You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto as of and for the years ended December 31, 2010, 2011 and 2012 included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRS. The following discussion and analysis and other parts of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

Our specialization in luxury and ultra-luxury brands has enabled us to achieve significant revenue and profit growth during the Track Record Period. Our revenue was 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 were the main revenue sources 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 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. We also generate revenue from after-sales services. Compared with sales of new passenger vehicles, after-sales services provide steady and recurring revenue with higher gross profit margin. The gross profit margin for after-sales services was 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.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Demand for luxury and ultra-luxury passenger vehicles in China

We generate the substantial majority of our revenues from the sales of new luxury and ultra-luxury passenger vehicles and the market demand for such passenger vehicles in China directly affects our revenues. Demand for luxury and ultra-luxury passenger vehicles is affected by a variety of factors, including:

- the macro-economic conditions in China, level of urbanization and household income;
- continued increase in the number of wealthy individuals and consumer sentiment toward luxury products;
- continued improvement of road networks and infrastructure; and
- relevant governmental laws and regulations with regard to passenger vehicle consumptions.

Moreover, demand and supply of luxury and ultra-luxury passenger vehicles is also affected by a number of factors outside the passenger vehicle market in China. For example, the recent territorial dispute with Japan and the deepening debt crisis in Europe had negative or mixed impact on the passenger vehicle market in China. 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" and "Risk Factors – Our business may be adversely affected by political and macro-economic events."

Overall, according to the ACMR Report, Chinese luxury and ultra-luxury passenger vehicle market has experienced significant growth in recent years. The sales volume of luxury and ultra-luxury passenger vehicles in China grew from approximately 152,000 in 2006 to 1.43 million in 2012, representing a CAGR of 45.3%, more than twice of the CAGR of the sale volume of passenger vehicle in total in China. The ACMR Report estimates that the recent European debt crisis and the Diaoyu Island dispute between China and Japan will not have a significant adverse impact on the passenger vehicle market in China, and the luxury and ultra-luxury passenger vehicle market in China will continue to grow rapidly from 2013 to 2016, and the sales volume is expected to increase from 1.45 million in 2013 to 3.0 million in 2016, representing a CAGR of approximately 27.4%. Based on the foregoing, our Directors are of the view that, in the absence of unforeseen circumstances and developments, the outlook for automobile sales in China for the remaining of 2013 is not expected to be materially different from the current market environment.

Our sales network

Our sales of new passenger vehicles are directly affected by the number, locations, and business performances of our outlets. We have rapidly expanded our sales network of outlets in first-tier cities, provincial capitals and other affluent cities in China during the Track Record Period. As of December 31, 2010, 2011 and 2012, we operated six, nine and 22 outlets, respectively. The maintenance and continued expansion of our sales network depend on our ability to continue to renew existing and enter into new dealership authorization agreements with manufacturers. We believe our strong relationship with manufacturers and track record of strong performance will help us maintain and expand our sales network in the foreseeable future.

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 sale prices. We determine the retail price ranges of new passenger vehicles based on a number of factors, including:

Market demand. Market demand for luxury and ultra-luxury passenger vehicles in China in general has been increasing steadily during the Track Record Period and is expected to continue to grow in the near future, according to the ACMR Report. The retail price of a new passenger vehicle is affected by the demand and supply of the particular model at the time of the sale. In addition, the average retail price of a certain brand is affected by the demand and competitive landscape of a particular regional market. In general, competition of luxury and ultra-luxury passenger vehicle markets in tier-one cities and affluent regions is more intense than that in other areas in China. Certain tier-one cities such as Beijing and Shanghai also implemented a number of measures to limit the number of new license plates they issue each year, which resulted in intensified competition in sales of new passenger vehicles in such cities. In particular, according to the ACMR Report, Henan Province is one of the fast growing regional markets for luxury and ultra-luxury passenger vehicles, which, combined with our dominant market position in Henan Province, enabled us to continuously increase our sales volumes and average retail price during the Track Record Period.

Competition in the same region. Intense competition in a regional market often results in price reduction and lower profit margin for dealerships. During the Track Record Period, our dominant market position in Henan Province enhanced our pricing power in the region, which enabled us to sell a passenger vehicle at a premium compared with the prevailing price of the same brand and model in other more competitive regional markets. Such dominant position in Henan Province contributed significantly to our gross profit margin of 12.8%, 13.8%, and 11.7% for the years ended December 31, 2010, 2011 and 2012, respectively. Conversely, in other regions such as tier-one cities where there are developed passenger vehicle markets and intense competition, the profit margin of our sales of new passenger vehicles tend to be lower compared with that of passenger vehicles we sold in Henan Province. We expect to continue to maintain our dominant position in Henan Province in the near future, while we actively increase our presence and competitiveness in other regional markets.

Price sensitivity of customers. Consumers of luxury and ultra-luxury passenger vehicles are in general less price sensitive compared with purchasers of mid- to high-end passenger vehicles. The majority of our customers are affluent individuals, who generally value service quality and purchase experiences over price bargains, which gives us more flexibility in adjusting retail prices depending on market demand and our inventory. In addition, for models that are high in demand, many of our customers were willing to pay a premium to obtain the particular models they desired sooner than they would be able to if they were put on a wait list.

Sales and services mix

Our principal business consists of sales of new passenger vehicles and after-sales services. Our after-sales services have a higher gross profit margin compared with that of sales of new passenger vehicles. During the Track Record Period, we generated the substantial majority of our revenues from sales of new passenger vehicles, which accounted for 89.7%, 90.8%, and 92.7% of the total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. For the years ended December 31, 2010, 2011 and 2012, the gross profit margin of our after-sales services was 39.6%, 37.6% and 44.0%, respectively, and gross profit generated from after-sales services accounted for 31.5%, 25.1% and 27.4% of the total gross profit for the same periods. In comparison, gross profit margin of sales of new passenger vehicles was 9.8%, 11.4% and 9.2% for the years ended December 31, 2010, 2011 and 2012, respectively. Our after-sales services are indirectly affected by our historical new passenger vehicles sales, as customers who purchased passenger vehicles from our 4S stores tend to return to the same stores for after-sales services. In addition, it typically takes approximately one to two years for the demand for after-sales services in newly established 4S stores to ramp up, and as a result, our revenues from after-sales services are also affected by the number and maturity of our 4S stores.

Gross profit margins for sales of new passenger vehicles of luxury and ultra-luxury brands are typically higher than those of mid- to high-end brands. Since we deal exclusively luxury and ultra-luxury passenger vehicles, our gross profit margins for sales of new passenger vehicles are generally higher and less affected by brand mix compared with dealerships that have a mixed portfolio.

Cost of sales and services and incentive rebates from manufacturers

The significant part of our cost of sales is cost of procurement of passenger vehicles and spare parts from automobile manufacturers offset by the incentive rebates they offer.

For the years ended December 31, 2010, 2011 and 2012, our cost of sales and services accounted for 87.2%, 86.2% and 88.3% of our revenues, respectively. The wholesale prices that we pay for new passenger vehicles and spare parts are determined by automobile manufacturers and we do not exercise any control or influence over the pricing.

Automobile manufacturers typically offer incentive rebates that are generally determined with reference to the units of new passenger vehicles we purchase or sell during a fiscal year, and are further adjusted based on our performance relative to certain targets set by such automobile manufacturers, including customer satisfaction ratings and dealership operating standards. As a market practice, automobile manufacturers will determine their own rebate policies and practices and inform us in advance. Such policies and practices are not subject to negotiation or set forth in the dealership authorization agreements. From time to time, automobile manufacturers also offer special incentive rebates for particular models of their passenger vehicles. Rebate amounts are settled from time to time, and the timing of settlement varies with the different business practices of different automobile manufacturers. Our incentive rebates were typically settled within a period varying from three months to 12 months as determined by the automobile manufacturers. There was no fixed settlement period agreed upon between the Group and the automakers. For the years ended December 31, 2010, 2011 and 2012, we recorded incentive rebates of approximately RMB92.2 million, RMB124.6 million and RMB317.7 million. Excluding contribution from incentive rebates would have a significant negative impact on our gross profit margins, but it would not affect the overall trend during the Track Record Period. Our gross profit margin excluding the incentive rebates would be 7.7%, 9.7% and 6.1% for the years ended December 31, 2010, 2011 and 2012, respectively, as compared to our gross profit margin of 12.8%, 13.8% and 11.7% for the same periods. For more information, see "– Description of Selected Income Statement Line Items – Cost of sales and services."

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 3 to the Accountants' Report included in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

Basis of Combination

This prospectus includes our consolidated financial information for the Track Record Period. The acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognized in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The financial statements of our subsidiaries are prepared for the same reporting period as our company, using consistent accounting policies.

All significant intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by our Group in the results and net assets of the companies now comprising our Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Judgments and Estimates

The preparation of our consolidated financial information requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying our accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial information:

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB2.8 million, RMB6.7 million and RMB10.1 million as of December 31, 2010, 2011 and 2012, respectively. No deferred tax was provided for the accumulated earnings as of December 31, 2012, as the Directors decided that all of our accumulated earnings prior to December 31, 2012 will be retained by our PRC subsidiaries. All of our accumulated earnings as of June 30, 2012 were distributed to the Controlling Shareholders as part of the plan to offset the outstanding loan amount due to us. For more details, see "– Net Current Assets and Liabilities – Related party transactions."

