We are generally required to complete construction of a new outlet within an agreed-upon period of time after receiving the automobile manufacturer's acceptance of new outlet proposal. For new outlet construction, we adopted a standard which we call "Harmony Experience, Harmony Speed." "Harmony Experience" refers to the fact that we have standardized and streamlined our new store construction process, which enables us to shorten the time span between the authorization and the commencement of operation of a store. We require our new 4S stores construction to finish within five months, which we call "Harmony Speed" and is typically shorter than the timeline prescribed by the authorization, preliminary approval or letters of intent of the new 4S stores. As a result, we consistently complete construction of our outlets earlier than the dates prescribed by the authorizing automobile manufacturers. Our standardized construction process also helps us ensure consistent quality of the construction work.

We have a team of 27 employees at the headquarters that is dedicated to new store constructions, and each employee is responsible for a specific aspect during the construction process. Also, it is our policy that a store manager needs to be appointed during the construction phase of the store and participate in the construction process. We set deadlines for different phases of the construction to monitor the construction progress.

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Our Services

Sales of new passenger vehicles

During the Track Record Period, we derived the substantial majority of our revenues from sales of new passenger vehicles. For the years ended December 31, 2010, 2011 and 2012, revenues generated from sales of new passenger vehicles were RMB1.62 billion, RMB2.75 billion and RMB5.24 billion, respectively, representing 89.7%, 90.8% and 92.7% of the total revenues of the same years.

The following table sets forth a breakdown of our sales of new passenger vehicles and total revenue contribution by brand for the years indicated:

	Year ended December 31,								
	2010			2011			2012		
	Sales volume	Revenue (RMB'000)	%	Sales volume	Revenue (RMB'000)	%	Sales volume	Revenue (RMB'000)	%
BMW	2,199	1,183,857	65.7	3,985	2,180,202	71.9	9,340	4,343,837	76.7
Lexus	768	418,622	23.2	873	506,484	16.7	1,120	547,297	9.7
MINI	59	14,202	0.8	228	66,086	2.2	338	90,694	1.6
Rolls-Royce	–	–	–	–	–	–	32	190,490	3.4
Aston Martin	–	–	–	–	–	–	10*	40,315	0.7
Land Rover & Jaguar	–	–	–	–	–	–	28	20,459	0.4
Ferrari	–	–	–	–	–	–	2	5,367	0.1
Maserati	–	–	–	–	–	–	3	5,990	0.1
Total	3,026	1,616,681	89.7	5,086	2,752,772	90.8	10,873	5,244,449	92.7

* The automobile manufacturer for such ultra-Luxury passenger vehicles sold certain numbers of passenger vehicles to us after we obtained authorization for a 4S store but before such store officially commenced operation. We sold certain of such passenger vehicles at motor shows and other promotional events as well as through direct contacts with potential customers.

Our sales of new passenger vehicles are affected by a number of factors, including factors with regard to our business such as our sales network and pricing, as well as factors beyond our control, such as market demand, regulatory change and macro-economic conditions. For more details, see "Financial Information – Factor Affecting Our Results of Operations." Our Directors expect our sales volume and revenue of sales of new passenger vehicles to continue to grow in the foreseeable future as we expand our business. In particular, our Directors do not expect the implementation of anti-traffic congestion measures in certain tier-one cities to have significant adverse impact on our sales of new passenger vehicles. In the first year of its operation in Beijing, Huadebao has fulfilled or exceeded all sales quota for sales of new BMW passenger vehicles as set by BMW China, partially due to its scale and primary location. The Directors expect our 5S stores in Shanghai and Guangzhou to possess similar competitiveness. In addition, in 4S/5S stores in tier-one cities, we will emphasize after-sales services to improve overall profitability. In the event of a potential slowdown in the Chinese passenger vehicle market in the foreseeable future, Our Directors plan to maintain our growth by (i) leveraging our dominant market position in Henan Province, where our Directors expect the economic growth to benefit from the Twelfth Five-Year Plan and (ii) emphasizing our expansion plan, both in terms of number of outlets and brand coverage, in the ultra-luxury passenger vehicle market which our Directors expect to be less saturated as compared to luxury brands. Moreover, the Directors do not expect the recent Diaoyu Island dispute between Japan and China or the deterioration of passenger vehicle market in Europe and the channeling of unsold passenger vehicles to China to have a significant adverse impact on our sales of new passenger vehicles. For more details, see "Industry Overview – Luxury and Ultra-Luxury Passenger Vehicle Market in China – Rapid growth of the luxury and ultra-luxury passenger vehicle market in China."

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Prior to 2012, all our revenues from sales of new passenger vehicles were generated from three luxury brands, namely, BMW, Lexus and MINI, and we had no track record of selling ultra-luxury brands until 2012. Revenues generated from the six new brands in 2012, the majority of which are ultra-luxury brands, accounted for 5.0% of the total revenues generated from sales of new passenger vehicles. It was recently reported by certain media sources that a 20% luxury tax might be levied by the relevant government authorities on the purchase of a passenger vehicle with a retail price over RMB1.7 million. The levy of such purchase tax might adversely affect our expansion plans in the ultra-luxury passenger vehicle market and sales of new ultra-luxury passenger vehicles. However, our Directors do not expect such purchase tax to have material adverse impact on our overall results of operations in the near future.

