
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Background

Immediately following the completion of the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Shares issued or to be issued under the RSU Scheme), indirectly through Eagle Seeker, Mr. Feng will own an approximately 63.87% interest in post offering enlarged issued share capital of our Company and hence will, together with Eagle Seeker, continue to be the Controlling Shareholders.

Apart from his interest in our Group, Mr. Feng is also the controlling shareholder of Hexie Industrial Group, which is a privately owned group headquartered in Zhengzhou, Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including, among others, property development and golf courses. Our Controlling Shareholders' interests in sales of passenger vehicles is now carried out solely through our Group. From November 2008 to April 2012, our Controlling Shareholders helped potential customers who were unable to purchase particular models of passenger vehicles from our outlets by sourcing passenger vehicles from sellers who import them from outside China. We were unable to sell the particular models to the customers because our outlets were out of stock and the automobile manufacturers in China could not supply such models on a timely basis or at all due to high demand, and customers did not want to wait for vehicles to become available. The purpose of this was to help ensure that potential customers do not buy other brands. In order to facilitate such purchases, a number of our operating subsidiaries acted as counterparties to the contracts with certain potential customers as agent and on behalf of our Controlling Shareholders. The number of passenger vehicle purchases referred by the Controlling Shareholders for the years ended December 31, 2010, 2011 and 2012 were 463, 925 and 118, respectively. Such referral practice was not part of our business and as such we do not possess relevant financial information of the transactions amount. The Controlling Shareholders did not engage in direct sales of the imported passenger vehicles as the sellers of such imported passenger vehicles issued invoices of the sales directly to the customers. There may be instances of claims or damages arising out of those contracts or the performance or functionality of the passenger vehicles procured by our Controlling Shareholders, and some of these claims or damages may not be fully covered by insurance. Our Controlling Shareholders are ultimately responsible for the contracts as principal. In any event, we have obtained an indemnity from our Controlling Shareholders for any losses to us arising out of the contracts we entered into as agent and on their behalf. As supply levels normalized, our Controlling Shareholder has discontinued such practice since April 2012 and will not engage in similar practice going forward under the terms of the Deed of Non-Competition (see below for further details). In addition, we have also set up various internal policies and measures to ensure that no company resources are utilized by related parties for purposes unrelated to or in conflict with our business. Such policies and measures include:

- an internal policy on related party transactions, which sets forth, among other things, (i) general principles including scope and pricing; (ii) internal authorization entity and process and (iii) disclosure requirements of related party transactions;
- an internal policy on non-competition, which sets forth, among other things, details of the scope of prohibition on competition with the Company's business, and procedures to follow when an employee encounters an undertaking that would potentially violate the non-competition policy; and
- a requirement for all Directors and principal management to sign a non-competition agreement.

Our Controlling Shareholders and Directors confirm that they do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and their respective associates after the Global Offering.

Management Independence

The Board comprises 7 executive Directors, 1 non-executive Director and 4 independent non-executive Directors. For more information, please see “Directors and Senior Management” section of this prospectus. Mr. Feng is also one of the Controlling Shareholders of the Company. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her associates has a material interest and shall not be counted in the quorum present at the particular Board meeting.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

Our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have established a set of internal controls to facilitate the effective operation of our business. Our INEDs will also review the effectiveness and compliance of the internal control systems of the Company on a quarterly basis.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial Independence

Our Group has its own financial management system and the ability to operate independently of the Controlling Shareholders from a financial perspective. During the Track Record Period, the Group had certain outstanding balances due from Mr. Feng, details of which are set forth in Note 35(b) to the Accountants’ Report as Appendix I to this prospectus. Our Controlling Shareholders confirmed that the outstanding balances due from him will be settled prior to the Listing by cash. Our Directors confirmed that, as of December 31, 2012 and except for the guarantees or pledges set forth in Note 35(a) to the Accountants’ Report as Appendix I to this prospectus and the pledges referred to in the next paragraph, (i) none of our Controlling Shareholders or their respective associates had provided any guarantees or pledges to our Group; and (ii) our Group did not provide any guarantees or pledges to our Controlling Shareholders or their respective associates. The Directors further confirmed that such guarantees and pledges will be released prior to the Listing and will be substituted by guarantees provided by members within our Group and pledges over our Group’s properties and assets as appropriate.

In addition, as a private company, we were part of Mr. Feng’s Hexie Industrial Group. As part of Hexie Industrial Group’s financing activities, Hexie Industrial Group used the equity interests in four of our operating subsidiaries, namely Wandebao, Huadebao, Andebao and Henan Hedebao (“**Pledged Subsidiaries**”), as security for a debt financing plan it entered into with Hua Ao International Trust Co., Ltd. (also known as Sino-Australian International Trust Co., Ltd.) (“**HAT**”). In September 2011, Hexie Industrial Group, Mr. Feng and Zhongdebao entered into a debt financing

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

plan with HAT, pursuant to which HAT raised RMB180 million by issuing trust fund units to purchasers. The proceeds of the sale of the trust fund units were passed onto Hexie Industrial Group through the purchase by HAT of the entitlements to the income stream of the Pledged Subsidiaries. As security, the equity interests of the Pledged Subsidiaries have been pledged to HAT. In addition, our operating subsidiaries, Zhongdebao and Yuanda Lexus, acted as the guarantors for Mr. Feng's obligations under the debt financing arrangement. Mr. Feng and Hexie Industrial Group have obtained the agreement of HAT to release the pledges over the equity interests of the Pledged Subsidiaries as well as the guarantees by Zhongdebao and Yuanda Lexus on or prior to Listing.