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

We assess whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations for the periods indicated:

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Revenue	1,801,358	3,031,856	5,656,744
Cost of sales and services	(1,569,951)	(2,614,356)	(4,993,298)
Gross profit	231,407	417,500	663,446
Other income and gains, net (excluding interest income from the Controlling Shareholders)	10,229	25,387	88,918
Interest income from the Controlling Shareholders[1]	13,405	53,516	147,740
Selling and distribution costs	(64,517)	(106,737)	(237,030)
Administrative expenses	(18,716)	(30,330)	(71,611)
Profit from operations	171,808	359,336	591,463
Finance costs	(19,956)	(61,872)	(116,403)
Share of profit of an associate	–	–	222
Profit before tax	151,852	297,464	475,282
Tax	(39,152)	(77,014)	(124,563)
Profit for the year[2]	**112,700**	**220,450**	**350,719[3]**

(1) Pursuant to a written agreement on January 1, 2009, we granted certain loans to the Controlling Shareholders with an annual interest rate of 15% during the Track Record Period. Prior to the Reorganization, we were part of Hexie Industrial Group and the loans were granted to support the Controlling Shareholders' other business activities as part of internal funds management. The loan interest was agreed upon between the Controlling Shareholders and us by referring to the then market interest rates for bank loans and other alternative financing channels. There had been no change in the interest rate during the term of the loans. The loans were repaid in full as of the Latest Practicable Date and we do not plan to grant similar loans to any related party going forward. The following table sets forth the relevant balances of the loans during the Track Record Period:

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Maximum balance	305,633	990,077	1,648,198
Minimum balance	31,029	232,552	980,577
Average balance of the year	94,070	375,551	1,036,772

(2) The following table sets forth our adjusted net profit excluding interest incomes from the Controlling Shareholders and the related tax impact for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
		(RMB'000)	
Profit for the year	112,700	220,450	350,719
Loan interests from the Controlling Shareholders	(13,405)	(53,516)	(147,740)
Related tax impact	3,351	13,379	36,935
Adjusted net profit	102,646	180,313	239,914

Such adjusted net profit did not take into account the related interest expenses we incurred for bank loans that were used to grant loans to the Controlling Shareholders.

(3) We started to sell passenger vehicles of six new brands, namely, Rolls-Royce, Aston Martin, Land Rover, Jaguar, Ferrari and Maserati in 2012. Net profit generated from sales of such new brands was RMB27.3 million in 2012, representing 11.4% of our net profit excluding interest incomes from the Controlling Shareholders and the related tax impact of the year. Net profit excluding (i) interest incomes from the Controlling Shareholders and the related tax impact and (ii) net profit generated from sales of new passenger vehicles of the six new brands would be RMB212.6 million in 2012.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

We generate our revenue from sales of new passenger vehicles and after-sales services during the Track Record Period. The following table sets forth a breakdown of our revenues and percentages to total revenues for the periods indicated:

	Year ended December 31,								
	2010			2011			2012		
	(RMB'000)	(%)	Gross profit margin (%)	(RMB'000)	(%)	Gross profit margin (%)	(RMB'000)	(%)	Gross profit margin (%)
Sales of new passenger vehicles	1,616,681	89.7	9.8	2,752,772	90.8	11.4	5,244,449	92.7	9.2
After-sales services	184,677	10.3	39.6	279,084	9.2	37.6	412,295	7.3	44.0
Total revenues	**1,801,358**	**100**	**12.8**	**3,031,856**	**100**	**13.8**	**5,656,744**	**100**	**11.7**

We generated the substantial majority of our revenue from sales of new passenger vehicles, which accounted for 89.7%, 90.8% and 92.7% of the total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Our sales of new passenger vehicles in the Track Record Period benefited from the continued increase in demand for luxury and ultra-luxury passenger vehicles as a result of the development of the market segment in China. The increase in revenues from sales of new passenger vehicles in a fiscal year was primarily due to the increase in sales in both our existing outlets and the newly opened outlets during that year.

The following table sets forth a breakdown of our sales volume and revenue contribution of new passenger vehicles for the periods 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	73.2	3,985	2,180,202	79.2	9,340	4,343,837	82.9
Lexus	768	418,622	25.9	873	506,484	18.4	1,120	547,297	10.4
MINI	59	14,202	0.9	228	66,086	2.4	338	90,694	1.7
Rolls-Royce	–	–	–	–	–	–	32	190,490	3.6
Aston Martin	–	–	–	–	–	–	10*	40,315	0.8
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**	**100.0**	**5,086**	**2,752,772**	**100.0**	**10,873**	**5,244,449**	**100.0**

* The automobile manufacturer for such ultra-luxury passages 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.

During the Track Record Period, the majority of our revenues from sales of new passenger vehicles were generated from sales of BMW passenger vehicles, which accounted for 73.2% 79.2% and 82.9% of the revenues from sales of new passenger vehicles for the years ended December 31, 2010, 2011 and 2012, respectively. The increase in percentages was due to the fact that the majority of outlets we opened in the Track Record Period were BMW outlets. Going forward, we expect BMW passenger vehicles to continue to be our major revenue contributor. At the same time, as we expand our business and broaden our brand coverage, we expect revenue contributions from other luxury and ultra-luxury brands to increase in percentage. The average retail price of a BMW passenger vehicle we sold was approximately RMB538,000, RMB547,000 and RMB465,000 for the years ended December 31, 2010, 2011 and 2012, respectively. The decreases in the average retail price were primarily due to an increase in the supply of BMW passenger vehicles in the market and the introduction of several lower-end models, especially since the beginning of 2012, due to BMW China's strategy to increase its market share in China by catering to customers' demands for less expensive luxury passenger vehicles.

Our second largest brand in terms of sales volume and revenue contribution is Lexus, which accounted for 25.9%, 18.4% and 10.4% of the revenues from sales at new passenger vehicles for the years ended December 31, 2010, 2011 and 2012, respectively. The decrease in percentage was primarily due to our expansion with mainly BMW outlets, as well as opening of outlets for ultra-luxury brands. Average retail price and sales volume of Lexus are also affected by Chinese customers' sentiment to passenger vehicles of Japanese brand. In particular, sales of Lexus passenger vehicles were adversely affected in recent months by the Diaoyu Island territorial dispute. For more details, see "Risk Factors – Our business may be adversely affected by political and macro-economic events."

The average retail prices for ultra-luxury brands we sold, including Rolls-Royce and Aston Martin were significantly higher than those of luxury brands, which was consistent with market trend.

Revenues from after-sales services consist primarily of income generated from repair and maintenance services, sales of spare parts and accessories and other miscellaneous passenger vehicle related services. Revenues from after-sales services were RMB184.7 million, RMB279.1 million and RMB412.3 million for the years ended December 31, 2010, 2011 and 2012, respectively. The increase in revenues from after-sales services during the Track Record Period was primarily due to the increase in the numbers of our 4S stores and the number of our customers who purchased new passenger vehicles at our outlets and subsequently used our 4S stores for after-sales services. Revenues from after-sales services accounted for 10.3%, 9.2% and 7.3% of the total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. The decreases in percentage of revenue contribution from after-sales services were primarily attributable to the revenue contribution from the new outlets, as there is typically a ramp-up period for after-sales services to pick up in a newly opened 4S store.

Cost of sales and services

Our cost of sales consists of cost of sales of new passenger vehicles and cost associated with after-sales services. The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sales of new passenger vehicles	1,458,326	92.9	2,440,304	93.3	4,762,592	95.4
After-sales services	111,625	7.1	174,052	6.7	230,706	4.6
Total cost of sales	**1,569,951**	**100**	**2,614,356**	**100**	**4,993,298**	**100**

Cost of sales of new passenger vehicles

Our cost of sales for new passenger vehicles during the Track Record Period was for the procurement of the passenger vehicles, which accounted for 92.9%, 93.3% and 95.4% of the total cost of sales for the years ended December 31, 2010, 2011 and 2012, respectively. The increases in our cost of sales for new passenger vehicles during the Track Record Period were consistent with the increases in revenues of sales of passenger vehicles.

In particular, the cost of procurement of new passenger vehicles is affected by the rebates granted to us by automobile manufacturers. Our dealership authorization agreements with automobile manufacturers often provide for volume-based rebates, which are decided with reference to the units of new automobiles purchased, and adjusted based on our satisfaction of certain targets set by the relevant automobile manufacturers, including sales targets, customer satisfaction indices and dealership presentation standards. The automobile manufacturers settle the rebates with us from time to time taking into account the above factors by deducting the price payable by us in the subsequent purchases placed by us. Incentive rebates are accrued at each financial reporting date based on the actual purchasing amounts, corresponding rebate rates as agreed with automobile manufacturers and our management's estimate on relevant factors, including without limitation, meeting certain sales and service targets set by the relevant automakers. Incentive Rebates related to passenger vehicles already sold are deducted from cost of sales. Conversely, incentive rebates attributable to passenger vehicles already procured from automobile manufacturers but still held in our inventories on the reporting date are deducted from the carrying value of these inventory items, so that the cost of inventories is recorded net of applicable rebates.

Cost of after-sales services

Our cost associated with after-sales services include cost of labor and spare parts. The increases in our cost associated with after-sales services during the Track Record Period were in line with the increases in revenues of after-sales services. Cost of after-sales services accounted 7.1%, 6.7% and 4.6% of the total cost of sales for the years ended December 31, 2010, 2011 and 2012, respectively. The decrease in the year ended December 31, 2012 was in line with the decrease in revenue contribution from after-sales services during the same period.

Gross Profit Margin

Our overall gross profit margin was 12.8%, 13.8% and 11.7% for the years ended December 31, 2010, 2011 and 2012, respectively. The trend of our overall gross profit margin during the Track Record Period was largely in line with the trend of gross profit margin of our sales of new passenger vehicles. Sales of luxury and ultra-luxury passenger vehicles usually have higher gross profit margins compared with sales of middle- or low-end passenger vehicles. As a result, our gross profit margin benefit from our specialization in the sales of luxury and ultra-luxury passenger vehicles only.

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. The increase of our gross profit margin for sales of new passenger vehicles from 2010 to 2011 was primarily due to our ability to charge increasing premiums on retail prices, which was in turn a result of (i) the increase in demand for luxury and ultra-luxury passenger vehicles during the period and (ii) the increase in our market share and competitiveness in Henan Province as our existing outlets matured and new outlets were opened. The decrease of gross profit margin for sales of new passenger vehicles in 2012 was primarily due to the increase in the supply of BMW passenger vehicles in the market which resulted in a reduction of retail prices for various BMW models and the introduction of various lower-end BMW models in that period.

Our gross profit margin for after-sales services was 39.6%, 37.6% and 44.0% for the years ended December 31, 2010, 2011 and 2012, respectively. The decreases of our gross profit margin for after-sales services from 2010 to 2011 were primarily due to the continued increases in costs of labor and spare parts. In 2012, we increased the rates of after-sales services for out-of-warranty services, resulting in an increase in gross profit margin. Gross profit generated from after-sales services accounted for 31.5%, 25.1% and 27.4% of the total gross profit for the years ended December 31, 2010, 2011 and 2012, respectively. The decrease in percentages from 2010 to 2011 was primarily due to (i) the opening of exhibition galleries which do not provide after-sales services and (ii) the opening of new 4S stores as there is typical a ramp-up period for after-sales services to pick up in newly opened 4S stores. The increase in percentage from 2011 to 2012 was primarily due to the increase in the gross profit margin of after-sales services.