We sell both imported and domestically manufactured passenger vehicles at our outlets. The place of manufacture of a passenger vehicle sold by us depends on the specific vehicle model. Each of the manufacturers we deal with has its own policies of whether locally manufactured or imported products should be supplied for a specific model in China. For example, some manufacturers, such as BMW, sell imported products for certain of their models and domestically manufactured ones for the others. Other manufacturers like Lexus, Rolls-Royce, Land Rover, Jaguar, Aston Martin, Ferrari and Maserati sell 100% imported products in China as of the Latest Practicable Date. For all the passenger vehicle brands that we have been authorized to distribute, there is generally no overlapping between locally manufactured and imported products for the same model, as a result we typically procure a variety of models for such brands to satisfy different customer needs. The price of locally manufactured passenger vehicles is usually lower than those imported, and the automobile manufacturers typically do not differentiate between imported and domestically manufactured passenger vehicles in terms of warranty. All of the passenger vehicles that we sell are purchased in the PRC, regardless of whether they are imported or manufactured locally, therefore the procurement process of imported and domestically manufactured passenger vehicles are essentially the same. See “– Suppliers and Procurement.”

Sales transaction

We enter into a sales contract with the customer for each passenger vehicle we sold. The sales contract specifies, among other things, sales price and delivery date. We typically require the purchaser to make a deposit of 10% of the full sales price upon the signing of the sales contract, and we deliver the passenger vehicle to the purchaser upon full cash payment of the sales price on the delivery date. If the purchaser fails to make the full payment on the delivery date, we are entitled to a penalty fee of 0.05% of the sales price per day for the maximum amount that equals to the deposit. Conversely, if we are not able to deliver the passenger vehicle on the delivery date pursuant to the sales contract, we will pay the purchaser a penalty fee of 0.05% of the sales price per day for the maximum of 90 days from the delivery date.

We also provide financing and insurance services in connection with the sales of new passenger vehicles. We arrange car purchase loans for the purchasers with the financing arms of manufacturers or third-party commercial banks and charge the purchasers service fees. Similarly, we charge a purchaser a service fee for arranging car insurance on the new passenger vehicle if requested by the purchaser.

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Manufacturer rebate

As a common market practice, manufacturers often provide us incentive rebates if our annual performance satisfies certain criteria, such as sales volume, customer satisfaction and service quality standard. Such criteria are set by manufacturers based on their internal policies or sales strategies over which we do not have control. In addition, manufacturers sometimes provide special incentive rebate to us in connection with their promotional events or quarterly sales quota. In the years ended December 31, 2010, 2011 and 2012, we deducted cost of goods sold of RMB92.2 million, RMB124.6 million and RMB317.7 million, respectively. Incentive rebates were usually paid to us in the form of cash payments or deduction of purchase price payable by us to the manufacturers.

Sales personnel

Each of our 4S stores for luxury brands is typically staffed with 15 to 20 employees in the sales department, including

- a sales manager, who oversees sales transaction and performance;
- sales agents, who conduct sales;
- an inventory manager, who manages inventory and oversees delivery of new passenger vehicles;
- an internal trainer, who conducts regular internal trainings and liaison with manufacturers to coordinate their trainings and qualification of our sales staff; and
- an administrative clerk.

In comparison, our outlets for ultra-luxury brands is typically staffed with three to five specialized sales representatives who each maintains personal contact with his or her existing or potential customers.

Engagement of distributors

Historically, from time to time, we engaged certain distributors in Henan Province to source customers for BMW passenger vehicles in areas where there is no existing BMW dealership outlet. The distributors would source customers for us in such areas to serve local demand, and we would pay the distributors certain referral fees. According to the ACMR Report, such engagement of distributors is common market practice among automobile dealerships in China. We sold BMW passenger vehicles directly to such customers identified by such distributors, issued the invoices for the sales transactions directly to such customers and were responsible for any in-warranty maintenance or repair for such passenger vehicles. The fees for such in-warranty repairs were paid to us by BMW China, same as other BMW passenger vehicles we sold to customers. The distributors are required to pay a performance deposit at the beginning of their cooperation with us. Consistent with the restrictions under the dealership authorization agreement between BMW China and us, we require the distributors to comply with certain restrictions in their practices. For example, the distributors are required to limit their customer referral within the geographic area that is prescribed by BMW China to be covered by our sales network. If the distributor fails to comply with these restrictions, we can discontinue the cooperation without refunding the performance deposit. Historically, we had not discovered any instance of violation by distributors we engaged of the geographic area restriction we prescribed.

Based on unaudited financial information, revenues generated from such practices accounted for approximately 2.0%, 2.2% and 2.1% of our revenues for the years 2010, 2011 and 2012, respectively, and the gross profit generated from such practices accounted for approximately 0.2%, 1.2% and 1.2% of the total gross profit for the same years, respectively.

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During the Track Record Period, BMW China is aware of our practice of engaging distributors to source customers as we regularly reported our business operations verbally to the relevant BMW regional managers usually during their routine visits to our outlets. In March 2013, we reported to BMW China again formally in writing on such historical practice. In response, BMW China issued a letter to us which contained a warning with regard to such practice during the Track Record Period and as of March 26, 2013. BMW China further indicated in the letter that notwithstanding such warning, BMW China does not deem such historical practice (i) as a ground for cancellation, annulment or termination of our existing dealership authorization agreements; (ii) as grounds for any claim for damage or penalty against us; and (iii) to have negative impact on any future grant of dealership authorizations by BMW China to us.