Based on the above, our Directors believe that we are able to maintain financial independence from the Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Each of Mr. Feng and Eagle Seeker (the "**Covenantors**") has entered into a Deed of Non-Competition in favor of our Company on May 20, 2013 pursuant to which the Covenantors have unconditionally, irrevocably and severally undertaken with our Group that they shall not, and shall procure that all their respective associates, shall not (except through our Group), directly or indirectly (including through nominees), carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of our Group described in this prospectus (the "**Restricted Business**").

The Covenantors have also undertaken to us that:

- any business investment or other commercial opportunity relating to any Restricted Business (the "**New Opportunity**") identified by or offered to our Controlling Shareholders or any of their associates ("**Offeror**") be first referred to us, and we shall be given written notice of any New Opportunity containing all information reasonably necessary, including but not limited to the financial and operating information and a description of the business involved, for us to consider whether (a) such New Opportunity would constitute competition with any Restricted Business; and (b) it is in the interest of our Group and our Shareholders as a whole to pursue such New Opportunity ("**Offer Notice**"). Upon receipt of the Offer Notice, we will seek determinations from a committee of our Board consisting exclusively of independent non executive Directors who do not have a material interest in the matter;
- the Offeror will be entitled to pursue the New Opportunity only if the Offeror has received a notice from us declining the New Opportunity (failure by us to provide the Offeror with a written notice within 25 Business Days from receipt of the Offer Notice constitutes a decline of the New Opportunity). If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity, as so revised, to us in the manner set out above;
- in the event that, during the validity period of the Deed of Non-Competition, our Controlling Shareholders or any of their associates (except any members of our Group) intend to dispose of any business acquired pursuant to any New Opportunity, or any interest therein, the seller shall first offer to us the right to acquire such business or interest and none of the Controlling Shareholders or any of their associates (except any members of our Group) may proceed with such disposal to any third party, unless the terms of disposal are not more favourable than those offered to us, following the written rejection of such offer by us; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- our Group will be entitled to an option to acquire any business acquired by the Controlling Shareholders or any of their associates pursuant to any New Opportunity, or any interest therein, on and in accordance with commercial terms which shall have been opined upon by a committee of our Board consisting exclusively of independent non-executive Directors, after taking into account the advice from independent experts as being, inter alia, normal commercial terms, in line with the ordinary commercial practice of our Group, fair and reasonable and in the interests of our Group as a whole.

During the non-competition period each of the Controlling Shareholders also jointly and severally undertake to:

- procure that all relevant corporate and financial information in his possession relating to any Restricted Business be provided to us from time to time;
- to the extent not inconsistent with any confidentiality agreements, allow the authorized persons or internal auditors of our Group to access the material financial or corporate information in relation to any third-party transaction, so as to determine whether the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders and their associates; and
- within 10 days from receipt of our written request, provide us with a written confirmation in respect of its/his compliance with the Deed of Non-Competition, and consent to the inclusion of such confirmation in our annual report.

Such non-competition undertaking does not apply where:

- the Controlling Shareholders and their associates hold, directly or indirectly, equity interests in any company listed on a recognized stock exchange not engaged in any Restricted Business; and
- the Controlling Shareholders and their associates have interests in the shares of a company other than our Group provided that:
 - a) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated sales or consolidated assets, whichever is less, as shown in that company's latest audited accounts; and
 - b) the total number of the shares held by the Controlling Shareholders and their associates in aggregate does not exceed 10% of the issued shares of that class of the company in question and the Controlling Shareholders and their associates are not entitled to appoint a majority of the directors of that company.

The Covenantors have acknowledged that we may be required by the relevant laws, regulations, rules of the stock exchange(s) on which we may be listed and the regulatory bodies, to disclose, from time to time, information on the New Opportunity in respect of the Restricted Business, including but not limited to disclosure in public announcements, our annual and/or interim reports of decisions made by us to decline such New Opportunity and have agreed to such disclosure to the extent necessary to comply with any such requirement. The undertakings given by the Covenantors under the Deed of Non-Competition are effective from the Listing Date and shall terminate on the earlier of (1) the date on which the relevant Covenantor ceases to be our Controlling Shareholders and (2) the date on which the Shares cease to be listed on the Stock Exchange.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from the competing business and to safeguard the interests of our shareholders, including:

- the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Deed of Non-Competition;
- the Controlling Shareholders to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- our Company will disclose decisions and related basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking by the Controlling Shareholders under the Deed of Non-Competition in the annual reports of the Company; and
- the Controlling Shareholders to make annual statement on compliance with the Deed of Non-Competition in our annual report, which is consistent with the principles of making disclosure in the corporate governance report of the annual report.

LEASE ARRANGEMENT WITH A CONNECTED PERSON

We entered into a lease agreement dated May 26, 2013, with Ms. Ma, our connected person, in respect of the use of our corporate offices in Zhengzhou, Henan Province. The lease agreement is for a period of one year. The annual rent under this lease agreement is RMB780,000. As the lease agreement was entered into on normal commercial terms (or better) and the applicable percentage ratio in respect of the aggregate annual rental payable under the lease agreement is less than 0.1%, it is exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.