Other net income and gain (excluding interest income from the Controlling Shareholders)

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

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Commission income	4,563	13,211	61,141
Advertisement support received from motor vehicle manufacturers	2,474	3,843	5,326
Bank interest income	1,514	2,818	8,429
Net gain on disposal of items of property, plant and equipment	–	497	–
Others	1,678	5,018	14,022
Total	**10,229**	**25,387**	**88,918**

Our other net income and gain consists primarily of commission income.

Commission income consists primarily of service fees we generate from (i) consulting services for insurance and financing in connection with purchases of new passenger vehicles and (ii) referral services for traded-in pre-owned passenger vehicles. Referral service fees for trade-in pre-owned passenger vehicles were recognized as commission income as such services are provided to our customers to facilitate their purchases of new passenger vehicles and similar in nature with the insurance and financing services we provided in connection with the purchase of new passenger vehicles. The commission income is normally calculated as certain percentage of the sales price of the pre-owned passenger vehicles. We only provided the referral service to our customers who want to sell their trade-in passenger vehicles. Once the buyers were identified, we then arranged the transaction directly between our customers and the buyers. We do not purchase the trade-in pre-owned passenger vehicles from our customers and we do not take title of such passenger vehicles in the entire process. Accordingly the sales of trade-in pre-owned passenger vehicles were not recorded as revenues. Our commission income was RMB4.6 million, RMB13.2 million and RMB61.1 million for the years ended December 31, 2010, 2011 and 2012, respectively. The increases in commission income, especially in 2012, were primarily due to the increase in the numbers of customers who used insurance services we referred and financing services for purchases of new passenger vehicles provided by the financing companies affiliated with automobile manufacturers, which were in turn attributable to (i) the increase in sales volume of new passenger vehicles; (ii) favorable interest rates on such financing services provided by the financing companies as incentive for the purchases of new passenger vehicles; and (iii) our efforts to promote such insurance services and financing services to our customers who purchase new passenger vehicles.

Interest income from the Controlling Shareholders

Interest income from the Controlling Shareholders was generated from loans we granted to the Controlling Shareholders which bore an annual interest rate of 15% during the Track Record Period. The Controlling Shareholders plan to settle all the outstanding loan amount prior to the Listing and we do not plan to grant any additional loans to the Controlling Shareholders going forward. For more details, see "– Related party transactions".

Operating expenses

Our operating expenses consist of (i) selling and distribution expenses and (ii) general and administrative expenses. The following table sets forth a breakdown of our operating expenses and percentages to our revenue for the periods indicated:

	Year ended December 31,					
	2010		**2011**		**2012**	
	(RMB'000)	**(%)**	**(RMB'000)**	**(%)**	**(RMB'000)**	**(%)**
Selling and distribution expenses	64,517	3.6	106,737	3.5	237,030	4.2
General and administrative expenses	18,716	1.0	30,330	1.0	71,611	1.3
Total operating expenses	**83,233**	**4.6**	**137,067**	**4.5**	**308,641**	**5.5**

The total operating expenses accounted for 4.6%, 4.5% and 5.5% of the revenues for the years ended December 31, 2010, 2011 and 2012, respectively. The decreases in percentage from 2010 to 2011 was primarily due to increases of our operational efficiency and the synergy among our outlets as we grew our business scale. The increase in operating expenses as a percentage to revenue in 2012 was primarily due to the significant expansion of our business as we opened five new outlets in the first half of 2012 and an increase in our advertising spending.

Selling and distribution expenses

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

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Salary and welfare	20,576	35,720	71,094
Rental expense	2,202	6,814	18,649
Utility	1,774	2,069	6,413
Taxation	3,215	8,548	23,961
Office supplies	2,966	3,345	4,683
Entertainment	1,699	1,661	3,239
Travelling	1,538	1,895	3,861
Advertising and promotion expenses	15,489	24,005	51,989
Depreciation	7,913	14,093	33,631
Automobile related expenses	3,991	5,424	15,103
Others	3,154	3,163	4,407
Total	**64,517**	**106,737**	**237,030**

Our selling and distribution expenses consist primarily of the following:

Salary and welfare. Our expenses associated with salary and welfare for sales employees were RMB20.6 million, RMB35.7 million, and RMB71.1 million for the years ended December 31, 2010, 2011 and 2012, respectively, representing 1.1%, 1.2%, and 1.3% of the revenue of the same periods. The increases in salary and welfare expenses were primarily a result of the increase of our sales representatives as we increased the number of our outlets.

Advertising and promotion expense. Our advertising and promotion expense were RMB15.5 million, RMB24.0 million and RMB52.0 million for the years ended December 31, 2010, 2011 and 2012, respectively, representing 0.9%, 0.8%, and 0.9% of the revenue of the same periods. The increase in advertising and promotion expense due to our increased advertising and promotion activities which was largely in line with the further expansion of our business and increased automobile manufacturers sales and marketing initiatives in which we participated.

Depreciation. Our expenses associated with the depreciation of our assets for the administration purposes were RMB7.9 million, RMB14.1 million, and RMB33.6 million for the years ended December 31, 2010, 2011 and 2012, respectively, representing 0.4%, 0.5%, and 0.6% of the revenues of the same periods. The increase in depreciation expenses was consistent with the expansion of our business and the increase of our number of outlets.

Administrative expenses

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

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Salary and welfare	2,287	3,969	11,417
Office supplies	2,307	4,023	6,332
Entertainment	3,591	4,064	5,648
Travelling	2,225	3,762	3,317
Taxation	800	1,026	3,808
Insurance	228	298	833
Professional fees	671	1,561	13,724
Depreciation	879	1,566	3,737
Amortisation of land use right	400	400	400
Amortisation of intangible assets	234	205	334
Telecommunication	449	616	990
Guard and cleaning	245	370	1,884
Net loss of disposal of Property, Plant and Equipment	–	–	1,630
Bank charges	1,734	3,487	9,285
Others	2,666	4,983	8,272
Total	**18,716**	**30,330**	**71,611**

We incur administrative expenses for the administration and daily operation of our business, including salary and welfare for our administrative personnel, entertainment and travelling expenses in connection with our business operation and promotion, bank changes and other miscellaneous expenses. Our administrative expenses were RMB18.7 million, RMB30.3 million and RMB71.6 million for the years ended December 31, 2010, 2011 and 2012, respectively, representing 1.0%, 1.0%, and 1.3% of the revenues of the same periods.

Finance expenses

The following table sets forth a breakdown of our finance expenses for the periods indicated:

	Year ended December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Interest expense on bank borrowings wholly repayable within five years	19,654	60,327	131,275
Interest expense on other borrowings	302	1,545	4,844
Less: Interest capitalized	–	–	(19,716)
Total	**19,956**	**61,872**	**116,403**

Substantially all of our financial expenses were interest expenses incurred in connection with bank borrowings that are repayable in full within five years. For more details on our bank borrowings, see "– Indebtedness".

Tax

Pursuant to the EIT Law, our PRC subsidiaries have been subject to the statutory income tax rate of 25%. Our effective tax rate was 25.8%, 25.9% and 26.2% for the years ended December 31, 2010, 2011 and 2012, respectively, and relatively stable during the Track Record Period. We had RMB255.4 million taxes payable as of December 31, 2012, representing income taxes from previous years to be paid.

Net Profit and Net Profit Margin

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 net profit margin of 6.3%, 7.3% and 6.2% for the same years. Our adjusted net profit excluding interest incomes from the Controlling Shareholders, after taking into account the related tax impact of RMB3.4 million, RMB13.4 million and RMB36.9 million, respectively, would be RMB102.6 million, RMB180.3 million and RMB239.9 million in the years ended December 31, 2010, 2011 and 2012, respectively. Such adjusted net profit did not take into account the related interest expenses we incurred for bank loans that were used to grant loans to the Controlling Shareholders. The adjusted net profit margin would be 5.7%, 5.9% and 4.2% in the years ended December 31, 2010, 2011 and 2012, respectively.

Listing Expenses

The total amount of listing expenses, including underwriting commissions and fees, in connection with the Global Offering is estimated to be approximately HK$183.3 million, of which HK$158.8 million is expected to be capitalized after the Listing. The remaining HK$24.5 million was or is expected to be charged to our profit and loss accounts, of which approximately HK$14.0 million was charged in the year ended December 31, 2012, and HK$10.5 million is expected to be charged in 2013, respectively. This calculation is based on the mid-point of the Offer Price range of HK$6.08 to HK$8.88 per Offer Share and the assumption that 1,075,126,000 Shares will be in issue immediately following the completion of the Global Offering but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares issued or to be issued under the RSU Scheme.

RESULTS OF OPERATIONS

The year ended December 31, 2012 compared with the year ended December 31, 2011

Revenue

Our total revenues increased by 86.8% from RMB3.03 billion in the year ended December 31, 2011 to RMB5.66 billion in the year ended December 31, 2012, due to the increase in revenues from both sales of new passenger vehicles and after-sales services.

Revenues from sales of new passenger vehicles increased by 90.5% from RMB2.75 billion in the year ended December 31, 2011 to RMB5.24 billion in the year ended December 31, 2012. The increase in revenues from sales of new passenger vehicles was primarily due to the increase in sales volume. The number of new passenger vehicles we sold increased from 5,086 in the year ended December 31, 2011 to 10,873 in the year ended December 31, 2012, primarily attributable to (i) the continued growth in demand for luxury and ultra-luxury passenger vehicles in China, especially in Henan Province; (ii) the increase in sales made by our existing outlets, especially outlets opened in 2011 which past their ramp-up phase; and (iii) sales made by 13 newly-opened outlets and in particular, Beijing Huadebao and Nanyang Wandebao, which were opened in November and September 2011, respectively, and had their first full year of operations in 2012.

Revenues from after-sales services increased by 47.7% from RMB279.1 million in the year ended December 31, 2011 to RMB412.3 million in the year ended December 31, 2012, primarily due to (i) our decision to increase the after-sales service rates for out-of-warranty services in 2012 and (ii) the increase in the number of customers who used our 4S stores for after-sales services after purchasing their passenger vehicles with us.

Cost of sales and services

Our total cost of sales increased by 91.2% from RMB2.61 billion in the year ended December 31, 2011 to RMB4.99 billion in the year ended December 31, 2012, in line with the increase of our total revenue.