As stipulated in our internal written policy, our Directors shall not engage in any similar practices of engaging distributors to source customers without the respective automobile manufacturers' prior consent in the future. We have also implemented internal control procedures as of March 1, 2013 with regard to the engagement of distributors, which include:

- requiring each outlet manager to report in writing and obtain a written approval by the Chief Operating Officer of its plan to engage distributors;
- requiring the Chief Operating Officer to obtain pre-approvals in writing by the relevant automobile manufacturers its plan to engage distributors before the Chief Operating Officer can approve the outlet managers in writing to initiate such engagement;
- Stipulating in our contract with each distributor that the effectiveness of such contract is conditioned upon our receipt of the approval of the engagement by the relevant automobile manufacturer and no customer referral would be accepted by us prior to the receipt of such approval;
- requiring each outlet to report sales volume generated from such practice on a quarterly basis to the Chief Operating Officer, who will in turn aggregate and report to the relevant automobile manufacturers in writing;
- requiring the internal operational auditing personnel to conduct quarterly inspection on the compliance with the relevant requirements in connection with such practices and report its findings to the Audit Committee and Board of Directors;
- assigning a senior finance manager to monitor through the ERP system all sales activities and report to the Chief Financial Officer any sales to non-individuals;
- requiring the finance department to pay close attention to inventory outflows and conduct physical inventory counts from time to time; and
- requiring the Audit Committee and Board of Directors to conduct on a semi-annual basis evaluation of the practice of engaging distributors and the effectiveness of the relevant internal policies including the reporting and internal approval mechanism, and to get regular updates on the market trends of such practices, as well as the relevant automobile manufacturers' regional expansion and distribution plans.

Through such internal control measures, we will maintain enhanced oversight on such practices to ensure that such practices are pre-approved by the relevant automobile manufacturers and will be effectively and immediately terminated if requested by the automobile manufacturers. As of the Latest Practicable Date, we have obtained prior consents from relevant automobile manufacturers for all of our existing engagement of distributors. The Joint Sponsors are of the view that adhering to the

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above internal control measures would be effective in ensuring that the Company receives the necessary pre-approvals by the relevant automobile manufacturers for engaging distributors to source customers. For more details, see “Risk Factors – Risk Relating to Our Business – If we engage distributors to source customers for a brand in areas where there is no existing dealership outlet, it might be deemed not to be in compliance with the relevant requirement under the relevant dealership authorization agreement.”

After-sales services

After-sales services are important sources of our revenues. The after-sales services we provide include repair and maintenance, sales of spare parts and accessories, detailing services and other related services. Revenues generated from after-sales services include labor cost charged by hours and sales of spare parts and accessories. For the years ended December 31, 2010, 2011 and 2012, revenues generated from after-sales services were RMB184.7 million, RMB279.1 million and RMB412.3 million, respectively, representing 10.3%, 9.2% and 7.3% of our total revenue of the same periods. Customers to our after-sales services include customers who previously purchased their passenger vehicles at our 4S stores, as well as owners who did not purchase their branded passenger vehicles from us. As after-sales services generate recurring and steady revenues from returning customers, we are dedicated to providing high-quality and speedy after-sales services to attract new customers and increase customer loyalty. In addition, we believe the ease of access of most of our 4S stores in major cities will help bring us new customers for after-sales services.

Repair and maintenance services

Our 4S stores provide a full range of repair and maintenance services. Our maintenance services include primarily oil change, replacement of spark plugs, air filters or brake pads, tire rotation and other routine inspections. We provide regularly scheduled maintenance services for passenger vehicles. Most manufacturers recommend owners of their passenger vehicles to schedule a maintenance check for every 5,000 to 10,000 kilometers or three to six months. We keep a database of our maintenance service customers, and send them reminders when it is time for their scheduled maintenance checkups.

The repair services we provide include repair of parts, drive-train mechanism and post-collision body restoration. Our maintenance and repair services are generally charged based on the prices of the spare parts and accessories used, if any, and the hourly rates of our technicians. We provide in-warranty repair as well as repair for drive-in passenger vehicles. The product warranties for new passenger vehicles typically have terms of two years and are generally limited to product defects. We are paid by automobile manufacturers for parts and labor for in-warranty repair services we provide to customers. Such fees are usually higher than the cost we incurred, as a result, we generate gross profit from the differences. As the cost associated with in-warranty repair is generally stable, the gross profit margin largely depends on the fees the automobile manufacturers decide to pay us. For out-of-warranty repair we generate gross profit from the differences between the fee we charge to customers and the cost incurred.

Under applicable PRC laws and regulations, we are required to provide a service warranty for the repair service we provide. During the Track Record Period, warranty claims in connection with our after-sales services were of immaterial amount and accordingly, no provision has been made with respect to such warranty claims.

Sales of spare parts and accessories

Our 4S stores sell spare parts and passenger vehicle accessories, such as motor lubricants and oil additives, in connection with the maintenance and repair services. In addition, we also sell certain related brand merchandises, such as bicycles, clothing and accessories, for manufacturers in the 4S stores.

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After-sales services personnel

Our 4S stores are typically staffed with the following front-line after-sales personnel:

- an after-sales service manager, who oversees after-sales services and performance;
- after-sales consultants, who are direct contacts with customers for after-sales services;
- inventory manager who manages inventory of spare parts and accessories; and
- courtesy maintenance staff, who handle customer claims.

Each of our 4S stores is staffed with two types of engineer teams which are specialized in mechanical repair and paint spread, respectively. The mechanical repair team typically consists of a team leader, a chief engineer, an assistant engineer and two interns. The paint spread team typically consists of four engineers. The number of such teams in a 4S store depends on the number of mechanical stations of the 4S store.

Sales of pre-owned passenger vehicles

Our sales of pre-owned passenger vehicles are complementary to our sales of new passenger vehicle business, as we take pre-owned passenger vehicles that customers trade in to purchase new passenger vehicles. Sales of pre-owned passenger vehicles are conducted in the similar manner as sales of new passenger vehicles, as we enter into written contracts for our sales of pre-owned passenger vehicles upon which our customers are typically required to pay a deposit or an advance.

Passenger vehicle recalls

Our 4S stores may be required to assist manufacturers to coordinate recalls of their passenger vehicles. We are not liable under PRC laws and regulations for any cost associated with vehicle recalls and are compensated by the manufacturers for providing assistance during the process, usually within two or three months. Each manufacturer has its own recall procedure, and will typically notify us with detailed procedural instructions prior to the public announcement of a recall. We will contact affected passenger vehicle owners and arrange for their vehicles to be inspected and repaired in our 4S stores according to the manufacturer's instruction. During the Track Record Period, we have not received any customer complaints in connection with vehicle recalls that would have a material adverse effect on our business and operation, and we were not subject to any legal, regulatory or administrative proceedings as a result of any vehicle recalls.

The following table sets forth the major recalls of passenger vehicles we sold during the Track Record Period:

Brand	Model	Recall Date	Affected Component
BMW	F20 F30 F35	December 2012	Reconstructing of the front seat
BMW	F02 N54 E84 F20 F30 F35	November 2012	DME (cold boost), LEW, FEM, NBT/HU-NBT-HU variant CIC software
BMW	F35	October 2012	Changing PSC Module
BMW	E70 E71	September 2012	Steering box, widen the seat in the 3rd row

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Brand	Model	Recall Date	Affected Component
BMW	E70 E71 E9x F07 F10 F18 N55 E84 F18 E84 (China)	August 2012	Screw nuts on VANOS unit, Rear window, change of the tag of the engine number, adding vehicle orders
BMW	E8x E9x	July 2012	EPS Steering box
BMW	E88	April 2012	Adding "EMOA"
BMW	E60 E61 E63 E64 F20 E84 F18	March 2012	Plastic protective cover of the battery wires, right front window glass elevator, IHKA programming, changing engine tags
BMW	E84 E89 F10 F11 F25 F30 N20	February 2012	Seal ring of the chain tensioning
BMW	F12 F13 F02 F07 F10 F11	December 2011	Screw nut, DVD player
BMW	E7x F0x F1x E70 E71 N55 F02 F04	November 2011	Exhaust driven supercharger, Clapboard of the engine compartment, change of the tag of the engine number, adding vehicle orders, rear window, point of contact at the back panel
BMW	E84	October 2011	Seat fabric
BMW	E83 N52K 2.5L (China)	September 2011	DME programming
BMW	F04	August 2011	DME programming, service function
BMW	F10 (China)	July 2011	Changing vehicle orders, exhaust gas catalytic converter
BMW	E60 E71 E82 E88 E9x F0x N54 F04	May 2011	Fuel spray nozzle, EME programming
BMW	E60 E71 E82 E88 E89 E9x F0x N54	March 2011	Oil high pressure pump
BMW	E70 E71 F2x	February 2011	Changing two horns
BMW	E71 E8x E9x F0x N54	January 2011	DME programming
BMW	E72 F04 E70 N52K (China)	November 2010	High voltage battery, fuel pump in the fuel tank
BMW	E6x E65 E66 E67 N62 N62T N73 (China) F01 F02 F03 F04	October 2010	Vacuum pump, two signal lamps
BMW	F07 E71 E89 E90 F02 N54 E8x E9x E6x	July 2010	Fuel tank sensor, program control units, DME programming, oil high pressure pump
BMW	F07 N55 E6x E7x E8x E9x Fxx N53 N54	June 2010	DME programming, PDM
BMW	F02 F07	February 2010	DME programming
BMW	F02	July 2009	Oil tank
BMW	E70 N52K	June 2009	Cooling fluid tube sealing plug

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Brand	Model	Recall Date	Affected Component
BMW	E70 N62T	March 2013	Vacuum tube
MINI	R5x R60	March 2012	Radio player
MINI	R55 R56 R57 R60 N14 N18	January 2012	Electronic pump
MINI	R5x R60	July 2011	Changing vehicle tasks
Lexus	RX300	December 2011	Crankshaft pulley
Lexus	GS300/RX300	November 2010	Brake pump seal
Lexus	LX470	August 2010	Inter shaft assy
Lexus	LS460/460L/600HL	July 2010	Valve spring
Lexus	LS460/600HL	June 2010	Timing Intake (VVT-i) System VGRS ECU
Lexus	ES350/RX350	April 2010	Engine oil tube of Variable Valve
Lexus	RX300/350	March 2011	Carpet of the driver's side

Surveys

Customer survey provides valuable information and guidance to both manufacturers and us. We conduct customer survey to collect feedback on our customer service and market information. Manufacturers also provide us questionnaires form for customers to fill out from time to time. Customer feedback on our services helps us improve our service quality, and customer feedback on certain models or makes of passenger vehicles helps the manufacturers gauge market sentiment towards their brand and products. Survey results are reviewed by store management and when appropriate, forwarded to other departments for further handling. Results of surveys prescribed by manufacturers are stored in databases to which the manufacturers have access.

KEY TERMS OF DEALERSHIP AUTHORIZATION AGREEMENTS

The operations of our outlets are primarily governed by the dealership authorization agreements we entered into with automobile manufacturers. The dealership authorization agreements are non-exclusive and typically for the term of one to three year, subject to renewal by the automobile manufacturer. Pursuant to such agreements, we are obligated to, among other things:

- follow the design and operational standard of a 4S store as set out by the manufacturer;
- only keep the inventory of and sell passenger vehicles of the authorized brand and within the prescribed geographic area at a particular 4S store;
- provide a list of other required services to customers, including after-sales services and sales of spare parts if applicable;
- follow price guidelines for sales of new passenger vehicles and after-sales services as set out by the manufacturer;
- refrain from selling passenger vehicles to customers who we know or should have known to have intention to resell or export the passenger vehicles outside China;
- procure our employees to participate relevant trainings and qualifications held by manufacturers;

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- make a 4S store available for site visit and annual retail standard inspection by the manufacturer, the failure of which will result in the reduction of incentive rebate granted to the particular outlet; and
- provide period reports to manufacturers, including financial, sales, market research and customer data.