Our cost of procurement of new passenger vehicles increased by 95.1% from RMB2.44 billion in the year ended December 31, 2011 to RMB4.76 billion in the year ended December 31, 2012, in line with a 90.5% increase in revenues from sales of new passenger vehicles during the same periods. Our cost associated with after-sales services increased by 32.5% from RMB174.1 million in the year ended December 31, 2011 to RMB230.7 million in the year ended December 31, 2012, in line with a 47.7% increase in revenues from after-sales services during the same periods.

Gross Profit Margin

Our gross profit margin decreased from 13.8% in the year ended December 31, 2011 to 11.7% in the year ended December 31, 2012, primarily due to the decrease of the gross profit margin for sales of new passenger vehicles which was partially offset by the increase in the gross profit margin for after-sales services during the same periods.

Gross profit margin for sales of new passenger vehicles decreased from 11.4% in the year ended December 31, 2011 to 9.2% in the year ended December 31, 2012, primarily due to the increase in the supply of BMW passenger vehicles in the market in 2012 which resulted in a decrease in retail prices for various models. Gross profit margin for after-sales services increased from 37.6% in the year ended December 31, 2011 to 44.0% in the year ended December 31, 2012, primarily due to the increase in after-sales service rates we charged in 2012.

Other net income and gain (excluding interest income from the Controlling Shareholders)

Our other net income and gains increased by 250% from RMB25.4 million in the year ended December 31, 2011 to RMB88.9 million in the year ended December 31, 2012, primarily attributable to a 363% increase in commission income from RMB13.2 million in the year ended December 31, 2011 to RMB61.1 million in the year ended December 31, 2012, primarily due to (i) the increase in sales volume of new passenger vehicles; (ii) the increasing number of purchases of new passenger vehicles through financing services provided by manufacturers as compared to with cash; and (iii) the increasing number of customers who used the insurance we referred in connection with purchases of new passenger vehicles.

Interest income from the Controlling Shareholders

Interest income from the Controlling Shareholders increased by 176% from RMB53.5 million in the year ended December 31, 2011 to RMB147.7 million in the year ended December 31, 2012, primarily due to the increase in the amount of loan amount we granted to the Controlling Shareholders.

Operating expenses

Selling expenses. Our selling expenses increased by 122.1% from RMB106.7 million in the year ended December 31, 2011 to RMB237.0 million in the year ended December 31, 2012, primarily attributable to:

- a 99.2% increase in salary and welfare expenses from RMB35.7 million in the year ended December 31, 2011 to RMB71.1 million in the year ended December 31, 2012 due to the increase in the number of our sales representatives to accommodate the opening of new outlets;

- a 116.7% increase in advertising and promotion expenses from RMB24.0 million in the year ended December 31, 2011 to RMB52.0 million in the year ended December 31, 2012, as a result of our increased advertising and promotion activities, which was in line with the increase in revenues from sales of new passenger vehicles; and

- a 138.3% increase in depreciation expenses from RMB14.1 million in the year ended December 31, 2011 to RMB33.6 million in the year ended December 31, 2012, due to the increase in our assets subject to depreciation as we opened new outlets.

Administrative expenses. Our administrative expenses increased by 136.3% from RMB30.3 million in the year ended December 31, 2011 to RMB71.6 million in the year ended December 31, 2012, primarily attributable to a significant increase in professional fees from RMB1.6 million in the year ended December 31, 2011 to RMB13.7 million in the year ended December 31, 2012, primarily attributable to expenses we incurred in connection with the Listing.

Finance expense. Our finance expense increased by 88.0% from RMB61.9 million in the year ended December 31, 2011 to RMB116.4 million in the year ended December 31, 2012, primarily attributable to the increase in our interest expenses incurred in connection with bank borrowings repayable in full within five years as we increased our bank borrowings.

Net Profit and Net profit margin

Our net profit increased by 59.0% from RMB220.5 million in the year ended December 31, 2011 to RMB350.7 million in the year ended December 31, 2012. Our net profit margin decreased from 7.3% in the year ended December 31, 2011 to 6.2% in the year ended December 31, 2012, in line with the decrease of our gross profit margin during the same periods. Our adjusted net profit excluding interest incomes from the Controlling Shareholders, after taking into account the related tax impact of RMB13.4 million and RMB36.9 million, respectively, would be RMB180.3 million and RMB239.9 million in the years ended December 31, 2011 and 2012, respectively, representing a 33.1% increase from 2011 to 2012. Such adjusted net profit did not take into account the related interest expenses we incurred for bank loans that were used to grant loans to the Controlling Shareholders. Net profit excluding interest incomes from the Controlling Shareholders and the related tax impact and net profit generated from sales of new passenger vehicles of new brands that we did not sell prior to 2012 would be RMB212.6 million in 2012. Our adjusted net profit margin excluding interest incomes from the Controlling Shareholders and the related tax impact as described above would be 5.9% and 4.2% in the years ended December 31, 2011 and 2012.

The year ended December 31, 2011 compared with the year ended December 31, 2010

Revenue

Our total revenues increased by 68.3% from RMB1.80 billion in the year ended December 31, 2010 to RMB3.03 billion in the year ended December 31, 2011, due to the increase in revenues from both sales of new passenger vehicles and after-sales services.

Revenues from sales of new passenger vehicles increased by 69.8% from RMB1.62 billion in the year ended December 31, 2010 to RMB2.75 billion in the year ended December 31, 2011. The increase in revenues from sales of new passenger vehicles was primarily due to the increase of the sales volumes of new passenger vehicles. The number of new passenger vehicles we sold increased from 3,026 in the year ended December 31, 2010 to 5,086 in the year ended December 31, 2011, primarily attributable to (i) the continued growth in demand for luxury and ultra-luxury passenger vehicles in China, especially in Henan Province; (ii) the increase in sales made by our existing outlets, especially outlets opened in 2010 which past their ramp-up phase; and (iii) sales made by four newly-opened outlets.

Revenues from after-sales services increased by 51.1% from RMB184.7 million in the year ended December 31, 2010 to RMB279.1 million in the year ended December 31, 2011, primarily due to (i) the increase in the number of customers who came to our 4S stores for after-sales services after purchasing their passenger vehicles with us; and (ii) services provided by four new-opened outlets.

Cost of sales and services

Our total cost of sales increased by 66.2% from RMB1.57 billion in the year ended December 31, 2010 to RMB2.61 billion in the year ended December 31, 2011, in line with the increase of our total revenue.

Our cost of procurement of new passenger vehicles increased by 67.1% from RMB1.46 billion in the year ended December 31, 2010 to RMB2.44 billion in the year ended December 31, 2011, in line with a 69.8% increase in revenues from sales of new passenger vehicles during the same periods. Our cost associated with after-sales services increased by 55.9% from RMB111.7 million in the year ended December 31, 2010 to RMB174.1 million in the year ended December 31, 2011, in line with a 51.1% increase in revenues from after-sales services during the same periods.

Gross Profit Margin

Our gross profit margin increased from 12.8% in the year ended December 31, 2010 to 13.8% in the year ended December 31, 2011, primarily due to the increase of the gross profit margin for sales of new passenger vehicles which was partially offset by the decrease in the gross profit margin for after-sales services during the same periods.

Gross profit margin for sales of new passenger vehicles increased from 9.8% in the year ended December 31, 2010 to 11.4% in the year ended December 31, 2011, primarily due to the increase of our pricing power as we increased our number of outlets and strengthen our dominant market share in Henan Province and the fact that we follow the market practice to accept premium payments made by customers who wanted to procure particular models of passenger vehicles that were high in demand. Gross profit margin for after-sales services decreased from 39.6% in the year ended December 31, 2010 to 37.6% in the year ended December 31, 2011, primarily due to the increase in cost of labor and spare parts.

Other net income and gain (excluding interest income from the Controlling Shareholder)

Our other net income and gains increased 149.0% from RMB10.2 million in the year ended December 31, 2010 to RMB25.4 million in the year ended December 31, 2011, primarily attributable to a 187.0% increase in commission income from RMB4.6 million in the year ended December 31, 2010 to RMB13.2 million in the year ended December 31, 2011, primarily due to (i) the increase in sales volume of new passenger vehicles; and (ii) the increasing number of purchases of new passenger vehicles through financing services provided by manufacturers as compared to with cash.

Interest income from the Controlling Shareholders

Interest income from the Controlling Shareholder increased significantly from RMB13.4 million in the year ended December 31, 2010 to RMB53.5 million in the year ended December 31, 2011, primarily due to the increase of loan amount we granted to the Controlling Shareholders.

Operating expenses

Selling expenses. Our selling expenses increased by 65.4% from RMB64.5 million in the year ended December 31, 2010 to RMB106.7 million in the year ended December 31, 2011, primarily attributable to:

- a 73.3% increase in salary and welfare expenses from RMB20.6 million in the year ended December 31, 2010 to RMB35.7 million in the year ended December 31, 2011, due to the increase in our sales staff to accommodate the opening of new outlets;

- a 54.8% increase in advertising and promotion expenses from RMB15.5 million in the year ended December 31, 2010 to RMB24.0 million in the year ended December 31, 2011, as a result of our increased advertising and promotion activities which was in line with the increase in revenues from sales of new passenger vehicles; and

- a 78.5% increase in depreciation expenses from RMB7.9 million in the year ended December 31, 2010 to RMB14.1 million in the year ended December 31, 2011, due to the increase in our assets subject to depreciation as we open new outlets.

Administrative expenses. Our administrative expenses increased by 62.0% from RMB18.7 million in the year ended December 31, 2010 to RMB30.3 million in the year ended December 31, 2011, in line with the increase in our revenues and the expansion of our business.

Finance expense. Our finance expense increased significantly from RMB20.0 million in the year ended December 31, 2010 to RMB61.9 million in the year ended December 31, 2011, primarily attribute to the increase in our interest expenses incurred in connection with bank borrowings wholly repayable within five years as we increased our bank borrowings.