The dealership authorization agreements do not contain a price range for a model or any minimum purchases or sales requirement for an outlet. However, each year automobile manufacturers typically set minimal inventory and sales volume target for each outlet, the failure of which will result in reduction of incentive rebate. For more details on our pricing policy, see “Financial Information – Factor Affecting Our Results of Operations – Pricing.” For each new outlet, automobile manufacturers typically enter into definitive authorization dealership agreement after they inspected and approved the new respective outlets. For more details on new outlet application and approval process, see “– Sales network – Network expansion.”

Automobile manufacturers have the right to terminate a dealership authorization agreement by written notice for a number of reasons, including, among other things, breach of contract, unapproved business relationship with other manufacturers, and failure to meet operational standard at the 4S store. We did not experience any termination of any of our 4S stores, or any difficulties in renewing our dealership authorization agreements upon expiration since the inception of our business and there had not been any change to the salient terms of the renewed dealership authorization agreements. In addition, since the inception of our business and as of the Latest Practicable Date, we had not received any claim of breach of dealership authorization agreements from any automobile manufacturers. As a result, we expect to continue to secure renewals of dealership authorization agreements of our outlets after Listing.

SUPPLIERS AND PROCUREMENT

We procure spare parts, automobile accessories and other automobile-related products from automobile manufacturers and other independent suppliers. Our main suppliers are automobile manufacturers, who provide us new passenger vehicles, spare parts, accessories, and other merchandises of their brands. For the years ended December 31, 2010, 2011 and 2012, purchases from our top five suppliers accounted for approximately 99.7%, 99.8% and 97.9% of our total purchases, respectively. As of the Latest Practicable Date, none of our Directors, or their respective associates, or any shareholders of our Company who, to the best of the knowledge of our Directors, owned 5% or more of our issued Shares had any interest in any of our five largest suppliers. Purchases amount from our largest supplier accounted for 72.7%, 80.9% and 87.0% of our total purchases for the years ended December 31, 2010, 2011 and 2012, respectively.

We typically pay our automobile manufacturers full purchase prices before delivery. Pursuant to our dealership authorization agreements, automobile manufacturers bear the cost of transportation of new passenger vehicles, whether imported or manufactured domestically, until such passenger vehicles are delivered to us. The automobile manufacturers also bear the risks of damages and losses during the transportation to the logistic companies, but such risks are transferred to us upon delivery to such logistic companies. Automobile manufacturers typically purchase insurance for transportation and bear the cost of such insurance. We are entitled to return passenger vehicles and spare parts with manufacturing defects to the suppliers. All of our passenger vehicles and spare parts are purchased in China, whether they are manufactured domestically or abroad. As a result, we do not need to pay any import or custom duties or tariffs for such purchases.

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As we rely heavily on automobile manufacturers as our major suppliers, factors that adversely affect automobile manufacturers typically have adverse effect on our business and financial condition as well. Such factors include weak economic growth, decrease in individual disposal income, intense competition, or governmental rules or regulations that curtail purchases of new passenger vehicles. In particular, as sales of BMW and Lexus passenger vehicles accounted for the substantial majority of our sales of new passenger vehicles during the Track Record Period, the following events that affect BMW or Lexus could have material impact on us as well:

BMW: unexpected events such as strikes, fires and other accidents will force BMW to stop production and result in decreases in passenger vehicle output, which in turn will reduce the supply of BMW vehicles. In addition, BMW factories in China still need to import key parts and accessories, due to the relatively low homebred change rate of domestically manufactured BMW vehicles, which is about 60% in September 2012. As a result, unexpected events in factories abroad that manufacture such key parts and accessories will affect the supply of the BMW passenger vehicles as well. Inadequate production capacity of BMW in China would be expected to reduce its market share. Although BMW has completed the scale expansion with the opening of the second factory in China in May 2012, BMW still face inadequate production capacity in China in the short-term, compared with its major competitor, Audi. This may result in decrease in its market share in the rapidly increasing luxury market in China.

Lexus: one of the most important factors affecting Lexus is the China-Japan relationship. For instance, due to the Diaoyu Islands dispute in or around September 2012, consumers started boycotts of Japanese passenger vehicles, including Lexus. Sales of Lexus experienced temporary decreases in the following months. Our sales volume of Lexus passenger vehicles was 67, 58, 75 and 79 for September, October, November and December 2012, respectively, and the average sales volume in the three months ended March 31, 2013 was 63 per month, as compared with 78 and 92 in July and August 2012 and the average of 111 per month in the six months ended June 30, 2012. Unexpected events will also have an adverse impact on Lexus. The earthquake in the Great East Japan region in March 2011 had resulted in output declines of Lexus passenger vehicles, which in turn reduced supply to China market. In addition, as the parent company of Lexus, Toyota's frequent vehicle recalls would potentially have negative impact on the brand image of Lexus as well. The frequent vehicle recalls have raised concerns about the quality and safety of Toyota vehicles and Lexus vehicles. From 2009 to 2011, Toyota made recalls of over 10 million vehicles worldwide. In October 2012, Toyota had announced another recall of 7.43 million vehicles worldwide.

INVENTORY MANAGEMENT

We actively monitor our inventory at each outlet as well as at the headquarters, and strive to maintain optimal inventory levels of new passenger vehicles and spare parts. Our average inventory turnover days were 29 days, 34 days, and 38 days for the years ended December 31, 2010, 2011 and 2012, respectively.

Each outlet has its own garage for inventory storage and staff that are dedicated to inventory management of new passenger vehicles and spare parts, respectively. Inventory managers typically make orders once a month. We provide an inventory manager a standard inventory management spreadsheet to monitor the inventories in the respective outlet. Parameters contained in such spreadsheet include current inventory, store manager's estimated sales volume of the month, and the annual sales target set by manufacturers. Each outlet provides a monthly report to the headquarters which contains, among other things, information on monthly sales volume and inventory level. Management at the headquarters reviews such reports and coordinate inventories at different outlets when necessary, as manufacturers typically allow us to shift new passenger vehicles among outlets in the same regional market. Outlets in the same region also contact each other to coordinate inventory needs.

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We pay automobile manufacturers the purchase prices of new passenger vehicles and spare parts mainly with a combination of cash and bank acceptance notes, which are generally secured by bank deposits and inventories. We repay the bank acceptance notes with cash received from customers for their purchases of new passenger vehicles and spare parts, upon which the relevant pledged deposits are released.

PRICING

Automobile manufacturers generally provide us the minimal retail price of a particular model of their passenger vehicles. We retain some flexibility in determining the actual retail prices of the new passenger vehicles we sold, which are influenced by a number of factors, including brand and model, market demand, inventory supply and presence of competing dealerships, and we adjust our pricing strategy periodically according to the market environment. For more details on factors affecting pricing, see “Financial Information – Factor Affecting Our Results of Operations – Pricing.”

We have implemented a pricing policy in order to periodically monitor the retail prices in our outlets. Pursuant to the policy, the manager of an outlet will submit the suggested retail price range for each model of passenger vehicles in the respective outlet to the headquarters for review on a quarterly basis. A vice president at the headquarters will approve or adjust such suggested retail price ranges based on the above mentioned factors, as well as the performance in previous quarters and the annual sales quota assigned to the particular outlet, and the overall sales performance of the Group. The outlet managers can then decide the retail price of a particular sale within the approved range at the time of the sale.

SALES AND MARKETING

Our marketing is store-oriented and localized in nature, in order to broaden the customer reach of our stores in the area they cover. We maintain databases of potential customers and offer existing customers referral bonus if they introduce new customers to our stores. We advertise on magazines and local radio for our stores. We also participate in manufacturers’ marketing and promotional events such as new model launches. Certain manufacturers prescribe the amount of sales and marketing expenses we need to spend on certain new models, usually as a small percentage of the sale price per vehicle. For the years ended December 31, 2010, 2011 and 2012, we incurred advertisement and marketing expenses of RMB15.5 million, RMB24.0 million and RMB52.0 million, respectively.

CUSTOMERS

As we are a dealership group that specializes exclusively in luxury and ultra-luxury brand passenger vehicles, our customers are mainly affluent individuals. Due to the retail nature of our business, we do not have a single major customer that accounted for over 1% of our total revenues and our top five customers in aggregate accounted for less than 1% of our total revenues during the Track Record Period.

Customer satisfaction is a priority in our business operations as we believe our customers have especially high expectation on service quality. We hold periodic trainings for our management and sales representatives on customer service related topics, and we use customer feedback as an important indicator in our performance reviews. We assign an individual sales agent to maintain relationship with each purchaser and potential purchaser of ultra-luxury brand passenger vehicles. We offer our customers of BMW passenger vehicles in Henan Province a fee-based annual membership to the BMW VIP Club. Services we offer to members of the club include priority in scheduling repair and maintenance, special resting area in our 4S stores reserved for members, and free airport pick-up services. We are in the process of extending such membership to our customers who purchased passenger vehicles of other brands.

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EMPLOYEES

As of the Latest Practicable Date, we had a total of 1,982 full-time employees. The following table sets forth our employees by function as of the Latest Practicable Date:

Function	Number of employees
After-sales Operations	852
Sales and Marketing	754
Administration	222
Finance and Accounting	121
Management	33
Total	1,982

We believe that maintaining a stable and experienced employee force is critical to the operation of our business. Due to the scale of our business, we are able to provide our employees ample career choices and opportunities of promotion. For each new employee, we have implemented a three-to-five-year career plan, which gives the employee choices over a wide variety of career trainings. Through such programs, an employee can choose his or her career path. We provide employees various incentives to participate and complete such training programs, in the form of career certification and qualification for internal promotion. At the end of such plan, an employee is provided a choice to further develop into a management or operational role if such employee satisfied certain qualifications. We also provide various incentives to employees in our sales and after-sales service teams based on their performance, including sales targets and quality of services judged by internal inspection and customer feedbacks.

We are required by PRC laws and regulations to contribute towards various government-sponsored employee benefit plans, including housing, pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans, in amounts equal to predetermined percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government where we operate our businesses from time to time. We did not make such contributions in full and underpaid RMB3.8 million, RMB6.0 million and RMB12.5 million for the years ended December 31, 2010, 2011 and 2012, respectively. The underpayment was resulted from the fact that, due to the different levels of development in employee benefits in different parts of the PRC, the local policies in some jurisdictions where we operate are less stringent than the requirements under the PRC laws and regulations governing the PRC employee benefit. We are advised by our PRC legal adviser that the PRC laws and regulations governing the PRC employee benefit is applicable to us and we could be deemed as not be in full compliance with such PRC laws and regulations due to the underpayment. As a result, we requested and obtained confirmation letters from the relevant government authorities which stated that we have complied with relevant laws and regulations regarding employee benefit contributions or has no outstanding payments for employee benefit contributions. Our PRC legal adviser has checked the status of the requisite registration with government authorities for our employee benefit contribution and has assisted us in obtaining a written compliance confirmation from relevant local government authorities. In such written confirmation, the relevant government authorities confirmed that we have paid the employee benefit contribution as required by such local government authorities.

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We are advised by our PRC legal adviser that the local government authorities that issued the compliance confirmation are competent supervisors on our activities in terms of the matters referenced in the compliance confirmation and such local government authorities are competent to issue such compliance confirmation, which confirmed that there would be no legal penalty for under-payment or requirement to pay outstanding contribution. Based on the above, we believe that the chance of us being penalized by relevant government authorities for the under-payment of the employee benefit contribution is slim.