Net Profit and Net profit margin

Our net profit increased by 95.7% from RMB112.7 million in the year ended December 31, 2010 to RMB220.5 million in the year ended December 31, 2011. Our net profit margin increased from 6.3% in the year ended December 31, 2010 to 7.3% in the year ended December 31, 2011, in line with the increase of our gross profit margin during the same periods. Our adjusted net profit excluding interest incomes from the Controlling Shareholders, after taking into account the related tax impact of RMB3.4 million and RMB13.4 million, respectively, would be RMB102.6 million and RMB180.3 million in the years ended December 31, 2010 and 2011, respectively, representing a 75.7% increase from 2010 to 2011. Such adjusted net profit did not take into account the related interest expenses we incurred for bank loans that were used to grant loans to the Controlling Shareholders. Our adjusted net profit margin excluding interest incomes from the Controlling Shareholders and the related tax impact would be 5.7% and 5.9% in the years ended December 31, 2010 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for purchases of new passenger vehicles, spare parts and accessories, to establish new outlets and to fund our working capital needs and operations expenses. Our primary sources of liquidity during the Track Record Period were cash generated from operating activities and bank loans. During the Track Record Period, we had not had any difficulties extending bank loans when they became due. We believe that we will be able to satisfy our liquidity requirement, including funding the new outlets we plan to construct and operate, at least in the next 12 months, by using a combination of cash generated from operating activities and available bank loans and other borrowings.

The following table sets forth selected cash flow data from our combined cash flow statements for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
		(RMB'000)	
Net cash generated from operating activities	97,105	92,843	90,979
Net cash used in investing activities	(253,339)	(883,232)	(1,202,082)
Net cash generated from financing activities	231,153	776,297	1,274,420
Net (decrease)/increase in cash and cash equivalents	74,919	(14,092)	163,317
Cash and cash equivalents at the end of each year	193,475	179,383	342,685

Net cash generated from operating activities

For the year ended December 31, 2012, our net cash generated from operating activities was RMB91.0 million, which was primarily attributable to, as of December 31, 2012 as compared with December 31, 2011, (i) cash generated from operating activities of RMB475.0 million; (ii) an increase of RMB95.8 million in trade and bills payable which consisted primarily of payments to suppliers in the form of bank acceptance notes; and (iii) an increase of RMB355.1 million in other payables and accruals which consisted primarily of (a) a RMB139.4 million increase of advances from customers due to the amount of prepayment for purchase of new passenger vehicles outstanding as of December 31, 2012 which was in turn attributable to the increase in sales volume in the year ended December 31, 2012; and (b) a RMB170.1 million increase of tax payable other than income tax.The net cash generated was partially offset by (i) an increase of RMB376.9 million in inventories to support our business growth and opening of new outlets; and (ii) an increase of RMB384.0 million in pledged bank deposits due to the increase in our bank acceptance notes which was consistent with the increase in revenues from sales of new passenger vehicles.

For the year ended December 31, 2011, our net cash generated from operating activities was RMB92.8 million, which was primarily attributable to, as of December 31, 2011 as compared with December 31, 2010, (i) cash generated from operating activities of RMB318.8 million; (ii) an increase of RMB304.2 million in trade and bills payable which consisted primarily of payments to suppliers in the form of bank acceptance notes; and (iii) an increase of RMB110.6 million in other payables and accruals which consisted primarily of (a) a RMB42.9 million increase of advances from customers due to the amount of prepayment for purchase of new passenger vehicles as of December 31, 2011 which was in turn attributable to the increase in sales volume in the year ended December 31, 2011; and (b) a RMB54.7 million increase of tax payables other than income tax. The net cash generated was partially offset by (i) an increase of RMB389.6 million in prepayment, deposits and other receivable which consisted primarily of prepayments we made to suppliers and rebate receivables; (ii) an increase of RMB173.2 million in inventories to support our business growth and opening of new outlets; and (iii) an increase of RMB65.2 million in pledged bank deposits due to the increase in our bank acceptance notes which was consistent with the increase in revenues from sales of new passenger vehicles.

For the year ended December 31, 2010, our net cash generated from operating activities was RMB97.1 million, which was primarily attributable to, as of December 31, 2010 as compared with December 31, 2009, (i) cash generated from operating activities of RMB166.3 million; (ii) an increase of RMB165.0 million in trade and bills payable which consisted primarily of an increase in payments to suppliers in the form of bank acceptance notes; and (iii) an increase of RMB75.4 million in other payables and accruals which consisted primarily of (a) a RMB42.1 million increase of advances from customers due to the amount of prepayment for purchase of new passenger vehicles outstanding as of December 31, 2010 which was in turn attributable to the increase in sales volume in the year ended December 31, 2010; and (b) a RMB26.1 million increase of tax payables other than income tax. The net cash generated was partially offset by (i) an increase of RMB168.5 million in prepayment, deposits and other receivable which consisted primarily of prepayments we made to suppliers and rebate receivables; (ii) an increase of RMB69.5 million in inventories to support our business growth and opening of new outlets; and (iii) an increase of RMB62.6 million in pledged bank deposits due to the increase in our bank acceptance notes which was consistent with the increase in revenues from sales of new passenger vehicles.

Net cash used in investing activities

For the year ended December 31, 2012, our net cash used in investing activities was RMB1,202.1 million which was primarily attributable to (i) a net advance to the Controlling Shareholders of RMB98.0 million as interest-bearing loans to support the Controlling Shareholders' other businesses; (ii) purchase of items of property, plant and equipment of RMB877.4 million in connection of constructing and opening of new outlets; and (iii) acquisition of equity interests in certain subsidiaries from the then equity holders who held such equity interests on behalf of the Controlling Shareholders for the amount of RMB250.0 million.

For the year ended December 31, 2011, our net cash used in investing activities was RMB883.2 million which was primarily attributable to (i) a net advance to the Controlling Shareholders of RMB630.9 million as interest-bearing loans to support the Controlling Shareholders' other businesses; (ii) purchase of items of property, plant and equipment of RMB174.8 million in connection of constructing and opening of new outlets and (iii) acquisition of equity interests in certain subsidiaries from the then equity holders who held such equity interests on behalf of the Controlling Shareholders for the amount of RMB76.0 million.

For the year ended December 31, 2010, our net cash used in investing activities was RMB253.3 million which was primarily attributable to (i) a net advance to the Controlling Shareholders of RMB198.2 million as interest-bearing loans to support the Controlling Shareholders' other businesses; (ii) purchase of items of property, plant and equipment of RMB56.4 million in connection of constructing and opening of new outlets.

Net cash generated from financing activities

For the year ended December 31, 2012, our net cash generated from financing activities was RMB1.30 billion, which was primarily attributable to proceeds from bank loans and other borrowings of RMB3.71 billion, partially offset by repayment of bank loans and other borrowings of RMB2.51 billion.

For the year ended December 31, 2011, our net cash generated from financing activities was RMB776.3 million, which was primarily attributable to proceeds from bank loans and other borrowings of RMB1.81 billion, partially offset by repayment of bank loans and other borrowings of RMB1.35 billion.

For the year ended December 31, 2010, our net cash generated from financing activities was RMB231.2 million, which was primarily attributable to proceeds from bank loans and other borrowings of RMB660.0 million, partially offset by repayment of bank loans and other borrowings of RMB471.1 million.

Taking into account the net proceeds available to us from the Global Offering, banking facilities available to us and our projected cash generated from our operations, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS AND LIABILITIES

The following table sets forth the breakdown of current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,
	2010	2011	2012	2013
	(RMB'000)			
				(unaudited)
CURRENT ASSETS				
Inventories	160,490	333,692	710,554	977,017
Trade receivables	11,678	16,666	59,112	54,130
Prepayments, deposits and other receivables	289,756	672,401	688,221	773,287
Amounts due from related parties	305,633	993,194	679,448	616,935
Pledged bank deposits	215,837	281,023	665,055	780,145
Cash in transit	9,974	13,646	17,333	39,541
Cash and cash equivalents	193,475	179,383	342,685	517,786
Total current assets	1,186,843	2,490,005	3,162,408	3,758,841
CURRENT LIABILITIES				
Bank loans and other borrowings	395,416	859,535	1,777,774	2,089,582
Trade and bills payables	418,081	722,329	818,129	1,168,255
Other payables and accruals	131,760	274,992	626,852	667,771
Income tax payable	58,161	134,977	255,415	290,155
Total current liabilities	1,003,418	1,991,833	3,478,170	4,215,763
Net current assets/(liabilities)	**183,425**	**498,172**	**(315,762)**	**(456,922)**

As of December 31, 2012, we had net current liability of RMB315.8 million as compared to our net current assets of RMB498.2 million as of December 31, 2011. The change was a result of an increase of RMB1.5 billion in current liability partially offset by an increase of RMB672 million in current assets. The increase in current liability was primarily attributable to (i) an increase of RMB918.2 million in bank loans and other borrowings to satisfy our increasing working capital needs as we expand our business; and (ii) an increase of RMB351.9 million in other payables and accruals. The increase in current assets was primarily attributable to (i) an increase of RMB376.9 million in inventories; (ii) an increase of RMB384.0 million in pledged bank deposits and (iii) an increase of RMB163.3 million in cash and cash equivalents, which was partially offset by a decrease of RMB313.7 million in amounts due from related parties which was partially settled by dividend entitlement of the controlling shareholders in the amount of RMB559 million. According to our unaudited financial results, we had net current liability of RMB456.9 million as of March 31, 2013 as compared to net current liability of RMB315.8 million as of December 31, 2012. The increase in net current liability was a result of an increase of RMB737.6 million in current liability, partially offset by an increase of RMB596.4 million in current assets. The increase in current liability as of March 31, 2013 was primarily attributable to (i) an increase of RMB311.8 million in bank loans and other borrowings which was in turn primarily due to (a) an increase of RMB131.8 million in our bank loans to satisfy our increasing working capital needs as we expand our business and (b) certain bank loans in the aggregate amount of RMB180.0 million recognised as non-current liability as of December 31, 2012 being recognised as current liability as of March 31, 2012 as their due dates were within 12 month; and (ii) an increase of RMB350.1 million in trade and bill payables in connection with the procurement of inventories for our newly opened outlets in the three months ended March 31, 2013. The increase in current assets as of March 31, 2013 was primarily attributable to an increase of RMB266.5 million in inventories for our newly opened outlets. As of April 30, 2013, we had credit line of approximately

RMB3.5 billion, of which RMB1.3 billion remained undrawn. We expect we will be able to repay our short-term bank loans when they become due with cash generated from our operating activities. For more details, see "Risk Factors – Risks Relating to Our Business – We were in a net current liabilities position as of December 31, 2012 and we cannot assure you that we will not experience net current liabilities position in the future".

Inventories

Our inventories include mainly new passenger vehicles procured for sales, and after-sales products such as spare parts and accessories. Each of our outlets individually manages its orders for new passenger vehicles and after-sales products, but a monthly report is submitted by each outlet to our headquarters for review. For more details on inventory management, see "Our Business – Inventory Management." Inventories are carried at the lower of cost and net realizable value. Cost is calculated on specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. During the Track Record Period we did not have any inventory provision. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(RMB'000)	
Passenger vehicles	145,817	309,027	655,809
Spare parts and accessories	14,673	24,665	54,745
Total	**160,490**	**333,692**	**710,554**

Our inventories increased by 107.9% from RMB160.5 million as of December 31, 2010, to RMB333.7 million as of December 31, 2011 and then further increased by 113.0% to RMB710.6 million as of December 31, 2012. The increases were primarily due to (i) our decision to increase our stock of passenger vehicles in our existing outlets in response to a continued increase in demand for luxury and ultra-luxury passenger vehicles in China in recent years; and (ii) the expansion of our business scales as we open new outlets. As of March 31, 2013, we had sold inventories in the amount of approximately RMB437.9 million that were outstanding as of December 31, 2012, representing 61.6% of the total outstanding inventories as of December 31, 2012.

We periodically assess our inventories to ensure we have enough stock to satisfy customer needs while strive to maintain an optimal turnover rate. We also periodically assess if the inventories have been suffered from any impairment when the cost of the inventories are lower than their net realizable value. The amount of impairment loss is measured as the difference between the asset's carrying amount and the net realizable value. The following table sets forth our average inventory turnover days(1) for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
Passenger vehicles	28	34	37
Spare parts and accessories	40	41	63
Total	**29**	**34**	**38**

(1) The average inventory turnover days of a period was calculated by dividing the number of days in the period by the inventory turnover ratio. The inventory turnover ratio was calculated by dividing cost of sales of the period by the average of (i) inventory balance as of the beginning of the period and (ii) inventory balance as of the end of the period.

Our average inventory turnover days were 29 days, 34 days, and 38 days for the years ended December 31, 2010, 2011 and 2012, respectively. The average inventory turnover day during the Track Record Period was primarily affected by the average inventory turnover days of passenger vehicles, as passenger vehicles consisted the substantial majority of our inventories. Our average inventory turnover day for spare parts and accessories increased from 41 days for the year ended December 31, 2011 to 63 days for the year ended December 31, 2012, primarily due to the spare parts and accessories we ordered for newly-opened outlets, which typically have a ramp-up period in terms of demands for after-sales services.

Our average inventory turnover days for passenger vehicles increased from 28 days in the year ended December 31, 2010 to 34 days in the year ended December 31, 2011 and to 37 days in the year ended December 31, 2012, primarily due to our efforts to build up our inventories for the newly-opened outlets during the periods.

Certain of our inventories with a carrying amount of RMB100.2 million, RMB220.6 million and RMB408.4 million as of December 31, 2010, 2011 and 2012, respectively, were pledged as security for our bank loans and other borrowings and bill payables.

Trade receivables

Our trade receivables consisted of (i) receivables of purchase prices from financing companies in connection with the purchase of new passenger vehicles for which the customers used the financing companies' mortgage services to make payment; (ii) receivables of after-sales service fees from insurance companies in connection with after-sale services we provided which were covered by insurance; and (iii) receivables of commission fees from financing and insurance companies in connection with the purchase of new passenger vehicles. Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest method less impairment. Appropriate allowances for the estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimate future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The credit term granted to the financing and insurance companies ranges from 60 to 90 days. The underlying transactions for these trade receivables were all transactions with the diversified individual customers with no significant concentration of credit risk.

We seek to maintain strict control over our outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing. During the Track Record Period, we did not make any provision for trade receivables. Our trade receivables were RMB11.7 million, RMB16.7 million and RMB59.1 million as of December 31, 2010, 2011 and 2012. The significant increase as of December 31, 2012 was primarily due to the increase in our sales volume and our efforts to promote financing and insurance services in connection with sales of new passenger vehicles. We calculated our average trade receivables turnover days by dividing the number of days in the period by the trade receivables turnover ratio. The trade receivables turnover ratio was calculated by dividing revenue of the period by the average of (i) trade receivables balance as of the beginning of the period and (ii) trace receivables balance as of the end of the period. Our average trade receivables turnover days were approximately two days, two days and two days for the years ended December 31, 2010, 2011 and 2012, respectively, which were relatively stable as financing and insurance companies typically make payments to us on a regular and frequent basis. All trade receivables as of December 31, 2012 were subsequently settled. Substantially all of our trade receivables had ages of less than three months and none had an age over one year.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Prepayments to suppliers	198,557	532,738	262,433
Rebate receivables	77,380	101,018	229,329
VAT recoverable[1]	11,027	30,376	164,094
Staff advance	626	1,673	9,629
Others	2,166	6,596	22,736
Total	**289,756**	**672,401**	**688,221**

(1) Our sales of passenger vehicles are subject to Mainland China Value Added Tax ("VAT"), which include input VAT tax and output VAT payable. Input VAT tax on purchases can be deducted from output VAT payable. The VAT recoverable is input VAT tax deductible from output VAT tax payable which has not been claimed to the tax bureau. Our applicable tax rate for domestic sales is 17%.

Our prepayments, deposits and other receivables consisted primarily of prepayment to suppliers and rebate receivables.

Our prepayment to suppliers was RMB198.6 million, RMB532.7 million and RMB262.4 million for the years ended December 31, 2010, 2011 and 2012, respectively. An increase in prepayments to suppliers is usually in line with the increase of the numbers of passenger vehicles we procured from automobile manufacturers which were in turn a result of (i) the increases of our sales volumes of new passenger vehicles and (ii) our needs to increase our inventories as we open new outlets. The higher balance of prepayments to suppliers as of December 31, 2011 was primarily due to the fact that certain outlet was newly opened near the end of 2011. We paid large amount of advances to the suppliers to build up the inventory level for that outlet. Such passenger vehicles purchased from the suppliers had been shipped to the respective outlets as of December 31, 2012, resulting in an increase in inventories and a decrease in prepayments to suppliers.

Our rebate receivables were RMB77.4 million, RMB101.0 million and RMB229.3 million for the years ended December 31, 2010, 2011 and 2012, respectively. The increases were generally in line with the increase of our sales volumes of new passenger vehicles. Our VAT recoverable increased significantly from RMB30.4 million as of December 31, 2011 to RMB164.1 million as of December 31, 2012 due to the amount of VAT tax receipts not yet submitted to be certified by relevant tax authorities as of December 31, 2012, which was in line with the increase in the number of new passenger vehicles we purchased from automobile manufacturers due to the expansion of our business scale, as it usually takes time for the management to finish the certification process with the relevant tax authorities before new receipts can be submitted for certification. All the VAT recoverables as of December 31, 2012 has subsequently been utilized to offset VAT payables as of the Latest Practicable Date.

Trade and bill payables

Our trade and bill payables related primarily to our purchase of spare parts and accessories from manufacturers, some of which grant credit lines to certain individual outlets. Our bills payable related primarily to our purchases of new passenger vehicles from manufacturers using bank acceptance notes in addition to cash. We were required to bear applicable bank charges in connection with the issuance of such bank acceptance notes. The suppliers do not grant us any credit period. The following table sets forth a breakdown of our trade and bill payables as of the date indicated:

	As of December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Trade payables	5,633	7,457	11,383
Bills payable	412,448	714,872	806,746
Total	**418,081**	**722,329**	**818,129**

The following table sets forth an aging analysis of the trade and bill payables based on the invoice dates as of the date indicated:

	As of December 31,		
	2010	**2011**	**2012**
		(RMB'000)	
Within 3 months	376,984	616,424	777,735
3 to 6 months	40,759	105,455	37,193
6 to 12 months	–	151	2,836
Over 12 months	338	299	365
Total	**418,081**	**722,329**	**818,129**

The substantial majority of our trade and bill payables were payable within 3 months, accounting for 90.2%, 85.3% and 95.1% of the total trade and bill payables as of December 31, 2010, 2011 and 2012. We calculate our average turnover days for trade and bill payable by dividing the number of days in the period by the trade and bill payables turnover ratio. The trade and bill payables turnover ratio was calculated by dividing cost of sales and services of the period by the average of (i) trade and bill payables balance as of the beginning of the period and (ii) trade and bill payables balance as of the end of the period. The average turnover days of our trade and bills payables was 77 days, 79 days and 56 days for the years ended December 31, 2010, 2011 and 2012, respectively. The trend of our bills payable turnover rate was largely in line with our inventory turnover rate during the same periods.

Other payables and accruals

The following table sets forth our other payables and accruals for the periods indicated:

	As of December 31,		
	2010	2011	2012
		(RMB'000)	
Payables for purchase of items of property, plant and equipment	10,546	43,197	39,992
Advances and deposits from distributors	900	3,864	8,764
Advances from customers	62,017	104,946	244,313
Taxes payable (other than income tax)	46,869	101,531	271,641
Lease payables	186	1,232	10,846
Staff payroll and welfare payables	9,148	17,207	25,851
Others	2,094	3,015	25,445
Total	**131,760**	**274,992**	**626,852**

Our other payables and accruals consist primarily of advances from customers, tax payables other than income tax and payables for purchase of items of property, plant and equipment. Advances from customers are prepayment and deposit made by customers in connection with the purchases of new passenger vehicles, and was RMB62.0 million, RMB104.9 million and RMB244.3 million as of December 31, 2010, 2011 and 2012, respectively. The increases were generally in line with the increase in sales volume of new passenger vehicles. Tax payable other than income tax is VAT tax payables in connection with the sales of new passenger vehicles, and was RMB46.9 million, RMB101.5 million and RMB271.6 million as of December 31, 2010, 2011 and 2012, respectively. The increases were in line with the increase in the sales volume of new passenger vehicles.

Our advances and deposit from distributors was RMB0.9 million, RMB3.9 million and RMB8.8 million as of December 31, 2010, 2011 and 2012, respectively which was in connection with our engagement of distributors to source customers for BMW passenger vehicles in certain areas of Henan Province, as the distributors were required to pay a performance deposit at the beginning of their cooperation with us. For more details, see "Our Business – Our Services – Sales of new passenger vehicles – Engagement of distributors."