We have made the provision for the under-payments in selling and distribution costs and administrative expenses. In addition, the Controlling Shareholders have committed to indemnify us against any costs, expenses and losses arising from such under-payment of the employee benefit contributions. Meanwhile, we have implemented internal procedures which set forth, among other things, the rules and regulations to be complied with and the percentage amounts of various employee benefits to be contributed by us in a tabular form, to ensure strict compliance with the requirements in relation to employment benefit contribution. We assigned an internal audit manager, Ms. Song Yingfang, to monitor compliance with the relevant laws and regulations on the employment benefit contribution. Ms. Song has 15 years of experience in audit and financial reporting. Ms. Song graduated with a bachelor degree in accounting from Henan University of Economics and Law in 1999. Ms. Song joined our Group in February 2012 as a manager in our audit department.

During the Track Record Period, we have retained all our management from store manager level and above. During the Track Record Period and as of the Latest Practicable Date, we were not involved in any material labor dispute.

COMPETITION

The passenger vehicle dealership market in China is highly competitive. We compete primarily with other passenger vehicle dealership groups in China who focus or specialize in luxury and ultra-luxury brands. We compete with such dealership groups for manufacturer authorization, location for outlets, source of customers, financing channels and employees. According to the ACMR Report, competition among dealerships of luxury and ultra-luxury brands is generally less intense as compared to that of middle market brands due to high entry barriers of the luxury and ultra-luxury brand market. Our competitiveness depends on our ability to, among other things:

- maintain solid relationship with manufacturers;
- anticipate and cater to customer purchase sentiments and boost sales of new passenger vehicles;
- provide high quality after-sales services to customers;
- manage inventories of new passenger vehicles and spare parts to keep them at optimum levels; and
- train and retain existing employees and attract new talents.

In addition, our business is also affected by factors that are beyond our control, such as the passenger vehicle market and economic growth in China, competitiveness of our major competitors and business plans and condition of manufacturers.

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We have a dominant presence in Henan Province in terms of number of outlets and brand coverage. As of the Latest Practicable Date, there were 13 BMW dealership outlets in Henan Province, 11 of which were operated by us. Similarly, we operated two out of the three of Lexus dealership outlets, and the only Rolls-Royce dealership outlet in Henan Province. We plan to compete with dealerships in Henan Province by strengthening our dominant market share, through opening new outlets in selected cities, especially for luxury brands, and further improving our after-sales services to existing and new customers. For more details, see “– Our Strategies.”

We face competition from dealers which deal competitive brands. As of December 31, 2012, there were 54 dealership outlets that covered 16 luxury and ultra-luxury brands in Henan Province. We operated or held minority interest in 19 of the above 54 outlets which covered seven luxury and ultra-luxury brands. Our major competitors in Henan Province include Best Character Auto Group, which operates six luxury and ultra-luxury dealership outlets, Henan Wei Jia Automobile Group, which operates six luxury and ultra-luxury dealership outlets, and Lei Shing Hong Limited, which operates three luxury and ultra-luxury dealership outlets in Henan Province.

Our major competitors outside of Henan Province include Lei Shing Hong Limited, China Yongda Automobiles Services Holdings Limited, China Zhengtong Auto Services Holding Limited, Baoxin Auto Group Limited. We plan to compete with dealerships outside of Henan Province by emphasizing ultra-luxury brands and after-sales services, as substantially all of our new outlets outside of Henan Province are located in tier-one and affluent cities where customers generally value service quality over competitive pricing. For more details, see “– Our Strategies.”

We do not compete with any parallel importer of passenger vehicles in Henan Province or in China in general. There is no large dealership group specializing in parallel imports of passenger vehicles in China. Existing parallel importers are generally small-scale, and can only import a very limited number of passenger vehicles each time, as they are not authorized dealers and have limited channels of vehicle procurement. According to the ACMR Report, the market share of parallel importers in China was less than 1% in aggregate in terms of sales volume in 2011 and 2012. As a result, the level of competition from parallel importers is relatively low in Henan Province and in China in general.

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our offices, stores and warehouses. As of December 31, 2012, we owned 2 properties and leased 24 properties in the PRC.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of December 31, 2012, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

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Owned Properties

As of the Latest Practicable Date, we owned two properties with a GFA of approximately 13,163.91 square meters. We have legal and valid ownership interests in both of these properties. As confirmed by our PRC legal adviser, we legally own all of our buildings.

The following table sets out a summary of the properties owned by us.

Address and description of location	Owner	Use of property	GFA (square meters)	Restrictions on use	Duration of land use rights
No. 3, Shangdu Road, Zhengdong New District, Zhengzhou, Henan (河南鄭州市鄭東新區商都路3號)	Zhongdebao	Business and Service Use	3,936.01	Pledged to Shanghai Pudong Development Bank, Zhengzhou Branch from April 6, 2010 to April 6, 2013.	40 years
No. 3, Shangdu Road, Zhengdong New District, Zhengzhou, Henan (河南鄭州市鄭東新區商都路3號)	Yuanda Lexus	Business and Service Use	9,227.90	Pledged to Shanghai Pudong Development Bank, Zhengzhou Branch from December 31, 2009 to December 31, 2012.	40 years

Leased Properties

We have leased certain properties in China to operate our outlets. As of December 31, 2012, we leased a total of 24 properties with an aggregate GFA of approximately 15,255 square meters for the building portion and an aggregate site area of approximately 114,261 square meters for the land portion, among which:

- for three properties with an aggregate GFA of approximately 3,189 square meters, accounting for 20.9% of the aggregate GFA of our leased buildings and an aggregate site area of approximately 20,487 square meters, accounting for 17.9% of the aggregate site area of our leased land, the landlords had not obtained the relevant title certificates. One of these properties is located in Zhengzhou, Henan province. The other two are located in Anyang, Henan province and Wuhan, Hubei Province.
- in one property with an aggregate site area of approximately 8,671 square meters, which accounts for 7.6% of the aggregate site area of our leased land, we operated one 4S dealership store as of the Latest Practicable Date, the property was not in compliance with its designated usage. The property is located in Nanyang, Henan province.
- eight properties with an aggregate GFA of approximately 1,177 square meters, which accounts for 7.7% of the aggregate GFA of our leased buildings and an aggregate site area of approximately 67,457 square meters, which accounts for 59.0% of the aggregate site area of our leased land, are built in collectively-owned land and are not permitted to be leased to others for no agricultural or commercial purposes under applicable PRC laws, rules and regulations. One of these properties is located in Guangzhou, Guangdong Province, one is located in Beijing and another six are located in Henan Province.

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As of December 31, 2012, our leasehold interests in 12 of these leased properties were subject to certain defects. For the years ended December 31, 2010, 2011 and 2012, revenue generated from our operations on these 12 leased properties with defects was RMB284.4 million, RMB1.14 billion and RMB3.08 billion respectively, which accounted for 15.8%, 37.6% and 54.5% of our total revenue, respectively.

As of the Latest Practicable Date, we had not been subject to any material claim arising from or in connection with any defect in our leasehold interest in any of our leased properties. In addition, our Company did not close any dealership outlet during the Track Record Period.

Our Directors are of the view that these defects in our leased properties would not have any material and adverse impact on our business and operations because (i) we can find comparable properties to relocate the relevant outlets, if necessary; (ii) we do not anticipate any material practical difficulties in relocating the relevant outlets; and (iii) based on the current available information, the estimated total costs and expenses for relocating our businesses located on properties with defective titles are not expected to exceed RMB55 million. In addition, because we are required to submit to an automobile manufacturer documents relating to our ownership or lease of the premises for our outlet prior to the execution of any dealership agreement, including the related title documents, automobile manufacturers were aware of title defects of these 12 leased properties before they entered into dealership agreements with us. As such, we believe, and our PRC legal adviser, Beijing JingRui Law Firm, has advised, that the existing title defects of these 12 leased properties would not constitute a material breach of the relevant dealership agreements or trigger any termination by the relevant automobile manufacturers.

Each of Mr. Feng and Eagle Seeker has jointly and severally agreed to indemnify us against any costs, expenses and losses which we may suffer as a result of any dispute as to our rights to lease and use any of these properties for our business operations. For more details of the deed of indemnity, see "Appendix IV – Statutory and General Information – E. Other information – Estate duty and deed of indemnity". We have implemented internal control measures pursuant to which our legal advisers will review our lease agreements and advise us of the relevant risks with respect to our leased properties and to ensure that we have adequate rights to claim against the relevant landlords in the event of any defects arising from our leased properties.

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The following table sets out a summary of the properties leased by us which are considered material as they are used as our stores and warehouses.

Address and description of location	Use of property	Area (square meters)	Restrictions on use	Duration of lease or land use rights	Expiration Date
Shaoyuan Village, Liulin Town, Jinshui District, Zhengzhou, Henan Province (河南鄭州市金水區柳林鎮杓袁村) 鄭德寶	Construction	15,507.75	None	30 years	September 1, 2040
No. 1018, Xinfei South Street, Xinxiang, Henan Province (河南新鄉市新飛大道南段1018號) 新德寶	Industrial	1,006	None	Two years	March 31, 2014
Zhao Village, The west side of Longmen Street, Luoyang, Henan Province (河南洛陽市龍門大道西側趙村) 豫德寶	Construction	1,020	None	15 years	March 31, 2024
The North side of Yingbin Street, Nanyang, Henan Province (河南南陽市迎賓大道北側) 宛德寶	Comprehensive	8,671	None	20 years	May 1, 2031
Balizhuang Village, Gaobeidian Town, Chaoyang District, Beijing (北京市朝陽區高碑店鄉八裡莊村) 華德寶	Collectively owned land	9,267	None	50 years	October 31, 2059

Properties Currently under Construction

As of the Latest Practicable Date, we had 14 properties under construction. The projected total cost of construction of our 20 new outlets was approximately RMB609 million, of which approximately RMB118 million had already been utilized. We financed the construction primarily through, cash flow from operations and loans from local commercial banks.

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INSURANCE

We carry insurance covering risks including loss and theft of and damage to property such as our fixed assets and inventories in our dealership outlets, losses due to fire, flood and other natural disasters. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of business, neither do we maintain any insurance coverage for business interruption due to the limited coverage of any business interruption insurance in China. We consider our insurance coverage to be adequate and in line with industry practices in China. However, significant uninsured damage to any of our properties, inventory or other assets, whether as a result of fire or other causes, could have a material and adverse effect on our results of operations. See the section headed “Risk Factors – Our insurance coverage may be inadequate to cover our potential losses” in this prospectus.

LEGAL COMPLIANCE AND PROCEEDINGS

During the Track Record Period and as of the Latest Practicable Date, we had not been and was not a party to any legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which could have a material adverse effect on our operations or financial condition. However, we may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

In the opinion of our PRC Legal Counsel, Beijing Jing Rui Law Firm, during the Track Record Period and as of the Latest Practicable Date, we have complied with relevant PRC laws, rules and regulations in all material respects including without limitation in this prospectus environmental and work safety laws and regulations. Except as disclosed in the sections entitled “Risk Factors – We may not be able to use certain properties leased by us because of defects affecting our leasehold interests” in this prospectus, we and all of our subsidiaries have obtained all the licenses, approvals and permits from appropriate regulatory authorities that are material to our business operations in China.