Capital expenditure

Our capital expenditure consist primarily of purchase of items of property, plant and equipment in connection of establishment of new outlets. Our capital expenditure was RMB67.5 million, RMB201.0 million and RMB893.3 million for the years ended December 31, 2010, 2011 and 2012, respectively. The increases were in line with our opening of new outlets during the periods. Capital expenditure for 4S stores vary with size, location and other factors. We incurred capital expenditure of RMB31.4 million for one 4S store, RMB168.1 million for two 4S stores and RMB314.1 million for seven 4S stores that commenced operation in the years ended December 31, 2010, 2011 and 2012, respectively. Capital expenditure for exhibition galleries is relatively small compared with that for 4S stores. We incurred capital expenditure of RMB1.0 million for one exhibition gallery, RMB2.0 million for one exhibition gallery and RMB59.0 million for six exhibition galleries that commenced operation in the years ended December 31, 2010, 2011 and 2012, respectively. The following table sets forth a breakdown of our capital expenditure recognized for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
		(RMB'000)	
Purchase of items of property, plant and equipment	67,287	200,736	892,903
Purchase of intangible assets[1]	225	238	377
Total	**67,512**	**200,974**	**893,280**

(1) Our intangible assets consisted primarily of software related to business operations and insignificant compared with the Company's total assets. The Company's intangible assets was RMB1.0 million, RMB1.0 million and RMB1.1 million as of December 31, 2010, 2011 and 2012, respectively.

Capital and operating lease commitments

Our capital commitments consisted primarily of unpaid amount of executed agreements for the acquisition of land use rights and buildings. Our capital commitment was RMB164.6 million as of December 31, 2012, which we expect to fulfill mainly through a combination of cash on hand and bank loans. The following table sets forth our outstanding capital commitments in respect of property and equipment as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(RMB'000)	
Unpaid contractual obligations for land use rights and buildings	32,856	5,600	164,592

Our operating leases typically run for an initial period of 1 to 30 years, with an option of renewal upon expiration, subject to renegotiation of the terms of the leases. The following table sets forth our total future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,					
	2010		2011		2012	
	Properties	Land	Properties	Land	Properties	Land
	(RMB'000)					
Within 1 year	979	1,608	10,446	3,342	23,451	11,277
After 1 year but within 5 years	2,818	7,165	76,342	12,273	73,019	38,763
After 5 years	2,966	87,032	67,572	103,708	30,078	163,138
Total	**6,763**	**95,805**	**154,360**	**119,323**	**126,548**	**213,178**

Related party transactions

Loans to certain related parties

The following table sets forth outstanding amount of our loans to related parties as of the date indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
The Controlling Shareholder			
– Mr. Feng Changge	305,633	990,077	676,452
An associate			
– Yongda Hexie	–	3,117	2,996
Total	**305,633**	**993,194**	**679,448**

During the Track Record Period, we granted to the Controlling Shareholders, certain loans which bore interest at a rate of 15% per annum in support of the development and capital needs of the Controlling Shareholders' other businesses. Historically, the Group has been part of Hexie Industrial Group and was managed as part of a conglomerate. As such, Hexie Industrial Group managed its finances on a group-wide basis and, in view of the cash flows of the dealership business, the Group was often the entity within the conglomerate to lend to the Controlling Shareholders. We are advised by our PRC Legal Adviser that such loans to the Controlling Shareholders do not breach any PRC laws and regulations, including but not limited to, the General Rules of Loans (貸款通則). The loan interest was agreed upon between the Controlling Shareholders and us by referencing to the then market interest rates for bank loans and other alternative financing channels. There had been no change in the interest rate during the term of the loans.

The following table sets forth the relevant balances of the loans during the Track Record Period:

	Year ended December 31,		
	2010	2011	2012
		(RMB'000)	
Maximum balance	305,633	990,077	1,648,198
Minimum balance	31,029	232,552	980,577
Average balance of the year	94,070	375,551	1,036,772

Interest income generated from loans to the Controlling Shareholders was RMB13.4 million, RMB53.5 million and RMB147.7 million for the years ended December 31, 2010, 2011 and 2012, respectively, accounting for 7.8%, 14.9% and 25.0% of our profit from operations for the same periods. Taking into account the related tax impact of RMB3.4 million, RMB13.4 million and RMB36.9 million, respectively, our adjusted net profit excluding such interest incomes from the Controlling Shareholders and the related tax impact would be RMB102.6 million, RMB180.3 million and RMB239.9 million for the years ended December 31, 2010, 2011 and 2012, respectively. Such adjusted net profit did not take into account the related interest expenses we incurred for bank loans that were used to grant loans to the Controlling Shareholders. As of the Latest Practicable Date, the Controlling Shareholders repaid in cash all outstanding amount as of December 31, 2012.

We do not plan to grant similar loans to any related party going forward. The Controlling Shareholders will comply with the relevant provisions in the Listing Rules, in particular Chapter 14A, if the Group enters into other transactions with the Controlling Shareholders after Listing.

Guarantee and pledge in connection with bank loans

Our bank loans and other borrowings in the aggregate amount of RMB345.4 million, RMB724.5 million and RMB1.56 billion as of December 31, 2010, 2011 and 2012 were guaranteed by some of our related parties, including the Controlling Shareholders, entities controlled by the Controlling Shareholders and relatives of the Controlling Shareholders. In particular, we had bank loans and other borrowings in the amount of RMB160.4 million, RMB168.0 million and RMB315.2 million as of December 31, 2010 and 2011 and 2012, respectively, that were guaranteed by the Controlling Shareholders. We plan to enter into agreement with our creditor banks to release all such guarantees on our outstanding bank loans upon Listing.

The equity shares of four of our subsidiaries were pledged as security of the credit facilities of RMB180 million granted to Hexie Industrial Group by HAT. 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. For more details, see "Relationship With Our Controlling Shareholders – Independence From Our Controlling Shareholders – Financial Independence".

We do not plan to provide or receive any guarantee or pledge in connection with bank loans after Listing.

Sales of new passenger vehicles

We sold 16 BMW, 2 Rolls-Royce and 2 Aston Martin passenger vehicles to 5 companies controlled by relatives of the Controlling Shareholders in the aggregate amount of RMB32.6 million in the year ended December 31, 2012. The Directors believe that such sales of new passenger vehicles to related parties were based on normal commercial terms and were not materially different from the transactions entered into between other third party customers and us in terms and conditions.

We are in the process of implementing enhanced internal control procedures to ensure, among other things, that sales of new passenger vehicles to related parties, if any, would be entered into through arms'-length transactions based on normal commercial terms.

Our Directors expect all corporate guarantees provide by and to related parties will be released and all outstanding amount due from related parties will be fully settled before Listing.

Our Directors believe that the related party transactions described above were based on normal commercial terms. Save for the possibility of purchase of motor vehicles by related parties including relatives of the Controlling Shareholders on normal commercial terms in the ordinary course of business, the other related party transactions will be discontinued after Listing. Any future purchases of passenger vehicles, being consumer goods, in our ordinary course of business by related parties on normal commercial terms is exempted connected transactions under Rule 14A.31(7) of the Listing Rules, and thus is exempted from the reporting, announcement and independent shareholders' approval requirement of the Listing Rules.

INDEBTEDNESS

We obtained borrowings from banks to finance our working capital and network expansion needs. We also obtain other borrowings which consist primarily of bills payable to certain financing companies affiliated with manufacturers in connection of our procurement of new passenger vehicles. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,						As of April 30,	
	2010		2011		2012		2013	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000
							(unaudited)	
Current								
Bank loans	5.3-8.3	320,000	6.6-12.8	671,000	6.2-12.0	1,283,000	6.0-12.0	1,188,846
Other borrowings	5.3-6.0	75,416	5.8-9.2	188,535	5.8-8.5	494,774	5.8-8.5	1,226,376
		395,416		859,535		1,777,774		2,415,222
Non-current								
Bank loans		–		–	6.6-7.2	60,000	8.7	59,630
Other borrowings		–		–	8.5	230,000	8.5	50,000
		–		–		290,000		109,630
		395,416		859,535		2,067,774		2,524,852

Our bank loans in the aggregate amount of RMB150.4 million, RMB498.5 million and RMB1,344.8 million as of December 31, 2010, 2011 and 2012 were secured by our land use rights, building, inventories or shares of our certain subsidiaries. The increase in bank loans during the Track Record Period was in line with the expansion of our business and the increasing need for working capital. Certain of our bank loans and other borrowings were guaranteed by some of our related parties. For more details, see "– Related party transactions". The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of April 30,
	2010	**2011**	**2012**	**2013**
				(unaudited)
Secured	30,000	105,000	455,000	722,899
Guaranteed	225,000	331,000	675,000	904,340
Secured and guaranteed	120,416	393,535	889,774	877,613
Unsecured	20,000	30,000	48,000	20,000
Total	**395,416**	**859,535**	**2,067,774**	**2,524,852**

During the Track Record Period and as of the Latest Practicable Date, we were in compliance with all financial covenants and other requirements set forth in our loan agreements.

Statement of indebtedness

As of April 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, except for bank borrowings disclosed above and intra-group liabilities, we did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

Contingent liabilities

As at December 31, 2011, the Group provided corporate guarantee to Tongle Pharmaceutical for its bank loans of RMB13,000,000. As at December 31, 2010 and 2012, neither the Group nor the Company had any significant contingent liabilities. As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

No material adverse change

Our Directors confirm that, since December 31, 2012, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

Off-balance sheet commitments and arrangements

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2012. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of our financial position.

	Audited consolidated net tangible assets attributable to owners of the Company as at December 31, 2012	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	Unaudited pro forma adjusted consolidated net tangible assets per Share
	RMB'000	RMB'000	RMB'000	RMB	(HK$ equivalent)
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$6.08 per Share	587,708	1,195,772	1,783,480	1.66	2.10
Based on an Offer Price of HK$8.88 per Share	587,708	1,767,481	2,355,189	2.19	2.77

Notes:

1. The audited consolidated net tangible assets attributable to owners of the Company as at December 31, 2012 is arrived at after deducting the intangible assets of RMB1,050,000 from the audited consolidated equity attributable to owners of the Company of RMB588,758,000 as at December 31, 2012, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on estimated offer prices of HK$6.08 or HK$8.88 per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or to be issued pursuant to the RSU Scheme.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 1,075,126,000 Shares are in issue assuming that the Global Offering has been completed on December 31, 2012 and an Offer Price of HK$6.08 per Share, being the low end of the Offer Price range, and 1,075,126,000 Shares are in issue assuming that the Global Offering has been completed on December 31, 2012 and an Offer Price of HK$8.88 per Share, being the high end of the Offer Price range, excluding Shares which may be issued upon the exercise of the Over-allotment Option and Shares which may be issued or to be issued pursuant to the RSU Scheme.

4. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.2653.

5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2012.

MARKET RISK DISCLOSURE

Our principal financial instruments comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for our operations. We have various other financial assets and liabilities such as trade receivables, trade and bills payables, which arise directly from our operations.

The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks.

Interest rate risk

We have no significant interest-bearing assets other than pledged bank deposits, cash and cash equivalents and amounts due from the Controlling Shareholders.

Our interest rate risk arises from our bank loans and other borrowings. Borrowings at variable rates expose us to the risk of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our debt obligations with a floating interest rate. We did not use any interest rate swaps to hedge our exposure to interest rate risk during the Track Record Period.

Credit risk

We do not have any significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, cash and cash equivalents, trade and other receivables, amounts due from a related party, amounts due from an associate included in the Financial Information represent our maximum exposure to credit risk in relation to our financial assets.

As of December 31, 2010, 2011 and 2012, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The following table sets forth the maturity profile of our financial liabilities based on the contractual undiscounted payments as of the dates indicated:

	As of December 31, 2010					
	On Demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
			(RMB'000)			
Bank loans and other borrowings.	–	90,613	314,030	–	–	404,643
Trade and bills payables.	1,106	380,527	36,448	–	–	418,081
Other payables and accruals	13,540	–	–	–	–	13,540
Total	**14,646**	**471,140**	**350,478**	**–**	**–**	**836,264**

	As of December 31, 2011					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(RMB'000)					
Bank loans and other borrowings	–	261,075	625,915	–	–	886,990
Trade and bills payables	725	561,699	159,905	–	–	722,329
Other payables and accruals	50,076	–	–	–	–	50,076
Total	**50,801**	**822,774**	**785,820**	**–**	**–**	**1,659,395**

	As of December 31, 2012					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(RMB'000)					
Bank loans and other borrowings	–	753,563	1,094,347	298,412	–	2,146,322
Trade and bills payables	3,805	584,558	229,766	–	–	818,129
Other payables and accruals	74,434	–	–	–	–	74,434
Total	**78,239**	**1,338,121**	**1,324,113**	**298,412**	**–**	**3,038,885**

Capital management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2010, 2011 and 2012.

We monitor capital using a gearing ratio, which is net debt divided by the total equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents. The following table sets forth our gearing ratios as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(RMB'000)	
Bank loans and other borrowings	395,416	859,535	2,067,774
Trade and bills payables	418,081	722,329	818,129
Other payables and accruals	131,760	274,992	626,852
Less: Cash and cash equivalents	(193,475)	(179,383)	(342,685)
Net debt	751,782	1,677,473	3,170,070
Equity attributable to owners of the parent	**339,855**	**853,371**	**588,758**
Gearing ratio	68.9%	66.3%	84.3%

KEY FINANCIAL RATIOS

The following tables set forth our key financial ratios as of the dates or for the years indicated.

	As of December 31,		
	2010	2011	2012
Current ratio(1)	1.18	1.25	0.91
Gearing ratio(2)	68.9%	66.3%	84.3%

Notes:

(1) Current ratio represents current assets divided by current liabilities at the end of each year.

(2) Gearing ratio represents net debt divided by the total equity attributable to owners of the parent company plus net debt at the end of each year.

	Year ended December 31,		
	2010	2011	2012
Return on invested capital(3)	32.1%	25.6%	22.6%
Return on equity(4)	44.7%	36.8%	48.0%
Return on assets(5)	11.1%	10.5%	9.7%

Notes:

(3) Return on invested capital represents the net operating profits after tax divided by average total invested capital during each reporting period.

(4) Return on equity represents profit for the year divided by the average of (i) total equity as of the beginning of the period and (ii) total equity as of the end of the period.

(5) Return on assets represents profit for the year divided by the average of (i) total assets as of the beginning of the period and (ii) total assets as of the end of the period.

Current ratio

As of December 31, 2010, 2011 and 2012, our current ratio was 1.18, 1.25 and 0.91, respectively. Our current ratio increased from 1.18 as of December 31, 2010 to 1.25 as of December 31, 2011 primarily due to the capital injection of RMB120 million as part of the Phase 3 at the Reorganization which increased our equity. Our current ratio decreased from 1.25 as of December 31, 2011 to 0.91 as of December 31, 2012 primarily due to the increase in our bank loans and other borrowings in 2012 to fund our construction of new outlets as we expanded our business.

Gearing ratio

As at December 31, 2010, 2011 and 2012, our gearing ratio was 68.9%, 66.3% and 84.3%, respectively. Our gearing ratio decreased from 68.9% as of December 31, 2010 to 66.3% as of December 31, 2011 primarily due to the capital injection of RMB120 million as part of the Phase 3 at the Reorganization which increased our equity. Our gearing ratio increased from 66.3% as of December 31, 2011 to 84.3% as of December 31, 2012 primarily due to the increase in our bank loans and other borrowings in 2012 to fund our construction of new outlets as we expanded our business.

For more information on our gearing ratios, see "– Market Risk Disclosure – Capital Management".

Return on invested capital

Return on invested capital was 32.1%, 25.6% and 22.6% for the years ended December 31, 2010, 2011 and 2012, respectively. The major financial drivers for our return on invested capital are (i) net operating profit margins, which are affected by gross margins and expense levels, and (ii) invested capital turnovers, which are affected by sales and invested capital base.

The net operating profit margin was 7.1%, 8.8% and 7.7% for the years ended December 31, 2010, 2011 and 2012, respectively. The invested capital turnover was 4.5x, 2.9x and 2.9x for the years ended December 31, 2010, 2011 and 2012, respectively. The high net operating profit margins we have been able to achieve during 2010-2012 are due to (i) our focus exclusively on luxury and ultra-luxury brands, which typically enjoys higher margins than other lower-end dealerships, and (ii) our dominant market share in Henan Province which enables us to exercise greater pricing power to improve margins. However, our invested capital turnover decreased from 4.5x for the year ended December 31, 2010 to 2.9x for the years ended December 31, 2011 and December 31, 2012 due to the changes in our capital base. The significant increase in our capital base in 2011 was due to significant increases in both equity base and debt base. The increase in equity base was mainly due to the equity issuance to pre-IPO investors; and the increase in debt base was due to the increased use of our bank loans as a result of our business expansion needs.

The increase in invested capital in 2011 did not lead to a proportional increase in total sales in the same year. This was due to the delayed effect of turning invested capital into sales. A majority of the capital investment in 2011 was devoted to the construction of new outlets, most of which were eventually constructed and opened in 2012. Since it ordinarily takes one year to one and a half year to open a new store and for such store to reach full sales capacity, the driver for the increase in sales for investments on new outlets in 2011 would only be reflected in full by 2013.

Return on equity

For the years ended December 31, 2010, 2011 and 2012, our return on equity was 44.7%, 36.8% and 48.0%, respectively. Our return on equity decreased from 44.7% for the year ended December 31, 2010 to 36.8% for the year ended December 31, 2011 principally due to the increase of our total equity as a result of the capital injection of RMB120 million as part of the Phase 3 of the Reorganization, which was partially offset by the increase in our profit. Our return on equity increased from 36.8% for the year ended December 31, 2011 to 48.0% primarily due to (i) the increase in our profit and (ii) the decrease of our total equity as a result of the settlement of the dividend we declared in the amount of RMB559.3 million.

Return on assets

For the years ended December 31, 2010, 2011 and 2012, our return on assets was 11.1%, 10.5% and 9.7%, respectively. Our return on assets decreased from 11.1% for the year ended December 31, 2010 to 10.5% for the year ended December 31, 2011 primarily due to the increase of our assets primarily attributable to (i) the capital investment we made in the construction of new outlets and procurement of inventories of newly opened outlets and (ii) the capital injection of RMB120 million as part of the Phase 3 at the Reorganization which increased our equity, which was partially offset by the increase in our profit from our existing and newly opened outlets. Our return on assets decreased from 10.5% for the year ended December 31, 2011 to 9.7% primarily due to the increase of our assets primarily as a result of the capital investment we made in the construction of new outlets and procurement of inventories of newly opened outlets, which was partially offset by the increase in our profit from our existing and newly opened outlets.

SHARE-BASED COMPENSATION

On May 20, 2013, our shareholders conditionally approved and adopted the RSU Scheme. The purpose of the RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company. The principal terms of the RSU Scheme are described in the sections headed "Statutory and General Information – Restricted Share Unit Scheme" in Appendix IV to this prospectus.

As of the date of this prospectus, RSU Awards in respect of an aggregate of 19,110,898 Shares, representing approximately 1.75% of the Shares in issue on the Listing Date but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option had been granted to 18’ grantees. Please refer to the section headed "Statutory and General Information – Restricted Share Unit Scheme" in Appendix IV to this prospectus for further details.

We will account for the RSUs granted pursuant to the RSU Schemes using the fair value based method of accounting. The fair value of the RSU Awards granted is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the RSU Awards granted as of the grant date with reference to the vesting period. At the end of each period, we will revise our estimates of the number of RSU Awards that are expected to vest. We will recognize the impact of the revision to original estimates, if any, in profit or loss with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date.

The RSU Awards granted pursuant to the RSU Scheme are subject to vesting conditions and will vest over a period of four years. For further details, please refer to the section headed "Statutory and General Information – Restricted Share Unit Scheme" in Appendix IV to this prospectus.

DIVIDEND POLICY

We may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as our Board may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in general meeting may approve and make any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to them to be justified by our profits. No dividend shall be declared or paid except out of our profits or reserves set aside from profits in our Directors' discretion. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for such purpose in accordance with the Cayman Companies Law and our Articles of Association. Any declaration of dividends may or may not reflect our prior declarations of dividends and any dividend recommendation will be at the absolute discretion of our Board.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including HKFRS. Some of our subsidiaries in China, which are foreign-invested enterprises, set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of our subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. In 2012, our Board declared a one-time dividend in the amount of RMB559.3 million, all of which was entitled to our Controlling Shareholders and was settled with outstanding loan amount due to us from the Controlling Shareholders. Our directors decided that all of our accumulated earnings prior to December 31, 2012 will be retained by our PRC subsidiaries. We currently intend to pay dividends of no more than 20% of our profits available for distribution of each accounting year beginning from the year ended December 31, 2013. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. The amounts of distribution that we have declared and made in the past should not be taken as indications of the dividends, if any, that we may pay in the future.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules.