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## OUR BUSINESS

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### OVERVIEW

We were the second largest luxury and ultra-luxury automobile dealership group in Northwestern China in terms of the number of dealership outlets for luxury and ultra-luxury automobile brands as of December 31, 2013, according to ACMR. In addition, we were the largest automobile dealership group in Xi'an City and Shaanxi Province in terms of revenue in 2012, according to ACMR.

According to ACMR, Xi'an City was the largest city in Shaanxi Province in terms of GDP in 2013, accounting for approximately 30.4% of the total GDP of Shaanxi Province in 2013, compared to Yulin, which was the second largest city in Shaanxi Province in terms of GDP in 2013 and accounted for 17.7% of the total GDP of Shaanxi Province in 2013. In addition, according to ACMR, Xi'an City was the largest automobile market in Shaanxi Province in terms of new automobile plate registration volume in 2012, which accounted for 50.9% of the total new automobile plate registration volume of Shaanxi Province in 2012, compared to Yulin, which was the second largest city in Shaanxi Province in terms of new automobile plate registration volume in 2012 and accounted for 16.8% of the total new automobile plate registration volume of Shaanxi Province in 2012. According to ACMR, Shaanxi Province was the largest province in Northwestern China in terms of GDP in 2013, accounting for 45.1% of the total GDP of Northwestern China in 2013, compared to Xinjiang, which was the second largest provincial region in Northwestern China in terms of GDP in 2013 and accounted for 23.9% of the total GDP of Northwestern China in 2013. In addition, according to ACMR, Shaanxi Province was the largest automobile market in Northwestern China in terms of new automobile plate registration volume in 2012, which accounted for 43.6% of the total new automobile plate registration volume of Northwestern China in 2012, compared to Xinjiang, which was the second largest market in Northwestern China in terms of new automobile plate registration volume in 2012 and accounted for 23.0% of the total new automobile plate registration volume of Northwestern China in 2012.

As of the Latest Practicable Date, we had 26 outlets in operation, including 17 4S dealership stores, eight showrooms and one service center, and 15 out of our 26 outlets in operation were located in Xi'an in Shaanxi Province and contributed approximately 74.8% to our total revenue for 2013. As of the Latest Practicable Date, our remaining 11 outlets located in Yan'an in Shaanxi Province, Lanzhou in Gansu Province, Yinchuan in Ningxia, Taiyuan in Shanxi Province, Ordos in Inner Mongolia and Wuxi and Suzhou in Jiangsu Province. As of the Latest Practicable Date, 19 out of our 26 outlets were located in Northwestern China. We have a proven track record of establishing successful and high quality outlets. In Northwestern China, we were the first to set up outlets for Cadillac, Porsche, Bentley, Ferrari/Maserati and Hongqi, and among the first dealerships to set up outlets for Audi. As of the Latest Practicable Date, we had ten outlets covering such ultra-luxury automobile brands as Porsche and Ferrari/Maserati, for which we were the only dealer in Northwestern China, two outlets covering Bentley, for which we were the only dealer in Shaanxi Province, and 13 outlets covering such luxury automobile brands as Audi, Volkswagen Imported, Mercedes-Benz, Cadillac, Lexus and Hongqi. As of the Latest Practicable Date, we had received non-binding letters of intent from automobile suppliers, and we planned to establish one outlet for ultra-luxury automobile brand of Ferrari/Maserati, nine outlets for luxury automobile brands including Audi, Volkswagen Imported, Hongqi and Chrysler and one outlet for Shanghai Volkswagen, a middle market brand.

We offer a comprehensive range of automobile sales and services, including (i) the sale of automobiles, both imported and domestically manufactured, and (ii) after-sales services, including maintenance and repair services, sales of spare parts and automobile detailing services. We also provide other value-added services, such as automobile insurance agency services, automobile financing services, automobile licensing services and automobile survey services.

## OUR BUSINESS

We achieved rapid growth during the Track Record Period. For 2011, 2012 and 2013, the volume of our automobile sales was 11,032 units, 14,810 units and 15,834 units, respectively, representing a CAGR of 19.8%, and our revenue generated from sales of automobiles during the same periods was RMB4,967.5 million, RMB6,619.3 million and RMB6,739.4 million, respectively, representing a CAGR of 16.5%. In particular, revenue derived from sales of luxury and ultra-luxury branded automobiles during the same periods was RMB4,411.0 million, RMB6,122.3 million and RMB6,308.2 million, respectively, representing a CAGR of 19.6%.

We have been continuously improving our after-sales service capabilities. During the Track Record Period, a majority of our new customers who purchased our luxury and ultra-luxury automobiles returned to our 4S dealership stores for maintenance or repair services. The throughput volume of after-sales services increased from 111,513 units for 2011 to 154,641 units for 2012, and further to 170,173 units for 2013.

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

Revenue source	Year ended December 31,						CAGR on Revenue
	2011		2012		2013		
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	
	RMB'000	%	RMB'000	%	RMB'000	%	%
Automobile Sales							
— Luxury and ultra-luxury brands . . .	4,410,970	82.5	6,122,318	85.0	6,308,165	84.9	19.6
— Middle market brand . . . . .	556,514	10.4	496,951	6.9	431,200	5.8	(12.0)
<b>Subtotal . . . . .</b>	<b>4,967,484</b>	<b>92.9</b>	<b>6,619,269</b>	<b>91.9</b>	<b>6,739,365</b>	<b>90.7</b>	<b>16.5</b>
After-sales Services . . . . .	380,920	7.1	585,963	8.1	693,334	9.3	34.9
<b>Total . . . . .</b>	<b>5,348,404</b>	<b>100.0</b>	<b>7,205,232</b>	<b>100.0</b>	<b>7,432,699</b>	<b>100.0</b>	<b>17.9</b>

Our revenue grew from RMB5,348.4 million for 2011 to RMB7,205.2 million for 2012, and further to RMB7,432.7 million for 2013, representing a CAGR of 17.9%. Our gross profit grew from RMB515.9 million for 2011 to RMB562.5 million for 2012, and further to RMB623.9 million for 2013, representing a CAGR of 10.0%.

We have established long-term relationships with various leading global automakers and their PRC joint venture corporations, in particular the Volkswagen Group and its portfolio brand companies, including Porsche, Bentley, Audi and Volkswagen Imported. By leveraging our strong relationships with our existing luxury and ultra-luxury automobile suppliers, as well as our expertise in sales and services of luxury and ultra-luxury automobiles, we believe we will be able to further strengthen our leading market position in Northwestern China and replicate our success in new markets in China.

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## OUR BUSINESS

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### OUR COMPETITIVE STRENGTHS

#### **Second largest luxury and ultra-luxury automobile dealership group in Northwestern China**

We were the second largest luxury and ultra-luxury automobile dealership group in Northwestern China in terms of the number of dealership outlets for luxury and ultra-luxury automobile brands as of December 31, 2013, according to ACMR. As of the Latest Practicable Date, we had 26 outlets, 12 of which were dedicated to ultra-luxury automobile brands, such as Porsche, Bentley and Ferrari/Maserati, and 13 to luxury automobile brands such as Audi, Volkswagen Imported, Mercedes-Benz, Cadillac, Lexus and Hongqi, and 18 of our luxury and ultra-luxury outlets were located in Northwestern China. As of the Latest Practicable Date, we had received non-binding letters of intent from automobile suppliers, and we planned to establish one outlet for ultra-luxury automobile brand of Ferrari/Maserati, nine outlets for luxury automobile brands, including Audi, Volkswagen Imported, Hongqi and Chrysler and one outlet for Shanghai Volkswagen, a middle market brand. For 2011, 2012 and 2013, our revenue was RMB5,348.4 million, RMB7,205.2 million and RMB7,432.7 million, respectively, representing a CAGR of 17.9%. As a comparison, according to ACMR, the CAGR of the revenue generated from the PRC automobile dealership industry as a whole was approximately 16.9% during the same periods.

Since the establishment of our business in Xi'an in Shaanxi Province in 2002, we were among the few first movers to the rapidly developing and underserved Northwestern region of China and the first to set up outlets for Cadillac, Porsche, Bentley, Ferrari/Maserati and Hongqi, and among the first dealerships to set up an outlet for Audi in this region.

As manufacturers of luxury and ultra-luxury automobiles impose strict criteria when selecting their dealers, we believe, as a leading automobile dealership group with a strong track record and operating capabilities, we are well positioned to obtain additional authorizations from our existing luxury and ultra-luxury brands and establish relationship with new luxury and ultra-luxury automobile brands. Because of the luxury and ultra-luxury automobile markets' high entry barrier, our leading market position will give us a competitive advantage over any new joiners.

As an early player in the automobile dealership industry in Northwestern China, we have accumulated a large customer pool. We believe this has established a solid foundation for our after-sales services, which had a gross profit margin of approximately 37.5%, 41.6% and 41.4%, respectively, for 2011, 2012 and 2013. In addition, the gross profit of our after-sales services accounted for 27.7%, 43.4% and 46.0%, respectively, of our total gross profit during the same periods. We believe this has enabled us, and will continue to enable us, to enjoy a steady flow of revenue and profit from both new automobile sales and after-sales services.

#### **Strategic outlet network in Northwestern China with strong growth potential in the luxury and ultra-luxury segments**

We have established a strong foothold in Shaanxi Province and have further expanded our businesses in its neighboring regions, such as Inner Mongolia and Shanxi Province, which are resource abundant regions. According to ACMR, the reserves of petroleum, natural gas and coal in Northwestern China accounted for approximately 34.8%, 40.0% and 15.0% of the total reserves in China for 2012. This has given rise to the increasing number of high net worth individuals who in turn become the major purchasers of luxury and ultra-luxury automobiles. As

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## OUR BUSINESS

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a result, during the Track Record Period, customers in energy and related industries were our largest group of customers, accounting for approximately 12.8%, 12.7% and 13.3%, respectively, of our total number of customers for 2011, 2012 and 2013.

Northwestern China and its neighboring provinces, including Inner Mongolia and Shanxi Province, experienced a rapid growth in GDP in recent years as a result of the Chinese government's preferential policies and commitments to develop Middle and Western China. According to ACMR, the CAGR of China's overall GDP was approximately 13.7% from 2009 to 2013, while the CAGR of the GDP growth of Shaanxi Province, Gansu Province, Qinghai Province, Ningxia and Xinjiang was approximately 18.4%, 16.8%, 18.1%, 17.7% and 18.8%, respectively, for the same period. As a result, according to ACMR, the growth rate of the number of individuals who had net assets of RMB10 million or above was approximately 2.9% in China for 2013, and the growth rate in Shaanxi Province, where we are based, was approximately 4.3% for 2013. However, the penetration rate of automobiles was only approximately 5.8% in Northwestern China for 2013, compared to approximately 7.2% across China for the same period. Because of the fast economic growth and low penetration rate of automobiles, the sales of luxury and ultra luxury automobiles in Northwestern China have experienced rapid growth in recent years and we believe such growth will continue.

By leveraging our strong foothold and comprehensive experience and knowledge in Northwestern China, we believe we will be able to further strengthen our leading market position in this region and replicate our success in new markets in China.

### **Strong focus on luxury and ultra-luxury brands, which has been the driver of our revenue and profit growth**

As of the Latest Practicable Date, 25 out of our 26 outlets were dedicated to ultra-luxury automobile brands, such as Porsche, Bentley and Ferrari/Maserati, and luxury automobile brands, such as Audi, Volkswagen Imported, Mercedes-Benz, Cadillac, Lexus and Hongqi. We believe the automobile brands that we sell are among the most popular brands in China. Such brands have experienced sustained sales growth in the PRC.

Revenue derived from our luxury and ultra-luxury outlets accounted for 88.8%, 92.4% and 93.6%, respectively, of our total revenue for 2011, 2012 and 2013. The gross profit of our luxury and ultra-luxury outlets accounted for 93.2%, 95.8% and 97.0%, respectively, of our total gross profit for the same periods. Sales of luxury and ultra-luxury automobiles typically generate higher gross profit margins than sales of middle market brands. Our gross profit margin of new automobile sales of luxury and ultra-luxury brands was 8.0%, 5.1% and 5.3% for 2011, 2012 and 2013. As a comparison, according to the estimates of ACMR, the average gross profit margins of new automobile sales in China in 2013 were between 1% to 2%.

### **Long-term strong relationships with leading automobile suppliers, in particular, our strategic cooperation with the Volkswagen Group and its portfolio brand companies**

We have established a long-term strategic cooperation with the Volkswagen Group and its portfolio brand companies and have become one of its important dealership groups in China. As of the Latest Practicable Date, of our 26 outlets, 15 exclusively offered automobiles manufactured by the portfolio brand companies of the Volkswagen Group. We were among the first dealership groups authorized by Audi to establish 4S dealership stores in Northwestern China, which was also our first 4S dealership store. We were also the first to set up outlets for Porsche and Bentley in Northwestern China. According to ACMR, we were the only dealership

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## OUR BUSINESS

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group for Porsche and Ferrari/Maserati in Northwestern China, and the largest dealership group for Porsche, Bentley, Audi and Volkswagen Imported in Northwestern China in terms of the number of 4S dealership stores of these brands in aggregate as of December 31, 2013. In November 2012, Shaanxi Sunfonda Technology became a non-exclusive regional distributor for certain models of automobiles under Volkswagen Imported. For more details, please see “— Our Outlets — Dealership Arrangements”. We have been invited by the Volkswagen Group and its portfolio brand companies to attend regular meetings with its global and China senior management members, provide our feedback to its expansion strategy and plan in China and participate in its high-profile marketing events.

According to ACMR, in terms of new automobile registration numbers, Porsche and Bentley branded automobiles accounted for approximately 92.9% of the market share of ultra-luxury brands in China for 2012, with Audi, Volkswagen Imported and Lexus accounting for approximately 42.3%. According to ACMR, Porsche was the largest ultra-luxury automobile brand and Audi was the largest luxury automobile brand in China in terms of new automobile plate registrations from 2007 to 2012.

For 2011, 2012 and 2013, sales of new automobiles manufactured by the portfolio brand companies of the Volkswagen Group, including Porsche, Bentley, Audi and Volkswagen Imported, were the largest revenue source of, and profit contributor to, our new automobile sales business. Sales of these automobile brands accounted for 68.0%, 80.7% and 83.1% of our total automobile sales for 2011, 2012 and 2013, respectively.

In addition, we were authorized by FAW-Volkswagen in 2004 to operate its first spare parts distribution center in Northwestern China, which is the only distribution center to stock and provide spare parts for Audi and Volkswagen brands to automobile dealership groups in Shaanxi Province, Gansu Province, Ningxia, Qinghai Province and Shanxi Province. We believe this distribution center further strengthens our strategic cooperation with the Volkswagen Group and its portfolio brand companies. For more details, please see “Business — Spare Parts Distribution Center” in this prospectus.

We believe that our operational capabilities and expertise have helped automobile suppliers gain market share and win customer loyalty in China, which in turn has contributed to our long-term relationships with them. In addition, we are actively seeking cooperation opportunities with other luxury and ultra-luxury brand automobile suppliers to expand our brand portfolio. We have developed relationships with new automobile suppliers, such as Mercedes-Benz. We believe that by leveraging the outstanding brand portfolio and market image of luxury and ultra-luxury automobile suppliers, we are well placed to further strengthen our market position, enter into new markets and capture growth opportunities in the rapidly expanding luxury and ultra-luxury automobile markets in China. In addition, we believe our strong relationship with luxury and ultra-luxury automobile suppliers will give us a competitive advantage when we seek to obtain authorizations from other luxury and ultra-luxury automobile suppliers.

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## OUR BUSINESS

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### **Ability to achieve sustainable growth through our effective and replicable expansion model**

We have a proven track record of rapidly establishing successful and high quality outlets. We rapidly expanded our network by opening five new outlets in 2011, eight in 2012 and five in 2013, which increased the number of our luxury and ultra-luxury outlets from 11 as of December 31, 2011 to 25 as of the Latest Practicable Date. We have historically expanded our dealership network by steady organic growth through a replicable model for establishing and managing new outlets, including (i) identifying new markets and sites, (ii) applying for new dealership authorization, and (iii) recruiting, training and managing staff for new outlets. These standardized processes enable us to use our human resources efficiently, help to instill our business practices and corporate culture at new stores and ensure consistent service quality across our network. Our large pool of skilled employees allows us to staff new stores quickly and appropriately. As a result, we have been able to realize sales and profit within a short period of time following the commencement of a new outlet. For example, we launched the Porsche 4S dealership store in Ordos in February 2012, which sold 175 new automobiles in three months after its inception and recorded a net profit for 2012. In addition, we launched the Audi 4S dealership store in Xi'an in September 2011, which recorded a net profit in the first six months of its operations.

We believe our large land reserve in Northwestern China helps to ensure the continuous growth of our luxury and ultra-luxury automobile dealership businesses. As of the Latest Practicable Date, of our 26 outlets, 14 were located on land to which we own the land use rights. As of December 31, 2013, the total land area used by us was 263,829 square meters, of which we owned the land use rights of land parcels with a total area of 179,504 square meters, accounting for approximately 68.0% of the total land used by us. Luxury and ultra-luxury automobile suppliers typically choose to grant dealership authorization to dealerships possessing land use rights for the new store venues to ensure sustainable sales growth. In addition, given the perception of inflation and the increasing real property price, our large land reserve enables us to control our operating costs in the long run. For 2011, 2012 and 2013, rental fees for the land and buildings we leased from third parties accounted for approximately 0.12%, 0.33% and 0.25% of our total revenue, respectively. Furthermore, we can obtain mid- to long-term loans from banks by pledging our land use rights, which provides us with easy access to stable external financing and lower financing costs when compared to unsecured loans.

Moreover, we offer high-quality and comprehensive after-sales services to our customers. During the Track Record Period, a majority of our new customers who purchased our luxury and ultra-luxury automobiles returned to our 4S dealership stores for maintenance or repair services. The throughput volume of after-sales services increased from 111,513 units for 2011 to 154,641 units for 2012, and further to 170,173 units for 2013. We believe that our high-quality and comprehensive after-sales services and expertise have enabled us to develop long-term and stable relationships with our customers, which in turn has helped us to enlarge our customer base, expand our revenue source and improve our results of operations.

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## OUR BUSINESS

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### **Experienced senior management team with a strong track record and are supported by a team of talented and well-trained professionals and a key investor**

Our executive Directors and senior management team comprise a group of highly experienced professionals in various fields of the automobile dealership industry, with an average industry experience of greater than 13 years. Mr. Wu, one of our founders, has 27 years of experience in the automobile dealership industry. For more details of the industry experience of our senior management, please see “Directors and Senior Management” in this prospectus. Our executive Directors and senior management team have transformed us from a single outlet player to one of the largest luxury and ultra-luxury automobile dealership groups in Northwestern China. Our executive Directors and senior management team are committed to value creation through their thorough understanding of market dynamics, talent development and customer needs. We believe that our management team possesses in-depth knowledge critical to success in the automobile dealership industry and is capable of seizing market opportunities, formulating sound business strategies, assessing and managing risks, implementing management and production schemes and increasing our overall profit to maximize our shareholder value.

Our management team is supported by a team of talented and well-trained professionals across all levels of our organization. We recognize that our employees are key to maintaining the success of our business. As a result, we focus on identifying, recruiting and training talented individuals. Based on our experience and the training programs of our automobile suppliers, we have developed standardized processes and comprehensive courses for the training of our employees and continuous upgrading of their skills and know-how. We have a systematic approach for identifying and promoting talented employees, often by rotating them to different stores, which offers them long-term career paths and performance incentives and allows us to leverage the skills and know-how of our more experienced employees at our new stores. This has contributed to the decrease in the ramp-up period required at new outlets. We believe that the continuous development of our employees provides us with a solid foundation for the continued success of our business.

In addition, Standard Chartered Private Equity made an investment of US\$34.37 million in Top Wheel in April 2011, which we used to expand the dealership network of our Group. With the sponsorship of Standard Chartered Private Equity, we have enhanced our management structure and corporate governance by diversifying our shareholding structure, which will improve our brand value and reputation.

### **OUR STRATEGIES**

#### **Continue to strengthen our leading market position in Northwestern China and selectively expand into new markets in China**

We intend to capitalize on our local know-how, relationships and positive brand image established by our existing dealership network, as well as our in-depth industry expertise, to establish successful new outlets in Northwestern China. We believe our current markets in Northwestern China as well as Inner Mongolia and Shanxi Province have significant market potential, and market demands for automobiles, maintenance and repairs, spare parts, detailing, automobile accessories and other services will increase in these regions due to their rapid economic growth. To further strengthen our strong presence in Northwestern China, as of the Latest Practicable Date, we have signed non-binding letters of intent with automobile suppliers, and we planned to establish four luxury and ultra-luxury brand outlets in this region.

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## OUR BUSINESS

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With a stronghold in the luxury and ultra-luxury automobile dealership industry in Northwestern China, we seek to further expand our dealership network into certain more populous and affluent regions of China which are more developed and sustain high economic growth rates. We commenced the trial operation of a Volkswagen Imported showroom in Wuxi, Jiangsu Province in October 2013 and we commenced trial operation of one Volkswagen Imported showroom in Suzhou in December 2012. We have also signed non-binding letters of intent for one Audi 4S dealership store in Beijing, one Audi 4S dealership store in Yangzhou, one Volkswagen Imported 4S dealership store in Wuxi and one Volkswagen Imported showroom and one Chrysler 4S dealership store in Suzhou in Jiangsu Province. We believe these will help us diversify our revenue sources and provide us with new growth drivers.

We have secured land reserves in Beijing and Jiangsu Province, which we believe are critical for us as they allow us to enter these new markets by replicating our network expansion model. As of December 31, 2013, we have paid in full the land premium (exclusive of tax and expenses directly relating to the land) of RMB196.5 million for the land in Beijing. For the planned outlet in Beijing, as of December 31, 2013, we have incurred capital expenditure (exclusive of the land premium) of approximately RMB8.9 million and expected to incur additional RMB40.7 million. For the land in Wuxi in Jiangsu Province for the Volkswagen Imported showroom and 4S Dealership Store, as of December 31, 2013, we have paid in full the land premium (exclusive of tax and expenses directly relating to the land) of RMB13.8 million and have obtained the relevant land use rights certificate. We are in the process of obtaining the land use rights certificate for the land in Beijing. Our directors and senior management members, including Mr. Wu and Mr. Jia Ruobing, have worked in or are familiar with the automobile dealership markets in Beijing and Jiangsu Province. We believe their experience and knowledge will help us establish a solid foothold in these new markets in a relatively short time period. We have conducted comprehensive surveys and research and, given the strong economic growth, large affluent population and rapid development of the ultra-luxury and luxury automobile market, we believe there is still growth potential for increased sales of ultra-luxury and luxury automobiles in these new markets. In addition, our new outlets and non-binding letters of intent to open outlets in these new markets are also evidence of the automobile suppliers' strong confidence in these new markets. Moreover, by leveraging our strong track record and long-term relationships with automobile suppliers, we believe we are well positioned to obtain new authorizations from automobile suppliers to open new outlets in our new markets. By leveraging our long-term expertise in the luxury and ultra-luxury automobile dealership sector and by focusing on the luxury automobile brands we currently sell, we believe we can replicate our success in our new markets. For more details of our successful network expansion model, please see “— Our Competitive Strengths — Ability to achieve sustainable growth through our effective and replicable expansion model” and “— Our Outlets — Dealership Network Expansion”.

We believe that our proven track record and established relationships with the luxury and ultra-luxury automobile suppliers that we currently work with, especially the Volkswagen Group and its portfolio brand companies, will enable us to obtain additional dealership authorizations to further expand our dealership network. In addition, we may strategically acquire or merge with automobile dealerships to expand our dealership network and brand portfolio. As of the Latest Practicable Date, we had not identified any target.

### **Continue to enhance our existing brands and further diversify the portfolio of luxury and ultra-luxury automobile brands that we offer**

We believe that our well-established relationships with leading automobile suppliers and our successful track record with luxury brands such as Audi and Volkswagen Imported and



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## OUR BUSINESS

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ultra-luxury brands such as Porsche, position us to obtain additional authorizations from these luxury and ultra-luxury brand manufacturers. We aim to enhance our relationships with our existing automobile suppliers by maintaining closer communication with them, offering more assistance regarding strategy formation and decision making and obtaining additional authorizations from them.

We also plan to pursue opportunities to cooperate with other luxury or ultra-luxury brand automobile suppliers to expand our brand portfolio. We believe this will further enhance our market position and improve our results of operations, as these automobiles are in high demand but with limited availability.

We believe that by diversifying and optimizing the mix of luxury and ultra-luxury automobile brands in our portfolio and the products and services we offer, we will be able to enhance our market leading position and maximize our profitability.

### **Expand the scope of our after-sales services, improve the efficiency of our after-sales services and improve our customer service quality**

Our after-sales business, which includes maintenance, repairs, sales of spare parts and detailing services, generates stable, recurring revenue and high profit margins for us. We believe that through the expansion of our after-sales services, we will improve our gross profit margin and increase our overall profitability. We expect our new automobile customers to develop into a growing after-sales customer base over time as our new stores mature. We have achieved a high level of customer satisfaction with our new automobile sales, which we believe will drive the growth of our after-sales business. We intend to expand our business operations by utilizing our existing resources and customer base to continue to strengthen our after-sales business.

To grow our after-sales services, we plan to continue to expand the scope of our after-sales services and improve our service quality with a view to retaining existing customers and attracting new customers. We plan to provide more new services to our customers, such as emergency assistance. We will offer more types of automobile parts to cater to changing market demands and customer preferences. In addition, we will enhance the training system that we offer to our repair and maintenance personnel.

We plan to further develop our sales of automobile accessories and related products by leveraging our luxury and ultra-luxury automobile brands and large customer base. We also plan to expand the reach of our mobile after-sales platform to our customers in distant areas within the regions authorized by our automobile suppliers, which we believe will improve our customer satisfaction and loyalty.

### **Further strengthen our brand, operational efficiency and sales and marketing efforts**

We will continue to strengthen our brand, our operational efficiency and sales and marketing efforts to improve sales performance and improve profitability. We will regularly conduct a centralized analysis of all aspects of our business processes to identify improvement opportunities. Our centralized ERP system enables us to coordinate the resources of our Group and to discover and share best practices within our dealership network. We will continue to leverage our experience to further reduce the time required to ramp up the operations of a new outlet, which will enable us to accelerate the expansion of our dealership network. In addition, we will also continue to invest in our information technology system to support our business practices and expansion plans.

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## OUR BUSINESS

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We will also enhance our sales and marketing efforts through additional advertising and marketing campaigns and participation in promotional events, such as the utilization of on-line promotions. We will also continue to promote our Sunfonda brand.

### **Continue to attract, train and retain skilled employees to support our future growth and expansion**

Our employees are critical to our success. We have invested, and intend to continue to invest substantially in our employees in order to recruit, train and retain the best personnel for our business. We have a systematic approach to recruit talent to suit our business development needs. We will maintain and enhance collaborations with local educational institutions to ensure our continued access to qualified candidates.

We will also continue to regularly review and improve our training programs to improve our employees' productivity and service quality. In addition, we will continue to require our employees to participate in the training programs provided by our automobile suppliers to keep our employees abreast of the knowledge and skills desirable to our automobile suppliers.

We plan to train and internally promote a majority of the store managers, senior managers and skilled technical personnel required to support our expansion. We plan to continue to evaluate and enhance our human resources management processes to strengthen our ability to train, identify and retain employees. We will continue to regularly evaluate the performance of our employees and provide talented employees with career opportunities within our Group. We will also continue to improve and implement policies to rotate our employees among different outlets, to ensure successful experience sharing and enhance service quality. We will also continue to evaluate our compensation system to ensure that we offer competitive compensation packages to our employees and that incentives are aligned with performance.

### **INDUSTRY\***

For the purposes of the analysis of the PRC automobile industry below, China is divided into six regions, including Northern China, Northeastern China, Eastern China, Middle Southern China, Southwestern China and Northwestern China. Northern China includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia. Northeastern China includes Liaoning Province, Jilin Province and Heilongjiang Province. Eastern China includes Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province. Middle Southern China includes Henan Province, Hubei Province, Hunan Province, Guangdong Province, Guangxi Province and Hainan Province. Southwestern China includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province and Tibet. Northwestern China includes Shaanxi Province, Gansu Province, Qinghai Province, Ningxia and Xinjiang.

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\* We commissioned ACMR, an Independent Third Party, to conduct an analysis of the PRC and global passenger vehicle market. The consulting fee paid by the Company to ACMR in connection with the preparation of the industry report for this prospectus was approximately RMB440,000. ACMR prepared the industry report in April 2014 based on their specific knowledge of the PRC automobile industry and the forecasts were based on ACMR's analysis of historical data and trends, which ACMR obtained from a variety of industry sources, including relevant PRC Government departments and established PRC industry organizations such as the National Bureau of Statistics of China, the Ministry of Transport of China, China Automobile Dealers Association and China Automotive Technology & Research Center. ACMR has conducted interviews with market participants and industry experts in order to support, verify and cross check its estimates. Certain information set forth in this section has been extracted from the industry report prepared by ACMR.

## OUR BUSINESS

### Strong economic growth in the PRC, especially in Northwestern China

The Chinese economy has experienced strong growth since the implementation of a series of reform measures by the PRC Government in the late 1970s. According to the National Bureau of Statistics of China, the PRC's nominal GDP grew from RMB13,582.3 billion in 2003 to RMB56,884.5 billion in 2013, representing a CAGR of 15.4%. Correspondingly, the PRC's nominal GDP per capita grew from RMB10,542 in 2003 to RMB41,805 in 2013, representing a CAGR of 14.8%.

Continuous rapid economic growth has accelerated the urbanization process, which in turn has led to an improvement in living standards and an increase in purchasing power. From 2003 to 2013, the per capita annual disposable income of urban residents in the PRC increased from approximately RMB8,472 to RMB26,955, representing a CAGR of approximately 12.3%, according to the National Bureau of Statistics of China.

Rapid economic growth and accelerated urbanization have led to substantial investment in transportation infrastructure. The length of China's highways network grew at a CAGR of 9.2% from approximately 1.8 million kilometers in 2002 to approximately 4.2 million kilometers in 2012, according to the Ministry of Transport of China. The increasing length of highways greatly facilitates inter-city travel. Improvement in transportation infrastructure provides the fundamental condition that supports the growth of automobile consumption in China.

In 2009 and 2010, the PRC Government issued a series of favorable policies to help promote the automobile market in China, including reduction in the automobile purchase tax, direct subsidies to rural residents purchasing automobiles, subsidies to automobile owners replacing old automobiles with new ones, and the implementation of the Adjustment and Vitalization Plan for the automobile sector. These favorable government policies have stimulated sales of passenger vehicles in China. The PRC Government currently implements automobile purchase restrictions in certain cities of China, such as Beijing and Guiyang, which has magnified the purchase of luxury and ultra-luxury automobiles by high income and top earners classes in China.

Since 2000, with favorable government support and policies, including the Tenth Five-year Plan and the Twelfth Five-year Plan, Northwestern China has undergone accelerated development. From 2003 to 2013, the total GDP of Northwestern China grew from RMB670.9 billion to RMB3,555.6 billion, representing a CAGR of 18.1%. The GDP of Northwestern China as a percentage of the total national GDP of China increased from 4.8% in 2002 to 6.1% in 2012. From 2003 to 2013, the GDP per capita of Northwestern China grew from RMB7,183 to RMB36,126, representing a CAGR of 17.5%.

The table below sets forth the nominal GDP and GDP per capita of Northwestern China from 2002 to 2012:

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Nominal GDP (RMB in billions) . . . . .	670.9	807.6	962.1	1,144.0	1,369.8	1,688.8	1,826.9	2,272.1	2,768.2	3,177.9	3,555.6	18.1%
Nominal GDP per capita (RMB) . . . . .	7,183	8,579	10,167	11,988	14,237	17,422	18,741	23,482	28,470	32,480	36,126	17.5%

According to ACMR, the consumer and retail sector in the Northwestern China has experienced accelerated growth with a CAGR of 17.4% from 2007 to 2013. In addition, according to ACMR, Northwestern China has had a rapid development of infrastructure, and the CAGRs of the road length in Xinjiang, Gansu Province, Ningxia and Qinghai Province were

## OUR BUSINESS

5.9%, 5.5%, 5.2% and 4.6%, respectively, from 2007 to 2012, which were higher than the national average CAGR of 3.4% during the same period. Furthermore, according to ACMR, Northwestern China is rich in natural resources, which is estimated to have 35% of the petroleum reserve, 40% of the natural gas reserve and 15% of the coal reserve of China.

### Fastest growing consumption among the world's top ten passenger vehicle markets

China has become the largest passenger vehicle market in terms of sales volume, and the fastest growing of the ten largest passenger vehicle markets worldwide, driven by the favorable macroeconomic environment in China as discussed above. The sales volume of new passenger vehicles in China increased from approximately 5.58 million units in 2007 to approximately 17.35 million units in 2013, representing a CAGR of approximately 20.8%.

Historical robust growth, as well as the low penetration rate of passenger vehicles in China relative to other major markets in the world suggests significant growth potential. In 2013, the passenger vehicle penetration rate in China was just 7.2%, compared to the global average of 11.6%, and was significantly lower than those of the developed countries, such as 43.6% in the U.S., 56.6% in Germany, 51.0% in France, 49.7% in the United Kingdom and 48.2% in Japan in 2013.

Northwestern China has enjoyed preferential policies, experienced high economic growth as a result of its abundant resources and displayed significant growth in passenger vehicle consumption. From 2007 to 2012, the registration volume of new passenger vehicles in Northwestern China grew at a CAGR of 24.7%, compared to the national average CAGR of 15.3%. This strong growth in Northwestern China is expected to continue in the future given the fact that the penetration rate of passenger vehicles in Northwestern China was 5.8% in 2013, which was much lower than the national average rate of 7.2%, according to ACMR.

### Registration Volume of New Passenger Vehicles by Region

	2007	2008	2009	2010	2011	2012	GAGR
	<i>(Units in millions)</i>						
Northern China . . . . .	1.15	1.27	1.91	2.15	2.00	2.21	14.1%
Northeastern China . . . . .	0.42	0.45	0.76	0.76	0.85	0.87	15.6%
Eastern China . . . . .	2.08	2.01	3.36	3.86	4.14	4.26	15.4%
Middle Southern China . . .	1.32	1.25	1.76	2.23	2.38	2.5	13.6%
Southwestern China . . . . .	0.58	0.57	1.09	1.23	1.14	1.22	16.0%
Northwestern China . . . . .	0.26	0.31	0.59	0.63	0.73	0.79	24.7%
National . . . . .	5.82	5.86	9.47	10.87	11.24	11.87	15.3%

Source: ACMR

As of the Latest Practicable Date, we had 18 luxury and ultra-luxury brand dealership outlets in Northwestern China that covered such brands as Porsche, Bentley, Ferrari/Maserati, Audi, Volkswagen Imported, Mercedes-Benz, Cadillac, Lexus and Hongqi. We were the only authorized dealer of Porsche in the region, and the only authorized dealer which operated dealership outlets of Ferrari/Maserati in the region as of December 31, 2013. As of December 31, 2013, there were 126 luxury and ultra-luxury 4S dealership outlets in Northwestern China.

### Strong growth in the Northwestern China premium passenger vehicle market

Driven by a high economic growth rate at a CAGR of 18.3% from 2007 to 2012 and an increasing population of high net worth individuals, Northwestern China has experienced

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## OUR BUSINESS

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significant growth in premium passenger vehicle consumption. From 2007 to 2012, the registration volume of premium passenger vehicles in Northwestern China grew at a CAGR of 52.9%, compared to the national average CAGR of 39.2%.

### Regional Distribution of Premium Passenger Vehicles Registration Volume (Units)

	2007	2008	2009	2010	2011	2012	CAGR
Northern China . . . . .	48,534	76,222	86,801	139,938	169,463	213,255	34.5%
Northeastern China . . . . .	16,378	24,594	28,118	39,254	60,879	75,760	35.8%
Eastern China . . . . .	103,082	135,882	173,747	277,063	414,554	505,045	37.4%
Middle Southern China . . . . .	39,976	54,413	63,196	113,418	185,192	242,415	43.4%
Southwestern China . . . . .	18,557	28,076	34,864	57,177	90,926	127,927	47.1%
Northwestern China . . . . .	6,847	10,736	15,208	23,239	41,632	57,250	52.9%
National . . . . .	233,374	329,923	401,934	650,089	962,646	1,221,652	39.2%

Source: ACMR

### Significant growth of our new markets

Suzhou ranked sixth among all cities in the PRC in terms of GDP in 2013, and is the largest market for passenger vehicles in Jiangsu Province. In 2012, the registration volume of ultra-luxury and luxury passenger vehicles in Suzhou accounted for 24.7% of the total passenger vehicle registration volume in Jiangsu Province, increasing at a CAGR of 41.6% from 2007 to 2012.

We plan to open one Audi 4S dealership store in Yangzhou in Jiangsu Province. The economy of Yangzhou has experienced rapid growth in recent years. The nominal GDP and nominal GDP per capita of Yangzhou both increased at a CAGR of approximately 16% from 2007 to 2013. The registration volume of ultra-luxury and luxury passenger vehicles in Yangzhou increased at a CAGR of 52.2% from 2007 to 2012, and is expected to continue to grow at an accelerated pace in the following years.

As of the Latest Practicable Date, we operated one Volkswagen Imported 4S dealership store in Suzhou. As of December 31, 2013, there were a total of 41 luxury and ultra-luxury automobile dealership outlets in Suzhou and 12 luxury and ultra-luxury automobile dealership outlets in Yangzhou.

Beijing is the traditional stronghold for ultra-luxury and luxury passenger vehicles in the PRC, with a well-developed economy and residents with high incomes. In 2012, Beijing ranked second in terms of its per capita annual disposable income for urban residents, and contributed 8.5% to the total registration volume of ultra-luxury and luxury passenger vehicles in the PRC. As of December 31, 2013, there were a total of 150 luxury and ultra-luxury brand dealership outlets in Beijing.

## OUR BUSINESS

The following table sets forth the number of dealership outlets of major luxury and ultra-luxury brands by geographic regions as of December 31, 2013:

	Northwestern China <sup>(1)</sup>	Suzhou	Yangzhou	Beijing
Porsche .....	2	1	—	5
Audi .....	14	5	1	22
Bentley/Ferrari/Maserati .....	5	3	—	7
Cadillac .....	8	3	1	6
Volkswagen Imported .....	18	3	1	6
Lexus .....	5	2	—	5

Source: ACMR

Note:

(1) Cities include Xi'an, Yinchuan, Yulin, Yan'an and Urumqi.

### Rapid growth in premium passenger vehicle markets

According to ACMR, the PRC passenger vehicle market can be generally segmented into four brand categories: (i) ultra-luxury, (ii) luxury, (iii) middle market and (iv) low-end. The categorization is based on, among other things, price range, brand positioning and brand awareness of passenger vehicles.

The guiding price range for the ultra-luxury segment is above RMB1 million. Representative brands in this segment include Bentley, Ferrari, Lamborghini, Maserati, Porsche and Rolls-Royce. The guiding price range for the luxury segment is between RMB300,000 and RMB1 million. Representative brands in this segment include Acura, Audi, BMW, Cadillac, Infiniti, Jaguar, Lexus, Mercedes-Benz and Volkswagen imported. The guiding price range for the middle market segment is between RMB80,000 and RMB300,000. Representative brands in this segment include Ford, Honda, Mazda, Nissan, Peugeot, Toyota and Volkswagen. The guiding price range for the low-end market segment is below RMB80,000. Representative brands in this segment include BYD, Chery, Dongfeng, Geely, Great Wall, JAC, Suzuki and Xiali.

Driven by the increasing purchasing power of customers, sales of ultra-luxury and luxury passenger vehicles, together known as premium passenger vehicles, as well as middle market passenger vehicles, have experienced rapid growth in China in the past several years. The sales volume of ultra-luxury brand passenger vehicles increased from 5,022 units in 2007 to 50,357 units in 2013, representing a CAGR of 46.8%, according to ACMR. For luxury brand passenger vehicles, the sales volume increased from approximately 0.2 million units in 2007 to approximately 1.7 million units in 2013, representing a CAGR of 41.3%, according to ACMR. The sales volume of middle market brand passenger vehicles grew from 3.13 million units in 2007 to 10.78 million units in 2013, representing a CAGR of 22.9%, according to ACMR. ACMR forecasts that China's ultra-luxury and luxury car market will continue to grow at a CAGR of 23.4% and 17.7%, respectively, from 2014 to 2017 in term of sales volume. Separately, ACMR forecasts that China's ultra-luxury and luxury car market will grow at a CAGR of 22.2% and 13.9%, respectively, from 2014 to 2017 in terms of sales revenue.

## OUR BUSINESS

### Sales volume of passenger vehicles in the PRC ('000 units)

	2007	2008	2009	2010	2011	2012	2013	CAGR	2014E	2015E	2016E	2017E
Ultra-luxury brands . . . . .	5	11	10	16	32	41	50	46.8%	67	79	103	126
Luxury brands . . . . .	219	330	362	711	1,102	1,434	1,745	41.3%	2,166	2,699	3,088	3,535
Middle market brands . . . . .	3,134	3,995	4,751	6,815	8,602	9,243	10,777	22.9%	11,811	12,806	13,970	15,388
Others . . . . .	2,223	1,724	3,627	4,609	3,494	3,603	4,778	13.6%	5,036	5,306	5,629	5,691
<b>Total passenger cars . . . . .</b>	<b>5,580</b>	<b>6,060</b>	<b>8,750</b>	<b>12,150</b>	<b>13,230</b>	<b>14,320</b>	<b>17,350</b>	<b>20.8%</b>	<b>19,080</b>	<b>20,890</b>	<b>22,790</b>	<b>24,740</b>

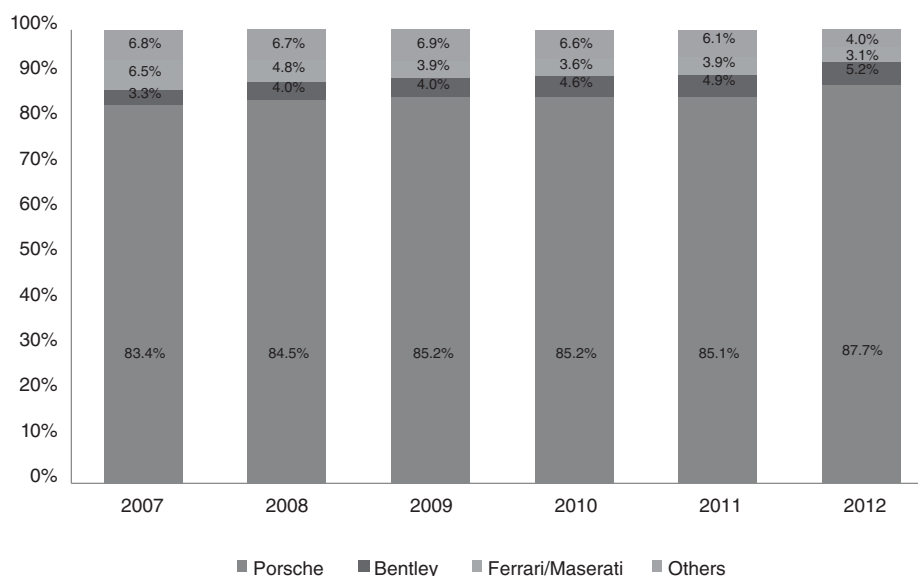
### Sales revenue of passenger vehicles in the PRC (RMB billion)

	2007	2008	2009	2010	2011	2012	2013	CAGR	2014E	2015E	2016E	2017E
Ultra-luxury brands . . . . .	7	11	11	21	40	53	62	43.7%	84	98	126	152
Luxury brands . . . . .	142	183	217	401	586	689	845	34.6%	1,011	1,210	1,346	1,493
Middle market brands . . . . .	514	535	684	975	1,135	1,208	1,438	18.7%	1,556	1,629	1,761	1,905
Others . . . . .	107	77	173	231	157	170	223	13.1%	230	238	255	259
<b>Total passenger cars . . . . .</b>	<b>770</b>	<b>806</b>	<b>1,085</b>	<b>1,628</b>	<b>1,918</b>	<b>2,120</b>	<b>2,568</b>	<b>22.2%</b>	<b>2,881</b>	<b>3,175</b>	<b>3,487</b>	<b>3,810</b>

### Key players in the PRC premium passenger vehicle markets

The premium passenger vehicle segment is characterized by the concentration of market share in a small number of brands. The premium passenger vehicle market in the PRC is dominated by European automakers, with Volkswagen Group (including Porsche, Bentley, Bugatti, Lamborghini, Audi and Volkswagen Imported) being the No.1 player in terms of sales volume and accounting for approximately 38.3% of the total sales volume of the premium market in 2012. Among these brands, Porsche had the largest market share 87.7% of China's ultra-luxury market in 2012, while Audi had the largest market share 30.4% of China's luxury market in 2012. The following chart sets forth the breakdown of the sales volume of ultra-luxury passenger vehicles by brand in China for the periods indicated.

### Ultra-luxury Passenger Vehicles Sales Volume Breakdown by Brand in the PRC

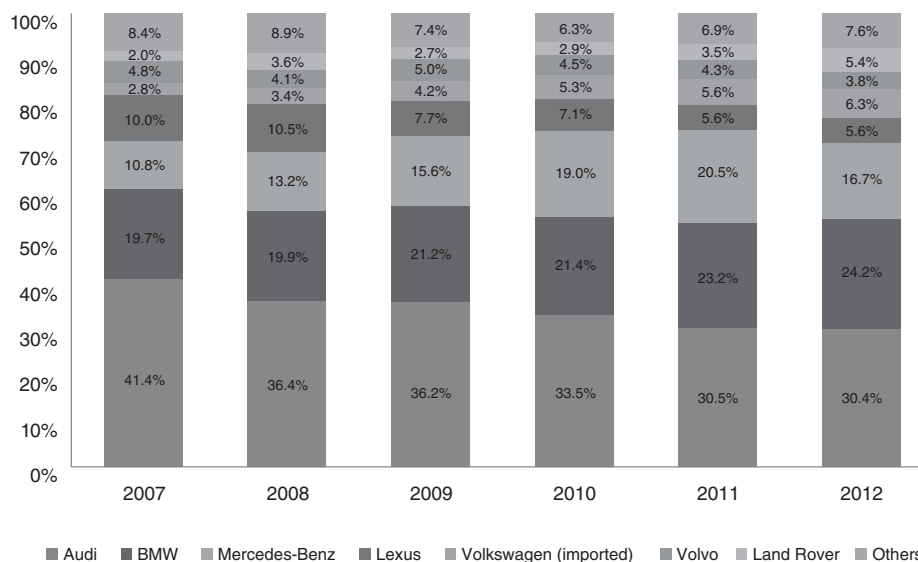


Source: ACMR

## OUR BUSINESS

The following chart sets forth the breakdown of sales volume of luxury passenger vehicles by brand in China for the periods indicated.

**Luxury Passenger Vehicles Sales Volume Breakdown by Brand in the PRC**



Source: ACMR

In addition, certain select brands achieved a higher growth rate in China than they did globally. The following chart sets forth the CAGR of each brand in Northwestern China, China and globally from 2010 to 2012.

**2010–2012 CAGR of sales volume in Northwestern China, China and globally by select brands**

Brands	Northwestern China	China	Global
Audi .....	44%	34%	15%
Bentley .....	104%	66%	29%
Cadillac .....	65%	32%	3%
Ferrari/Maserati .....	60%	39%	5%
Lexus .....	35%	12%	8%
Mercedes-Benz .....	53%	15%	6%
Porsche .....	61%	45%	21%
Volkswagen Imported .....	102%	38%	13% <sup>(1)</sup>

Source: ACMR

Note:

(1) Refers to Volkswagen.



## OUR BUSINESS

### Overview of the PRC automobile dealership market

The dominant retail platform in the PRC passenger vehicle market is specialized automobile dealerships, known as “4S dealerships,” where 4S refers to sales, spare parts, service and survey.

*4S dealership is the major retail platform for the PRC passenger vehicle market*

The 4S dealership retail platform was introduced to China in the mid-1990s. The dominance of the 4S dealership as the established retail platform was driven by the Measures for the Implementation of the Administration of Branded Automobile Sales 《汽車品牌銷售管理實施辦法》 (the “Automobile Sales Measures”) promulgated by MOFCOM in February 2005. The Automobile Sales Measures stipulate that all automobile dealers must obtain permission from automakers before retailing the brands of the automobile manufacturers. As a result, other types of automobile sales platforms such as automobile trading markets and automobile supermarkets diminished in importance. From 2007 to 2013, total new passenger vehicle sales through 4S dealerships grew from approximately RMB731.5 billion to RMB2,567.8 billion, accounting for 95.0% and 100.0% of total new passenger vehicle sales, respectively, representing a CAGR of approximately 23.3%. It is expected that total passenger vehicle sales through 4S dealerships will continue to grow from approximately RMB2,881.0 billion in 2014 to RMB3,809.9 billion in 2017, representing a CAGR of 9.8%.

The following table illustrates the historical and projected 4S dealership revenue breakdown in China for the periods indicated:

**Total 4S dealership revenue breakdown (2007-2017E)**  
(RMB billions)

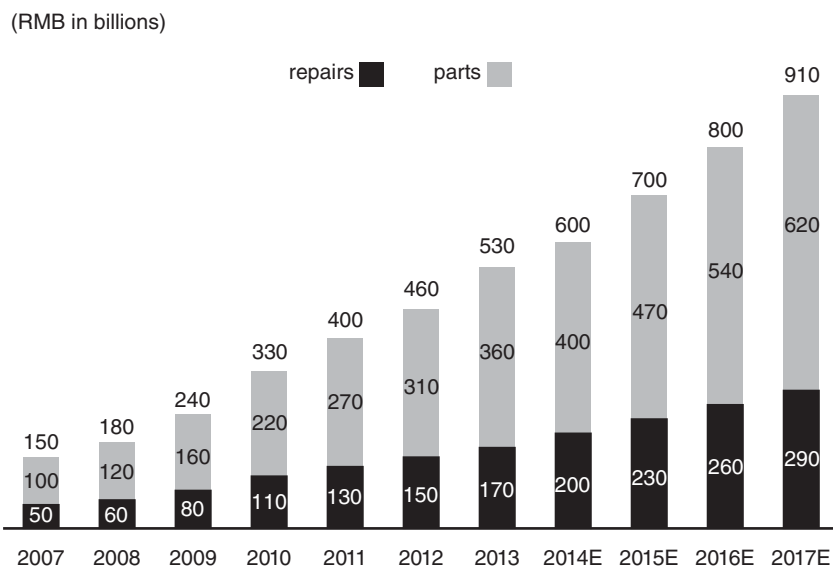
	2007	2008	2009	2010	2011	2012	2013	CAGR	2014E	2015E	2016E	2017E
New car sales . . . . .	731.5	788.9	1,073.4	1,628.1	1,918.4	2,119.5	2,567.8	23.3%	2,881.0	3,175.2	3,486.8	3,809.9
After sales services . . . . .	60.0	72.0	108.0	167.4	218.0	294.5	355.0	34.5%	410.0	480.0	550.0	630.0
Other . . . . .	13.4	21.4	27.5	39.6	43.6	48.7	56.2	27.0%	66.0	78.0	93.5	113.0
<b>Total 4S revenue . . . . .</b>	<b>804.9</b>	<b>882.3</b>	<b>1,208.9</b>	<b>1,835.1</b>	<b>2,180</b>	<b>2,462.7</b>	<b>2,979.0</b>	<b>24.4%</b>	<b>3,357.0</b>	<b>3,733.2</b>	<b>4,130.3</b>	<b>4,552.9</b>

### The rise of after-sales services, particularly in the ultra-luxury and luxury segment

The major after-sales service providers in China include 4S dealership stores, small-scale service centers and franchises. ACMR expects that 4S dealership stores will become the dominant after-sales service providers in China. As the purchasing power of customers expands over time, the aftermarket service business is expected to become a more significant contributor to the profits of dealership groups. According to ACMR, the after-sales market grew from RMB150 billion in 2007 to RMB530 billion in 2013, representing a CAGR of 23.4%. It is expected that the after-sales market will continue to grow from RMB600 billion in 2014 to RMB910 billion in 2017, representing a CAGR of 14.9%.

## OUR BUSINESS

The following chart illustrates the historical and projected after-sales market in China for the periods indicated:



Source: ACMR

### *Consolidation opportunities in the highly fragmented market boosts the automobile dealership market*

Automobile distributors have been looking to expand their 4S dealership networks and market share after acquiring capital investment. One option is to leverage on existing relationships with automobile suppliers and customers to set up new outlets. Another option is to look for consolidation opportunities, which may be an effective way to expand brand portfolio and geographic coverage given the fragmented automobile dealership market.

As of December 31, 2013, the total number of 4S dealership stores in the PRC was approximately 30,000, with Northwestern China's contribution rate relatively low at 7.2%, which indicates high growth potential.

### **Geographic Spread of Automobile Dealerships by Number of 4S Dealership Stores as of December 31, 2013**

Region	Share
Northern China . . . . .	15.5%
Northeastern China . . . . .	8.2%
Eastern China . . . . .	35.4%
Middle Southern China . . . . .	23.1%
Southwestern China . . . . .	10.6%
Northwestern China . . . . .	7.2%
<b>National . . . . .</b>	<b>100.0%</b>

Source: ACMR

## OUR BUSINESS

According to ACMR, we were the second largest luxury and ultra-luxury automobile dealership group in Northwestern China in terms of the number of dealership outlets for luxury and ultra-luxury automobile brands as of December 31, 2013.

The following table sets forth the top five premium automobile dealerships in Northwestern China by the number of dealership outlets as of December 31, 2013.

No.	Company name	Major Dealership Regions	Major Premium Automobile Brands	Dealership outlets for premium automobiles
1	Company A	Xinjiang, Gansu, Qinghai	Volvo, Minicooper, Cadillac, Volkswagen Imported, Audi, Lexus, Acura	24
2	Sunfonda Automobile Group	Shaanxi, Gansu, Ningxia	Porsche, Bentley, Audi, Cadillac, Lexus, Volkswagen Imported	17
4	Company C	Shaanxi, Gansu, Xinjiang	Mercedes-Benz, Audi, LandRover, Jaguar, Chrysler, Brabus	10
4	Company D	Xinjiang, Gansu, Shaanxi, Ningxia	LandRover, Jaguar	10
5	Company E	Xinjiang, Gansu, Qinghai, Shaanxi	Mercedes-Benz	9

Source: ACMR

### Passenger vehicle after-sales market in the PRC

Private consumption of passenger vehicles is a key driver for the growth of the passenger vehicle after-sales service industry. According to the National Bureau of Statistics of China, privately owned passenger vehicles accounted for 14.8% of total passenger vehicles nationwide in 1990, which increased to 85% in 2010. In 2012, the number of privately owned passenger vehicles increased to 53.1 million units, or by 22.8%, when compared to 2011. As private automobile owners have specific demands for brands, functions and individualized characteristics, the development of the automobile after-sales market is driven by the increase in private automobile owners. In 2013, revenue from automobile after-sales service in China was approximately RMB530.0 billion, more than tripling the amount earned in 2007 which was RMB150.0 billion.

Revenue from the PRC passenger vehicle after-sales market through 4S dealerships expanded from RMB108.0 billion in 2009 to RMB355.0 billion in 2013, representing a CAGR of 34.5%. The portion of revenue generated from after-sales services out of the total revenue of the automobile dealership industry in the PRC has also increased from 9% in 2009 to 12% in 2013.

### Recent developments

Since 2012, a series of measures under the Twelfth Five-year Plan, including quickly launching major investment projects, optimizing export trade policies, promoting structural tax reduction, strengthening financial services and reducing enterprise cost burdens, have played an important role in stabilizing economic growth. In addition, the PBOC reduced the one-year benchmark lending rate twice in 2012 by 0.25% and 0.31% respectively, which helped to bring down automobile finance costs, as well as the interest on automobile loans.

## OUR BUSINESS

On May 9, 2013, the NDRC and the MOFCOM jointly announced the Catalogue of Priority Industries for Foreign Investment in Central and Western China (Revised in 2013) (中西部地區外商投資優勢產業目錄(2013年修訂)), which became effective in June 2013). According to this catalogue, the automobile manufacturing industry is listed as an encouraged industry in Northwestern China, including Shaanxi Province, Gansu Province, Xinjiang, Qinghai Province and Ningxia, which we believe will be favorable to our business.

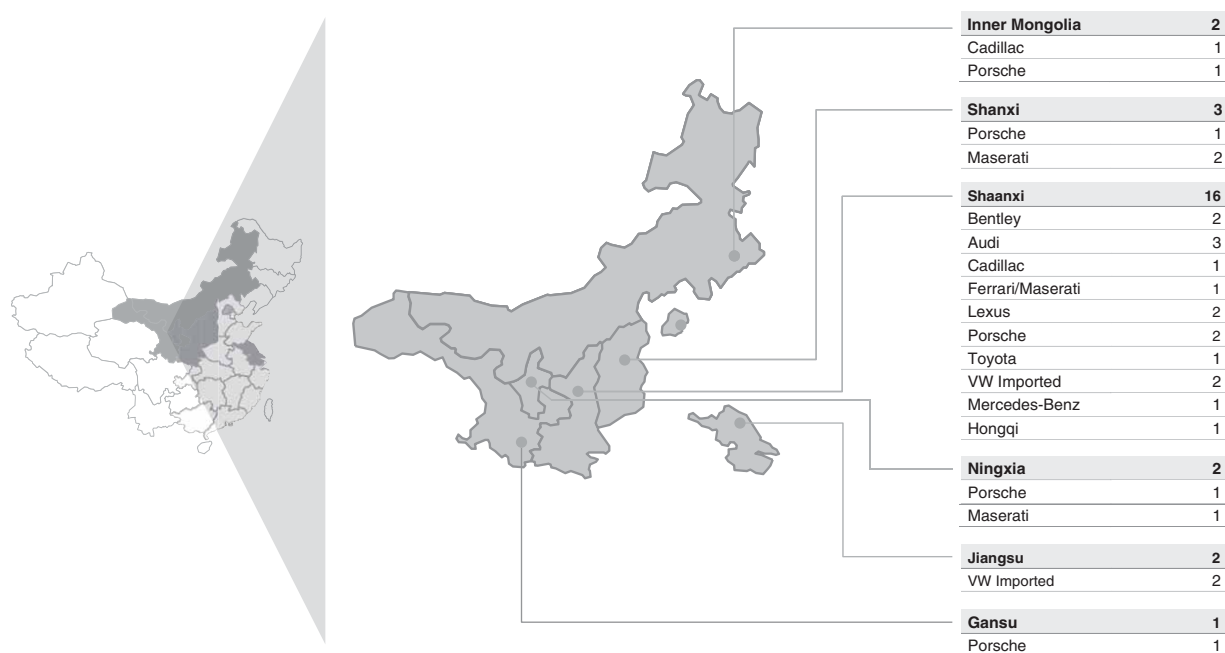
Due to the dispute over the Diaoyu Islands, the sales volume of Japanese automobiles in China declined rapidly. The sales volume of Japanese automobiles decreased to 2.5 million units for 2012 from 2.8 million units for 2011. The sales performance of Japanese automobiles continued to decrease in the first half of 2013 in the PRC, and started to recover in the third quarter of 2013. The sales volume of Japanese automobile was approximately 701,800 units in the third quarter of 2013, higher than 594,000 units and 686,900 units in the first quarter and the second quarter of 2013, respectively.

Our Directors have confirmed that the recent developments in the PRC automobile dealership market have not had any material adverse impact on our operations and financial condition.

### OUR DEALERSHIP BUSINESSES

We were the second largest luxury and ultra-luxury automobile dealership group in Northwestern China in terms of the number of dealership outlets for luxury and ultra-luxury automobile brands as of December 31, 2013, according to ACMR.

The map below sets forth the geographic distribution of our existing outlets as of the Latest Practicable Date:



We have expanded our dealership network through steady organic growth, with the number of our outlets more than doubling since 2009 due to the increase in the number of luxury and ultra-luxury automobile brands. As of the Latest Practicable Date, we had 17 4S dealership stores, eight showrooms and one service center. In China, the majority of automobiles are retailed through 4S dealership stores. Our showrooms only provide for sales of automobiles.

## OUR BUSINESS

The following table sets forth the number of our outlets as of the dates indicated:

	As of December 31,			As of the Latest Practicable Date
	2011	2012	2013	
<b>Ultra-luxury Brands</b>				
Porsche . . . . .	2	4	6	6
Bentley . . . . .	1	2	2	2
Ferrari/Maserati <sup>(1)</sup> . . . . .	—	1	1	4
<i>Subtotal</i> . . . . .	3	7	9	12
<b>Luxury Brands</b>				
Audi . . . . .	2	3	3	3
Volkswagen Imported <sup>(2)</sup> . . . . .	2	4	4	4
Mercedes-Benz . . . . .	—	—	1	1
Cadillac . . . . .	2	2	2	2
Lexus . . . . .	2	2	2	2
Chrysler <sup>(3)</sup> . . . . .	—	1	—	—
Hongqi . . . . .	—	—	1	1
<i>Subtotal</i> . . . . .	8	12	13	13
<b>Middle Market Brand</b>				
Toyota . . . . .	1	1	1	1
<i>Subtotal</i> . . . . .	1	1	1	1
<b>Total</b> . . . . .	<u>12</u>	<u>20</u>	<u>23</u>	<u>26</u>

*Note:*

- (1) We commenced the trial operation of the Ferrari/Maserati outlet in Xi'an in November 2012 and formally launched the outlet in April 2013.
- (2) We commenced trial operation of one Volkswagen Imported outlet in Suzhou in December 2012, and formally launched the outlet in May 2013. In June 2013, we disposed of our Volkswagen Imported outlet in Yangzhou, in Jiangsu Province. For more details, see “— Our Outlets — Dealership Arrangements”.
- (3) In August 2013, we terminated the operations of our Chrysler showroom in Yulin in Shaanxi Province after a trial operation. For more details, see “— Our Outlets — Dealership Arrangements”.

We offer a comprehensive range of automobile sales and services, including (i) sale of new automobiles, both imported and domestically manufactured, and (ii) after-sales services, including maintenance and repair services, sales of spare parts and automobile detailing services. We also provide other value-added services, such as automobile insurance agency services, automobile financing services, automobile licensing services and automobile survey services.

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

	Year ended December 31,						
	2011		2012		2013		CAGR on revenue
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
Automobile Sales							
— Luxury and ultra-luxury brands . . .	4,410,970	82.5	6,122,318	85.0	6,308,165	84.9	19.6
— Middle market brand . . . . .	556,514	10.4	496,951	6.9	431,200	5.8	(12.0)
<i>Subtotal</i> . . . . .	4,967,484	92.9	6,619,269	91.9	6,739,365	90.7	16.5
After-sales services . . . . .	380,920	7.1	585,963	8.1	693,334	9.3	34.9
<b>Total</b> . . . . .	<u>5,348,404</u>	<u>100.0</u>	<u>7,205,232</u>	<u>100.0</u>	<u>7,432,699</u>	<u>100.0</u>	<u>17.9</u>

## OUR BUSINESS

### OUR OUTLETS

We started our automobile dealership business by establishing our first Audi 4S dealership store in Xi'an in Shaanxi Province in 2002 and have, over the last two years, managed to expand the geographic coverage of our dealership network to Shanxi Province and Inner Mongolia. As of the Latest Practicable Date, among our 26 outlets in operation, 24 were located in Shaanxi Province, Inner Mongolia, Shanxi Province, Gansu Province and Ningxia, where we see an increasing yet unmet demand for ultra-luxury and luxury automobiles. Such an increase in demand primarily reflects the growing affluent population in the region.

The following table sets forth our revenue breakdown by region for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	<i>Amount</i>	%	<i>Amount</i>	%	<i>Amount</i>	%
	<i>(RMB'000, except percentages)</i>					
Shaanxi . . . . .	4,919,429	92.0	6,014,562	83.5	5,961,360	80.2
Others <sup>(1)</sup> . . . . .	428,975	8.0	1,190,670	16.5	1,471,339	19.8
<b>Total</b> . . . . .	<b><u>5,348,404</u></b>	<b><u>100.0</u></b>	<b><u>7,205,232</u></b>	<b><u>100.0</u></b>	<b><u>7,432,699</u></b>	<b><u>100.0</u></b>

Note:

(1) Others include Shanxi Province, Inner Mongolia, Gansu Province and Jiangsu Province.

As of the Latest Practicable Date, we had 15 outlets in Xi'an. Revenue generated by our outlets located in Xi'an accounted for 74.8% of our total revenue for 2013.

In addition, by leveraging on our established relationship with the Volkswagen Group and its portfolio brand companies, we expanded into the populous and affluent Yangtze River Delta by opening one Volkswagen Imported showroom in Wuxi in Jiangsu Province, and we plan to open one Audi 4S dealership store in Yangzhou in Jiangsu Province, one Volkswagen Imported 4S dealership store in Wuxi in Jiangsu Province, and one Volkswagen Imported showroom and one Chrysler 4S dealership store in Suzhou in Jiangsu Province.

The following table sets forth the details of our outlets as of the Latest Practicable Date:

Outlets	Location	Operation Commencement	Dealership Expiration Date	Land Status	Reference under the paragraph headed "Our Properties"
<b>Ultra-luxury Brand Outlets</b>					
<b>Porsche</b>					
Shaanxi Xinjie . . . . .	Xi'an, Shaanxi	Mar. 2007	Jul. 2014 <sup>(2)</sup>	Self-owned	N/A
Shanxi Yingjie . . . . .	Taiyuan, Shanxi	Nov. 2010	Dec. 2014 <sup>(2)</sup>	Leased	Leased Property 6
Ordos Sunfonda Xinjie . . . . .	Ordos, Inner Mongolia	Feb. 2012	Dec. 2014 <sup>(2)</sup>	Self-owned	N/A
Lanzhou Sunfonda . . . . .	Lanzhou, Gansu	July. 2012	Dec. 2014	Self-owned	N/A
Shaanxi Xinjie <sup>(1)</sup> . . . . .	Xi'an, Shaanxi	Dec. 2013	Jul. 2014	Self-owned	N/A
Ningxia Sunfonda Xinjie . . . . .	Yinchuan, Ningxia	Dec. 2013	Unspecified <sup>(8)</sup>	Leased	Leased Property 4
<b>Bentley</b>					
Shaanxi Sunfonda Bentley <sup>(1)</sup> . . . . .	Xi'an, Shaanxi	Sept. 2011	Unspecified <sup>(3)</sup>	Leased	N/A
Shaanxi Sunfonda Bentley . . . . .	Xi'an, Shaanxi	Aug. 2012	Unspecified <sup>(3)</sup>	Self-owned	N/A
<b>Ferrari/Maserati</b>					
Shaanxi Sunfonda Junmei <sup>(1)(6)</sup> . . . . .	Xi'an, Shaanxi	Nov. 2012	Unspecified <sup>(4)</sup>	Leased	Leased Property 5
Shanxi Sunfonda Junmei <sup>(1)(9)</sup> . . . . .	Taiyuan, Shanxi	Mar. 2014	Unspecified <sup>(11)</sup>	Leased	Leased Property 3
Shanxi Sunfonda Junmei <sup>(9)(10)</sup> . . . . .	Taiyuan, Shanxi	Mar. 2014	Unspecified <sup>(11)</sup>	Leased	N/A
Ningxia Sunfonda Junmei <sup>(9)</sup> . . . . .	Yinchuan, Ningxia	Mar. 2014	Unspecified <sup>(11)</sup>	Leased	N/A

## OUR BUSINESS

Outlets	Location	Operation Commencement	Dealership Expiration Date	Land Status	Reference under the paragraph headed "Our Properties"
<b>Luxury Brand Outlets</b>					
<b>Audi</b>					
Shaanxi Sunfonda . . . . .	Xi'an, Shaanxi	May 2002	Sept. 2015	Self-owned	Owned Property 1
Shaanxi Sunfonda Boao . . . . .	Xi'an, Shaanxi	Sept. 2011	Sept. 2015	Self-owned	N/A
Yan'an Sunfonda Boao . . . . .	Yan'an, Shaanxi	Feb. 2012	May. 2014	Leased	Leased Property 7
<b>Volkswagen Imported</b>					
Shaanxi Sunfonda Technology <sup>(1)</sup> . . . . .	Xi'an, Shaanxi	Nov. 2005	Unspecified <sup>(5)</sup>	Leased	N/A
Shaanxi Sunfonda Technology . . . . .	Xi'an, Shaanxi	Mar. 2011	Unspecified <sup>(5)</sup>	Self-owned	N/A
Suzhou Sunfonda <sup>(7)</sup> . . . . .	Suzhou, Jiangsu	Dec. 2012	Unspecified <sup>(5)</sup>	Self-owned	N/A
Wuxi Sunfonda Dehui <sup>(1)</sup> . . . . .	Wuxi, Jiangsu	Nov. 2013	Unspecified <sup>(8)</sup>	Leased	N/A
<b>Mercedes-Benz</b>					
Xi'an Sunfonda Star . . . . .	Xi'an, Shaanxi	Dec. 2013	Unspecified <sup>(8)</sup>	Self-owned	N/A
<b>Cadillac</b>					
Shaanxi Kaisheng . . . . .	Xi'an, Shaanxi	Jan. 2007	Mar. 2014	Self-owned	N/A
Ordos Sunfonda Kaisheng . . . . .	Ordos, Inner Mongolia	Dec. 2011	Mar. 2014	Self-owned	N/A
<b>Lexus</b>					
Xi'an Junsheng . . . . .	Xi'an, Shaanxi	Jan. 2008	Apr. 2014	Self-owned	N/A
Xi'an Junsheng <sup>(1)</sup> . . . . .	Xi'an, Shaanxi	Jul. 2011	Apr. 2014	Leased	Leased Property 1
<b>Hongqi</b>					
Xi'an Hongqi <sup>(1)</sup> . . . . .	Xi'an, Shaanxi	Nov. 2013	Unspecified <sup>(8)</sup>	Leased	Leased Property 2
<b>Middle Market Brand Outlets</b>					
<b>Toyota</b>					
Xi'an Xinmingyang . . . . .	Xi'an, Shaanxi	Jun. 2006	(i) Mar. 2015 for FAW Toyota (ii) Dec. 2014 for Toyota imported <sup>(5)</sup>	Self-owned	N/A

**Notes:**

- (1) Showroom only.
- (2) Such dealership authorization agreements have a term of approximately one to two years and will be automatically extended upon expiration. These dealership authorization agreements can be terminated by a three-month advance written notice by any party, and the termination will become effective upon expiration of the respective dealership authorization agreements.
- (3) Such dealership authorization agreement can be terminated by a 12-month advance written notice.
- (4) Such dealership authorization agreement can be terminated by a 180-day advance notice by any party or a 90-day advance notice by the automobile supplier.
- (5) Such dealership authorization agreements can be terminated by a three-month advance written notice by any party, and termination will become effective on the anniversary of the signing dates of the respective dealership authorization agreements immediately following the written notice.
- (6) We commenced the trial operation in November 2012.
- (7) We commenced the trial operation in December 2012.
- (8) Such dealership authorization agreements do not provide for a term or a method of termination.
- (9) These are for Maserati only.
- (10) This is a service center.
- (11) We commenced the trial operations of these outlets.

Since our inception, none of our dealership authorization agreements have been terminated by our automobile suppliers and we have been able to renew all of our dealership authorization agreements upon expiration. We do not expect any of our dealership authorization agreements to be terminated in the next 12 months.

## OUR BUSINESS

As part of our expansion plan and in order to further strengthen our market presence, we plan to open 11 new outlets by the end of 2014, including four outlets for such luxury and ultra-luxury brands as Ferrari/Maserati, Audi, Volkswagen Imported and Hongqi in Northwestern China, one Volkswagen Imported 4S dealership store in Taiyuan in Shanxi Province, one Audi 4S dealership store in Beijing, one Volkswagen Imported 4S dealership store in Wuxi in Jiangsu Province, one Audi 4S dealership store in Yangzhou in Jiangsu Province, one Volkswagen Imported showroom, one Chrysler 4S dealership store in Suzhou in Jiangsu Province and one 4S dealership store for Shanghai Volkswagen, a middle market brand, in Xi'an in Shaanxi Province by the end of 2014.

The following table sets forth the details of our planned outlets. We have entered into letters of intent for these outlets and have also commenced the construction of some of them:

Geographic Location	Brand	Store Type	Planned Commencement Date	Land Status
Taiyuan, Shanxi . . . . .	Volkswagen Imported	4S dealership store	Fourth quarter of 2014	Self-owned <sup>(1)</sup>
Xi'an, Shaanxi . . . . .	Ferrari/Maserati	4S dealership store	Second quarter of 2014	Self-owned
Wuxi, Jiangsu . . . . .	Volkswagen Imported	4S dealership store	Third quarter of 2014	Self-owned
Yangzhou, Jiangsu . . . . .	Audi	4S dealership store	Third quarter of 2014	Self-owned
Weinan, Shaanxi . . . . .	Audi	4S dealership store	Fourth quarter of 2014	Self-owned
Beijing . . . . .	Audi	4S dealership store	Third quarter of 2014	Self-owned <sup>(1)</sup>
Lanzhou, Gansu . . . . .	Hongqi	Showroom	Second quarter of 2014	Leased
Suzhou, Jiangsu . . . . .	Volkswagen Imported	Showroom	Third quarter of 2014	Leased
Xi'an, Shaanxi . . . . .	Volkswagen Imported	Showroom	Second quarter of 2014	Leased
Xi'an, Shaanxi . . . . .	Shanghai Volkswagen	4S dealership store	Fourth quarter of 2014	Self-owned
Suzhou, Jiangsu . . . . .	Chrysler	4S dealership store	Fourth quarter of 2014	Self-owned

*Note:*

(1) We are in the process of obtaining the relevant land use right certificates.

In addition to the 11 planned outlets, we are also in communication with the government to prepare land reserves for our future outlets. In November 2013, Sunfonda HK entered into a letter of intent with the Investment Promotion Bureau of the Chang'an District in Xi'an to develop automobile dealership outlets. Pursuant to this letter of intent, the Chang'an District government intends to provide us with a land parcel of over 13,000 square meters for the development of the Sunfonda (Chang'an) Automobile Park, where we intended to set up five dealership outlets in 2014 and five dealership outlets in 2015 with an estimated total investment of up to RMB600 million, subject to further negotiation with the Chang'an District government and potential relevant automobile suppliers. As of the Latest Practicable Date, we had not initiated the discussion with the local government regarding the development plan of this project or commenced the procedures to acquire the relevant land use rights or made any payment or committed any capital for that purpose. In addition, we had not identified or contacted any target automobile suppliers for this project. Our Directors have confirmed that our Group has not made any definitive plan to develop this project as of the Latest Practicable Date. Our Directors believe that we are facing a number of uncertainties with regard to our obligations under the letter of intent, which primarily include whether we will be able to acquire the relevant land use rights at commercially acceptable costs or at all, whether we will be able to obtain the authorizations from our target automobile suppliers and whether we will be able to develop the dealership outlets within our budget and timetable. Thus, our current business development plan has not yet included this project. As a result, our Directors believe that the greatest risk associated with this project is that, subject to the uncertainties mentioned above, we will not be able to develop the dealership outlets within the target time frame or at all. King & Wood Mallesons, our PRC legal advisors, have advised us that, although the letter of intent reflects the genuine intent to



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## OUR BUSINESS

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cooperate between Sunfonda HK and the local government, the provisions of the letter of intent is not legally binding under PRC law because (i) the development plan as set forth in the letter of intent should be subject to the approval of and/or filing with the local NDRC, while the land grant should be subject to the approval of and the execution of land use right grant contract with, the local land authorities; and (ii) the Investment Promotion Bureau of the Chang'an District is a lead government agency of the local government to promote the investment of Sunfonda HK, but it is not an appropriate entity to enter into a definitive agreement with Sunfonda HK in terms of a specific development plan or the grant of a parcel of land. King & Wood Mallesons have further advised us that, if we fail to perform the letter of intent, they do not expect any material liabilities to be imposed on us as the letter of intent does not provide for any liabilities in the event that any party fails to carry out its responsibilities. If we eventually plan to carry out this project, we intend to finance the development through cash generated from our operations and bank and other borrowings.

### **Dealership Network Expansion**

We have historically expanded our dealership network through steady organic growth and have established ourselves as a market leader in Northwestern China. Since 2012, we have also explored expansion opportunities in the Yangtze River Delta. As such, we have developed a replicable model for establishing and managing new outlets, including (i) identifying new markets and sites, (ii) applying for new dealership authorization, and (iii) recruiting, training and managing staff for new outlets.

#### ***Identification of new markets and sites***

The identification of new markets to establish new stores is primarily determined by automobile suppliers, who formulate their dealership network expansion plans every year. The automobile suppliers form their dealership network expansion plans based on their annual sales targets. Before entering into new markets, automobile suppliers will consider a number of factors, such as the penetration rate of passenger automobiles, the local economic condition and growth potential. The automobile suppliers also leverage on the market intelligence provided by automobile dealerships to facilitate the formation of their dealership network expansion strategies.

We have established a network expansion department which is responsible for formulating our network expansion strategy and planning and establishing new outlets. We conduct market surveys to identify new markets with growth potential and seek opportunities to secure land parcels for our new outlets in these markets. From time to time, by leveraging our in-depth knowledge of the regions where we operate, we also recommend new markets that we believe have growth potential to the automobile suppliers.

In determining the venue for a new store, we take into account different factors, such as:

- visibility, convenience and ease of access;
- traffic flow and proximity to other automobile outlets;
- population density and growth and development potential;
- automobile consumption patterns and automobile ownership rates;

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## OUR BUSINESS

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- local disposable income per capita and spending power of targeted customers; and
- our relationship with the local business community and local authorities.

To ensure the stable and sustainable operations of a new outlet, we generally prefer to purchase the land use rights of the new store venue rather than lease from third parties. We believe this strategy gives us a competitive advantage over other dealerships during the selection of dealerships by automobile suppliers.

As of the Latest Practicable Date, of our 26 outlets in operation, 14 were located on land to which we own the land use rights. As of December 31, 2013, the total land area used by us was 263,926 square meters, of which we owned the land use rights to land parcels with a total area of 179,600 square meters, accounting for approximately 68.0% of the total land used by us. We have not sold any land use rights owned by us since we commenced our automobile dealership business.

The following table sets forth (i) the average amortization of land use rights and depreciation of properties per outlet located on our self-owned land and in operation and (ii) the average rental rates and depreciation of properties per outlet located on leased land and in operation for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB in millions)</i>		
Outlets on self-owned land . . . . .	1.2	1.2	1.5
Outlets on leased land . . . . .	1.4	1.9	1.8

During the Track Record Period, capital expenditure on outlets located on self-owned land and in operation, which primarily comprises expenditures on buildings, equipment and land use rights, ranged from RMB23.3 million to RMB118.8 million, and capital expenditure on outlets located on leased land and in operation, which primarily comprises expenditures on buildings and equipment, ranged from RMB48.4 million to RMB49.8 million.

We believe our large land reserve helps to ensure the sustainable operation of our outlets in the long run. Luxury and ultra-luxury automobile suppliers typically choose to grant dealership authorization to the dealerships possessing the land use rights of the new store venue. In addition, our large land reserve enables us to control our operating costs in the long run. Furthermore, we can obtain mid- to long-term loans from banks by pledging our land use rights, which provides us with easy access to stable external financing and lower financing costs when compared to unsecured loans.

### ***Dealership authorization***

To obtain a license for a new outlet, we are required to submit to the automobile supplier a proposal which sets forth our own market analysis and business plan. After the automobile supplier reviews and compares proposals from various applicants, it will identify the candidates to whom a new dealership authorization may be granted. The automobile supplier will then carry out on-site inspections, including visiting the venue of the potential store and interviewing the management team candidates of the new store. The candidates who pass the on-site inspection will have one to two rounds of interviews with the senior management of the automobile

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## OUR BUSINESS

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suppliers. After the interviews, the automobile manufacturer will select the authorized dealer for its new store. This process typically takes approximately three months.

Once we are selected as the dealer for a new outlet, we will enter into a non-binding letter of intent with the automobile supplier, which typically sets forth a detailed time frame to establish the new store, the minimum capital expenditures and the qualifications of the management team members of the new store. The automobile supplier will also provide detailed guidelines for the establishment of the new outlet, including standards governing the internal and external decorations, the display of the automobile supplier's logos and vehicles and the time frame for the construction and launch of the new outlet. In addition, the automobile supplier will provide us with its proprietary information technology system, which is installed in our outlets to track our sales and inventories and collect customer information. A new outlet must pass the automobile supplier's inspection and obtain its formal authorization before it can commence operations. The time required to establish a new store varies in different areas, typically ranging from six to 12 months. Since our inception, we have never failed to obtain the formal authorizations for our outlets built according to non-binding letters of intent.

### ***Training, staffing and management***

Prior to the launch of a new outlet, the automobile supplier will require all of the outlet's key personnel, including the outlet manager, managers of marketing, sales, after-sales services and financing, as well as the chief technician, to attend its mandatory training programs.

We typically staff a new outlet with an experienced store manager and trained sales and after-sales personnel from our existing stores. By leveraging their experience and skills, we can promptly ramp up a new store's operations. It typically takes six to eight months for a new outlet to break even, and 12 to 18 months for a new outlet to fully ramp up its operations. We also provide on-the-job training to the personnel at our new outlets. We usually staff the personnel at new stores from an existing outlet which has had strong automobile sales and after-sales volume for at least six months. During on-the-job training, we usually appoint an experienced staff member to supervise and assist each new personnel on a daily basis. After the launch of the new outlet, the supervisor will provide continuous assistance for three months. We believe our talent pool of over 150 professionals certified by our automobile suppliers across various areas of our operations further gives us flexibility in deploying our personnel, allowing us to launch and ramp up the operations of new stores quickly and appropriately.

We apply a centralized system to manage our outlets. At the beginning of every year, we set our Group's overall annual targets, which include sales and service volumes, revenue and various operational and financial targets. Based on these annual targets, we set monthly operating targets for each outlet. We review the annual and monthly targets from time to time and timely adjust these targets in response to market changes.

We carry out comprehensive internal audits to identify our operating flaws and improve our operations. Conducted on a quarterly basis, the internal audits cover areas such as new automobile sales, after-sales services, marketing, administration, financing and accounting and human resources. In addition, our various business units also carry out special audits of their relevant functions.

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## OUR BUSINESS

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Furthermore, the automobile suppliers require us to install their proprietary information systems in our outlets to track our sales performance and inventories and to collect customer information. In addition, we employ a centralized ERP system which provides our headquarters with real-time information regarding our cash levels and accounts, as well as sales and inventory levels of different automobile models at each of our outlets.

### Dealership Arrangements

All of our outlets are subject to a non-exclusive dealership authorization arrangement with one automobile supplier to offer only the products of and services for one or more brands of that automobile supplier. We have entered into dealership authorization agreements with the suppliers of Bentley, Audi, Porsche, Volkswagen Imported, Ferrari/Maserati, Cadillac, Lexus and Toyota.

Under these agreements, the automobile suppliers specify the locations of our outlets and require us to observe their recommended pricing guidelines from time to time. Their representatives conduct site-visits, including unscheduled visits, to inspect the compliance of our outlets with their requirements. The automobile suppliers will set sales targets for us, regularly evaluate our performance and customer satisfaction levels, and conduct regular audits. Under our existing dealership authorization agreements, the automobile suppliers typically require our outlets to:

- sell only the brands of automobiles and other products of certain automobile suppliers at a particular outlet;
- carry out operations only in a designated region;
- subject to certain automobile finance arrangements, make full payment for our automobile inventory prior to shipment and take ownership and assume risk for the automobiles either upon shipment or upon delivery;
- provide designated services such as automobile maintenance and repair and spare parts at our 4S dealership stores;
- carry out marketing and advertising activities for the automobile supplier's products;
- adhere to the automobile suppliers' layout and design guidelines for the outlets; and
- observe the automobile suppliers' sales policies.

The dealership authorization agreements permit our stores to use the automobile suppliers' trademarks, trade names and other marketing and branding content in ways consistent with standards set by the automobile suppliers to promote sales at our outlets.

The dealership authorization agreements usually have terms ranging from one to three years. Pursuant to these dealership authorization agreements, the automobile suppliers can terminate the agreements with written notice for certain reasons, including our failure to comply with the agreements, unapproved business relationships with other automobile suppliers and unapproved changes to our ownership or management structure that would affect our ability to meet our contractual obligations. They can also terminate the agreements without cause by giving notice in writing. The notice period ranges from three months to 12 months for termination by the automobile suppliers without cause.

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## OUR BUSINESS

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Our discussions with automobile suppliers to renew dealership authorization agreements usually start approximately one to six months before the expiration dates. For dealers that outperform others, the automobile supplier may choose to enter into a long-term dealership authorization agreement rather than renewing it every year. We expect to be able to renew all of our dealership authorization agreements before expiration.

For the dealership authorization agreements of Shaanxi Xinjie, Shanxi Yingjie and Ordos Sunfonda Xinjie, the term of these agreements ranges between approximately one to two years and can be automatically extended upon expiration if there is no termination notice served by any party. These dealership authorization agreements can be terminated by a three-month advance written notice by any party, and the termination will become effective upon expiration of the respective dealership authorization agreements. For the dealership authorization agreements of Shaanxi Sunfonda Technology and Suzhou Sunfonda, these dealership authorization agreements can be terminated by a three-month advance written notice by any party, and the termination will become effective on the anniversary of the signing dates of the respective dealership authorization agreements immediately following the written notice. For the dealership authorization agreement of Shaanxi Sunfonda Bentley, no expiration date is provided and it can be terminated by a 12-month advance written notice.

Our Chrysler showroom in Yulin in Shaanxi Province commenced its trial operation in April 2012. Due to the continuous decrease in the price of coal, the local economy of Yulin declined significantly, which in turn caused a decrease in the market demand for luxury automobiles in Yulin. As a result, we terminated the operations of this showroom in August 2013. We terminated the non-binding letter of intent with the automobile supplier without incurring any additional costs or liabilities. Revenue generated by this showroom was RMB27.5 million and RMB14.4 million, respectively, for 2012 and 2013, accounting for 0.4% and 0.2%, respectively, of our total revenue during the same periods. In addition, our Directors estimate the potential loss from closing this showroom were approximately RMB0.4 million. As such, our Directors believe the termination of this showroom will not have any material adverse impact on our results of operations or financial position. Our Directors plan to use the venue of this showroom to open an outlet of another luxury or ultra-luxury automobile brand. Despite the closure of the Chrysler outlet, we maintain a good relationship with Chrysler. We have entered into a letter of intent to open a Chrysler 4S dealership store in Suzhou in Jiangsu Province which we expect to be launched in the fourth quarter of 2014. Please see “— Our Outlets”.

In November 2012, Shaanxi Sunfonda Technology entered into an agreement with Volkswagen Group Import Company Limited, which is part of the Volkswagen Group, and became a regional distributor for certain models of automobiles under Volkswagen Imported, including Volkswagen Phaetan, Volkswagen Touareg Hybrid, Volkswagen Touareg V8 and Volkswagen Multivan, in Shaanxi Province and Yangzhou, Suzhou and Wuxi in Jiangsu Province. The authorization is non-exclusive, as Volkswagen Imported may amend the geographic coverage of the authorized regions and appoint additional regional distributors in the same region from time to time. At the time of entering into such regional distribution agreements, there were 11 non-exclusive regional distributors in China for Volkswagen Imported in 11 geographic regions without any overlap. Pursuant to the authorization agreement, we are allowed to sell these models to other authorized dealerships of Volkswagen Imported and end-user customers in the authorized regions. If there is a regional distributor in the region and an automobile dealer in such region wants to procure and sell these automobile models of Volkswagen Imported, it will have to procure the automobiles from the regional distributor in the region. As of the Latest Practicable Date, in addition to Yangzhou Sunfonda, we had five automobile dealers that were wholesales customers, all of which were Independent Third

## OUR BUSINESS

Parties. We sell automobiles to such Independent Third Party automobile dealers at prices equal to the procurement prices we paid to the automobile supplier of the Volkswagen Imported automobiles, and we receive rebates for such sales, which enable us to enjoy a positive margin. The supplier of Volkswagen Imported, and not us, is responsible for monitoring each automobile dealer's inventory level, including that of Yangzhou Sunfonda.

Since our inception, none of our dealership authorization agreements has been terminated by automobile suppliers, and we have been able to renew all of our dealership authorizations upon expiration. We do not expect any of our dealership authorization agreements to be terminated in the next 12 months.

### AUTOMOBILE SALES

We offer our customers a diversified portfolio of automobile brands, consisting of such ultra-luxury automobile brands as Porsche, Bentley and Ferrari/Maserati, such luxury automobile brands such as Audi, Volkswagen Imported, Mercedes-Benz, Cadillac, Lexus and Hongqi, and the middle market automobile brand of Toyota. We derive a majority of our revenue from automobile sales. For 2011, 2012 and 2013, we sold 11,032 units, 14,810 units and 15,834 units of passenger cars, respectively, and our revenue generated from sales of automobiles accounted for 92.9%, 91.9% and 90.7% of our total revenue during the same periods, respectively.

We sell both imported and domestically manufactured passenger vehicles through our outlets. For 2011, 2012 and 2013, automobiles provided by the portfolio brand companies of the Volkswagen Group, including Porsche, Audi, Volkswagen Imported and Bentley, were the largest revenue source and profit contributor of our new automobile sales business. Sales of these automobiles accounted for 63.2%, 74.2% and 75.3% of our total revenue for 2011, 2012 and 2013, respectively, and the gross profit from sales of these brands accounted for 57.9%, 51.2% and 48.8% of our gross profit during the same periods, respectively.

The following table sets forth a breakdown of the sales volumes and revenue from automobiles sales by brand segment for the periods indicated:

Automobile sales	Year ended December 31,								
	2011			2012			2013		
	Volume	Revenue	Contribution of revenue	Volume	Revenue	Contribution of revenue	Volume	Revenue	Contribution of revenue
	Unit	RMB '000	%	Unit	RMB '000	%	Unit	RMB '000	%
Luxury and ultra-luxury brands . . . . .	8,137	4,410,970	88.8	12,269	6,122,318	92.5	13,352	6,308,165	93.6
Middle market brand. . .	2,895	556,514	11.2	2,541	496,951	7.5	2,482	431,200	6.4
<b>Total . . . . .</b>	<b>11,032</b>	<b>4,967,484</b>	<b>100.0</b>	<b>14,810</b>	<b>6,619,269</b>	<b>100.0</b>	<b>15,834</b>	<b>6,739,365</b>	<b>100.0</b>

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## OUR BUSINESS

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### Pricing

The retail prices of our new automobiles are mainly determined with reference to the automobile suppliers' wholesale prices and retail pricing guidelines. During the Track Record Period, we complied with the retail pricing guidelines as set by our automobile suppliers. As long as we do not violate the pricing policies of our automobile suppliers, we may adjust the retail prices to promote the sales of certain new automobiles, which are influenced by a variety of factors, including automobile brand and model, market demand, inventory supply and the presence of competing dealerships.

We understand that the suggested retail prices are primarily determined by the cost of the product, the price of a competitive product, brand image and market demand. The automobile suppliers review their pricing models at the very beginning of the development of a new model and revisit the pricing when the development is complete as well as before the formal launch of the model. In addition, the automobile suppliers will consult with us with respect to the suggested retail price of a new model before they formally launch it. We also communicate closely with our automobile suppliers with respect to prevailing market conditions so that they can review and adjust the prices of the automobiles in a timely manner.

For more details regarding the selling prices of the automobiles offered by us during the Track Record Period, please see "Financial Information — Description of Selected Statements of Profit or Loss Line Items — Revenue".

### Payment

We usually require our customers to pay a deposit, generally 2% to 10% of the retail price, when placing their orders, and to settle the remaining balance before the automobile is picked up by, or delivered to, the customer. We require our customers to pay us in cash and typically do not offer any credit to our customers for automobile purchases. For fleet sales customers, we usually offer them a credit term from one to three months.

Some of our customers may utilize financing provided by financial institutions. In addition, car financing companies affiliated with automobile suppliers also provide financing to our customers. In each case, we require the customer to make full payment in cash before the automobile is picked up by, or delivered to, the customer.

### Return

We do not accept return of or provide warranties for new automobiles sold by us. However, according to the Rules on the Liability for Repair, Replacement and Return of Family Car Products which became effective on October 1, 2013, automobile suppliers are required to provide repair, replacement and return guarantees to new automobiles. We provide the relevant services to the customers and are reimbursed from the automobile suppliers. For more details, please see "Regulatory Overview — Guarantees For Family Car Products". We believe these new rules have expanded the coverage of repairs under a warranty, which will in turn cause an increase in our service volume of repairs under warranty and an increase in revenue generated from after-sales services. However, the actual impact of these new rules on our operations is not yet clear. Please see "Risk Factors — Risks Relating to Conducting Business in the PRC — Any future laws, regulations and rules that impose additional liabilities on automobile dealers could materially and adversely affect our business prospects, financial condition and results of operations".

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## OUR BUSINESS

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We have not experienced any material disputes with our customers in relation to new automobiles sold by us.

### SPARE PARTS DISTRIBUTION CENTER

By leveraging our strategic cooperation with the Volkswagen Group and its portfolio brand companies in China, our outstanding local knowledge, management capabilities, outlet network and strong financial condition, we were authorized by FAW-Volkswagen in 2004 to operate its first spare parts distribution center in Northwestern China. This is the only distribution center that stocks and distributes spare parts for the Audi and Volkswagen brands for the after-sales services of dealership outlets in Shaanxi Province, Shanxi Province, Gansu Province, Ningxia and Qinghai Province. This distribution center is located in Xi'an with a total GFA of 15,000 square meters. Our distribution center currently provides over 30,000 types of spare parts.

All spare parts distributed by the distribution centers are provided by FAW-Volkswagen or its contractors. According to the dealership authorization agreements between FAW-Volkswagen and its dealerships, to ensure the high quality of the after-sales services provided by the dealers, the dealerships are required to only use the spare parts provided by the distribution centers. FAW-Volkswagen carries out regular stock checks and audits of its dealerships to make sure all spare parts are provided by the distribution centers.

We have entered into a distribution center agreement with FAW-Volkswagen which has a term of one year and is renewable upon expiration. According to this agreement, the ownership of the spare parts in our distribution center belongs to FAW-Volkswagen, and we provide exclusive warehousing, management and distribution services to FAW-Volkswagen. We are required to follow the logistics management policies governing spare part distribution provided by FAW-Volkswagen. We charge FAW-Volkswagen commission based on the volume of spare parts distributed for the services that we provide on a monthly basis. The dealerships directly settle the purchase of spare parts with FAW-Volkswagen. With the rapid growth of the sales of Audi and Volkswagen in Northwestern China in recent years, the business of our distribution center has achieved significant growth. Our spare parts distribution center generated service income of RMB13.6 million, RMB16.5 million and RMB20.9 million for 2011, 2012 and 2013, respectively, representing a CAGR of 24.0%. We believe this distribution center not only further strengthens our strategic cooperation with the Volkswagen Group and its portfolio brand companies, but also continues to be an important revenue and profit contributor. In addition, by operating this distribution center, we can gain first-hand information on market trends and developments, which enables us to adjust our business plans on a timely basis.

### AFTER-SALES SERVICES

We offer after-sales services to customers, including (i) maintenance and repair services and sales of spare parts, (ii) detailing services, and (iii) other value-add services. All of our 4S dealership stores are equipped with comprehensive automobile repair and maintenance facilities and each of them is fully staffed with a team of experienced technicians. All of our 4S dealership stores follow the standard service processes provided by the automobile suppliers.

The high quality of our services has been evidenced by our numerous awards. Shanxi Yingjie was ranked first by Porsche in terms of the sales of TEQ, a special type of accessories, in China in the second half of 2011. In addition, a number of our after-sales service personnel won awards for excellence in service from our automobile suppliers during the Track Record Period.



## OUR BUSINESS

As a result of its recurrent and ongoing business nature, we believe we can generate more stable revenue from after-sales services than automobile sales. In addition, the gross margin of after-sales services is much higher than that of automobile sales. The customers of our after-sales services are owners of the automobiles covered by the brand portfolio we offer, including customers who purchase new automobiles from us or from other automobile dealerships. We believe our high quality after-sales platform both improves customer loyalty and brings in new automobile sales opportunities, such as sales of new automobiles through our pre-owned automobile services. We expect after-sales services to grow strongly, which are driven by our rapidly expanding customer base as well as the fast growing number of automobile owners in China.

During the Track Record Period, a majority of new customers who purchased our luxury and ultra-luxury automobiles returned to our 4S dealership stores for maintenance or repair services. The throughput volume of after-sales services increased from 111,513 units for 2011 to 154,641 units for 2012, and further to 170,173 units for 2013. We believe this is attributable to our high quality of services and superior operational capabilities.

For 2011, 2012 and 2013, our revenue generated from after-sales services accounted for 7.1%, 8.1% and 9.3%, respectively, of our total revenue.

The following table sets forth a breakdown of our revenue from after-sales services by brand segment for the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB'000, except percentages)</i>					
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Luxury and ultra-luxury brands . . .	339,750	89.2	536,336	91.5	645,914	93.2
Middle market brand . . . . .	41,170	10.8	49,627	8.5	47,420	6.8
<b>Total . . . . .</b>	<b>380,920</b>	<b>100.0</b>	<b>585,963</b>	<b>100.0</b>	<b>693,334</b>	<b>100.0</b>

We believe high-quality after-sales services and a high level of customer satisfaction are critical to retaining existing customers and attracting new customers, which will ensure the success of not only our after-sales services, but also our new automobile sales. We place significant emphasis on recruiting, training and retaining skilled technicians and customer service personnel. We require our employees to participate in both the training programs provided by automobile suppliers and our regular internal training programs to enhance their customer service skills.

### Maintenance and Repair Services

Our maintenance and repair services are generally charged based on the labor of our technicians and the spare parts used, both of which are determined with reference to automobile suppliers' pricing guidelines. In general, labor and spare parts for luxury and ultra-luxury brands are more expensive than those of other brands. The composition of personnel assigned to each job and their expertise and experience differ according to the nature and complexity of the particular job. As such, to maintain the quality of our services, designated technicians inspect each service job upon completion and our customer service team conducts inspections by calling each of our customers to gauge their degree of satisfaction with our services. We require our customers to pay in cash and typically do not offer any credit term on after-sales services. For fleet sales customers, we usually offer them a credit term from three to six months.

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## OUR BUSINESS

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As certain of our customers live in areas far from our 4S dealership stores, it is not convenient for them to travel to our 4S dealership stores for maintenance and repairs services. As a solution, we provide mobile after-sales services for certain automobile brands, such as Porsche, Audi, Cadillac and Lexus, to our customers in distant areas within our operating areas authorized by the automobile suppliers in Northwestern China. Our mobile after-sales services include maintenance and minor repairs. We believe this service helps us attract new customers, promotes customer loyalty and improves our sales performance.

The automobile suppliers require us to install their proprietary software to record, track and analyze the manpower and spare parts used to perform maintenance and repair services.

### ***Maintenance***

Automobiles require periodic maintenance, and recurring automobile maintenance is an ongoing revenue stream for us. Automobile suppliers vary in their recommendations of how frequently automobile owners should schedule maintenance, generally ranging from every three to six months or from 5,000 to 10,000 kilometers. A typical maintenance service check generally includes a routine vehicle inspection and oil change, and may include the replacement of air filters, spark plugs, brake pads, and other parts as well as tire rotation and other adjustments. We typically require our customers to fully pay us for the maintenance services when they pick up their automobiles after the maintenance is completed. We send periodic reminders to automobile owners to schedule subsequent maintenance checks.

In order to promote the sales of automobiles and maintain long-term customer relationships, certain automobile suppliers offer first-time maintenance services on a complimentary basis, for which we are reimbursed by the automobile suppliers for the maintenance services provided by us. These automobile suppliers usually pay us within one month after we submit the reimbursement request.

### ***Repairs***

We provide a full range of automobile repair services, ranging from minor repairs such as scratches to major repairs such as post-collision body restoration.

#### *Repairs under warranty*

Before the promulgation of the Three Guarantees Rules, we were not required to provide any warranty with respect to the automobiles or other products that we sold. The Three Guarantees Rules came into effect on October 1, 2013. Please see “Regulatory Overview — Guarantees For Family Car Products”. The Three Guarantees Rules provide that automobile sellers, including automobile dealerships, are responsible for providing the repair, replacement and return services to the end-user customers, and the automobile suppliers are ultimately responsible for any quality issues with regard to the automobiles. Once the sellers have performed their obligations under the Three Guarantees Rules, they will be paid for the services provided by them by the automobile suppliers.

Both before and after the promulgation of the Three Guarantees Rules, automobile suppliers generally have not conducted and do not conduct warranty repair services themselves. Instead, they provide in-warranty repair services through 4S dealership stores, and reimburse the dealerships for in-warranty repairs conducted. Historically, the terms of such warranties have varied among different automobile suppliers, but they are generally limited to repairs

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## OUR BUSINESS

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caused by defects in spare parts or workmanship and usually range from three months to six years or from 5,000 to 150,000 kilometers following the sale. However, according to the Three Guarantees Rules, the repair guarantee period for family car products should be no less than the earlier of three years or 60,000 kilometers, and the warranty period should be no less than the earlier of two years or 50,000 kilometers.

Our Directors believe that the Three Guarantees Rules do not impose any material liabilities on us or have any material and adverse effect on our business operations or financial condition. In addition, as these new rules have expanded the coverage of repairs under a warranty, our Directors believe that these new rules will enable us to increase our volume of repairs under warranty and, as a result, increase our revenue generated from after-sales services.

Our reimbursement claims for in-warranty repair services are recorded and submitted to the relevant automobile suppliers through the information technology systems in our outlets that are provided by the automobile suppliers. We generally receive the reimbursements within one to two months after the claims for in-warranty repair services are submitted. We have been reimbursed by the relevant automobile suppliers for all of such costs during the Track Record Period.

### *Out-of-warranty repairs*

We provide out-of-warranty repair services to our customers, including replacement of parts due to wear and tear or repair of damage resulting from collisions or other accidents. Our customers must fully pay for out-of-warranty repairs before they pick up their automobiles. For certain repairs involving substantial costs of labor and spare parts, we may ask the customers to provide down payments.

If the out-of-warranty repair costs are covered by a valid insurance policy and we have arrangements with the respective insurance company, we generally do not require payment from such customer and will submit reimbursement requests directly to the relevant insurance company. The insurance company usually pays us within one to two month after we submit the reimbursement request.

### *Spare parts*

We sell spare parts, such as brake blocks, spark plugs and bumpers, provided by the original automobile suppliers, as well as third party suppliers designated by the original automobile suppliers, to automobile owners.

### *Warranty provided by us*

Under applicable PRC laws, we are required to provide warranties for the repair services that we perform. Under the relevant PRC laws and regulations, automobile repairs are divided into several categories and the mandatory warranty period for each repair varies from the shorter of ten days or 2,000 kilometers (in the case of basic repairs) to the shorter of 100 days or 20,000 kilometers (in the case of major repairs). The warranty period commences from the date the automobile leaves our 4S dealership store. Over the Track Record Period, warranty claims made by our automobile service customers were of an immaterial nature and, accordingly, no provision has been made with respect to such warranty claims.

### *Detailing*

We focus on dealing in luxury and ultra-luxury automobile brands, the customers of which generally place great importance on personalization. In light of the trend of customization, we

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## OUR BUSINESS

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offer detailing services to our customers so that they may possess automobiles distinguishable from others. The detailing services we offer include accessory installation, personalized modification and automobile beauty, all of which are within the permission of relevant PRC laws and regulations and will not affect the intended and safe use of the automobiles by the owners under the relevant PRC laws and regulations.

### ***Accessory installation***

We provide accessories such as automobile glass films, including high-strength protective films for the safety of the automobile owners, electronics, such as DVD players, GPS navigators, driving recorders and security systems for the convenience of the automobile owners, and chairs and trimmings for the comfort of the automobile owners.

### ***Personalized modification and automobile beautification***

We provide personalized modification services in accordance with the automobile owners' requirements which do not affect the safety or performance of the automobiles. Such services include changing the colors of the chrome-plated film covering the automobile, wheel hub and brake caliper, and changing the leather cover of the interior. We also provide automobile beautification services, including the treatment of paint and internal decoration and installation of luxury trimmings.

We believe our detailing services not only contribute to the growth of our revenue and gross profit, but also promote the growth of automobile sales to customers interested in our detailing services.

We seek to meet the diversified demands of our customers by providing personalized and high quality detailing services. Our target customers of detailing services include not only our existing customers of the luxury and ultra-luxury brands sold by us, but also owners of other luxury and ultra-luxury automobile brands. We plan to further develop our automobile accessories and related products sales business by leveraging luxury and ultra-luxury automobile brands that we offer and our large customer base.

### ***Other value-added services***

In addition to after-sales services, we also provide various services to our customers and automobile suppliers. These services do not require material capital expenditures or costs. We offer these services as part of our efforts to improve customer satisfaction and to establish and maintain long-term relationships with our customers.

### ***Automobile insurance agency services, automobile financing services and automobile licensing services***

We offer automobile insurance agency services, automobile financing services and automobile licensing services to our customers in most of our 4S dealership stores as a supplement to our automobile sales and after-sales services.

For automobile insurance agency services, we have arrangements in place with independent insurance companies, pursuant to which we promote and distribute the automobile insurance products provided by such automobile insurance companies to our customers and collect the insurance premiums from the customers for the insurance companies at our

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## OUR BUSINESS

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premises. The insurance companies designate us as the service provider for their insurance customers. We have entered into insurance agency agreements with various insurance companies, such as Ping An Property & Casualty Insurance Company of China, Ltd., China People's Property Insurance Co., Ltd., Yong An Property Insurance Company Ltd. and China Continent Property & Casualty Insurance Company Ltd. These insurance agency agreements usually have a term of one to three years, which can be terminated upon mutual agreement or unilaterally if any party breaches the agreement. Our insurance commission fee is based on the premium of the automobile insurance sold at our premises. For 2011, 2012 and 2013, our insurance commission income was RMB5.5 million, RMB25.0 million and RMB27.3 million, respectively.

For automobile financing services, we refer our customers to independent financial institutions, including China Minsheng Banking Corp., Ltd., Shaanxi Wan Cheng Investment Co., Ltd. and Shaanxi Xin Feng Yuan Investment & Guarantee Co., Ltd. We have entered into cooperation agreements with these independent financial institutions, pursuant to which we agreed to refer our customer to them and they agreed to provide automobile financing products to our customers or help our customers obtain automobile financing from other financial institutions. These cooperation agreements typically do not have a definitive term and can be automatically extended upon expiration. Our customers will separately enter into automobile financing agreements with the financial institutions. We do not provide any counter-guarantee for our customers' automobile loans. Our automobile financing commission fee is based on the amounts of the loans referred by us. For 2011, 2012 and 2013, our automobile financing commission income was RMB2.9 million, RMB15.5 million and RMB28.3 million, respectively.

For automobile licensing services, we assist our customers in applying for new automobile licenses on their behalf.

### ***Pre-owned automobile services***

As a complimentary service to our customers, we provide pre-owned automobile services to help our customers find purchasers for their pre-owned automobiles and facilitate their purchases of our automobiles. Certain automobile suppliers require outlets to provide pre-owned automobile services to facilitate new automobile sales. We will find an independent purchaser, usually a pre-owned automobile dealer, to purchase the pre-owned car from our customer. Once the pre-owned car is sold, we will enter into a new automobile sales agreement with our customer. Our pre-owned automobile services are subject to the Pre-owned Automobile Measures, and we have been in compliance with the Pre-owned Automobile Measures during the Track Record Period and up to the Latest Practicable Date. For more details, please see "Regulatory Overview — Regulations Relating to the PRC Automobile Industry — Pre-owned Automobile Sales".

### ***Automobile recalls***

Our 4S dealership stores assist automobile suppliers in conducting automobile recalls by distributing information to automobile owners and making remedial repairs. Prior to issuing a public recall, the automobile suppliers will generally notify their authorized dealers and provide instructions on how to remedy the problem and respond to frequently-asked-questions from automobile owners.

## OUR BUSINESS

Upon notice, we typically contact our customers who may be affected and ask them to bring their automobiles into our 4S dealership stores for repair. In addition to servicing the recalled automobiles we sell, we service recalled automobiles sold by other dealers. We also make remedial repairs to recalled automobiles still in our inventory, if any.

All of the services in relation to automobile recalls provided by us are conducted in accordance with the dealership authorization agreements with our automobile suppliers or according to the requests of our automobile suppliers. Our costs relating to product recalls are generally reimbursed by automobile suppliers within one to two months after we submit the compensation claims, and we have been reimbursed by the relevant automobile suppliers for all such costs during the Track Record Period. King & Wood Mallesons, our PRC legal advisors, have advised us that we are not liable under PRC laws, regulations or rules for the cost associated with automobile recalls.

During the Track Record Period, we received in the ordinary course of our business customer complaints in connection with certain automobile recalls, however, none of these complaints had a material adverse effect on our business and operations, and we were not subject to any legal, regulatory or administrative proceedings related to any automobile recalls. Automobile recalls may have material and adverse impacts on our results of operations, financial condition and growth prospects. For example, in October 2012, Toyota launched a recall program of approximately 7.4 million automobiles around the world for defaults in their power window system. We believe this recall, together with the territorial dispute over the Diaoyu Islands in the East China Sea between China and Japan, partially contributed to the decrease in the sales volumes and revenue of our Lexus and Toyota automobiles in 2012. See “Risk Factors — Risks Relating to Our Business — Any automobile recall could have a material and adverse impact on our results of operations, financial condition and growth prospects”.

The following table sets forth all of the automobile recalls that affected automobiles we sold during the Track Record Period and up to the Latest Practicable Date:

Brand	Model	Affected Component	Recall Date
<b>Ultra-luxury brands</b>			
— Porsche . . . . .	911 Carrera	Silencer	May 22, 2013
— Porsche . . . . .	Panamera Turbo S/Civilian	Turbocharger	August 2012 to August 2013
— Porsche . . . . .	Cayenne (92A) Cayenne S (92A) Cayenne S Hybrid (92A) Cayenne Turbo (92A) Cayenne Diesel (92A)	Locking mechanism for headlight	March 2012
— Porsche . . . . .	Cayenne (92A)	Front light	February 2012 to February 2013
— Porsche . . . . .	911 Turbo (997) 911 Turbo S (997) 911 GT3 (997) 911 GT3 RS (997) 911 GT2 RS (997)	Central wheel lock	May 2011 to May 2012
— Porsche . . . . .	Panamera S Panamera 4S Panamera Turbo	Belt anchoring system for seats side	April 2010
— Bentley . . . . .	Bentley Arnage (T, R, RL, Final Series) Azure Brooklands	Vehicle logo	November 2010
— Ferrari . . . . .	FF	Bearing of shafts	May 2012 to November 2012

## OUR BUSINESS

Brand	Model	Affected Component	Recall Date
— Maserati . . . . .	Maserati GT, Maserati President	Panhard rod	May 25, 2013
— Maserati . . . . .	Gran Turismo S	Differential planet gear	September 2011 to September 2012
— Maserati . . . . .	GT MC Stradale	Seat belt	April 2012 to October 2012
<b>Luxury brands</b>			
— Volkswagen Imported . . . . .	Beetle	Synthetic oil	November 25, 2013
— Cadillac . . . . .	SRX	Cap nut	May 17, 2013
— Cadillac . . . . .	SRX	Gear-box	December 2011 to December 2012
— Cadillac . . . . .	CTS	Brake hose front	April 2010
— Lexus . . . . .	IS	Rain wiper	May 2, 2013
— Lexus . . . . .	RX400h	Hybrid system	April 9, 2013
— Lexus . . . . .	RX300	Belt pulley	November 2011
— Lexus . . . . .	RX300 MCU35L-AWAGKW	Crank pulley	December 2011
— Lexus . . . . .	RX300 MCU35L-AWAGKW RX300 MCU35L-AWAGKW RX350 GSU35L-AWAGKW	Carpet linking piece	March 2011
— Lexus . . . . .	GS300 RX300	Rear-end rubber seal of brake master cylinder	November 2010
— Lexus . . . . .	LX470	Steering axle conjunction	August 2010
— Lexus . . . . .	LS460/LS460L/LS600hL	Engine inlet/exhaust valve spring	July 2010
— Lexus . . . . .	LS460L/LS600hL USF41L/UVF46L	Variable gear ratio steering system	June 2010
— Lexus . . . . .	IS	Window wiper	January 2006 to September 2011
— Audi . . . . .	Q5	Sunroof	July 2012 to July 2013
<b>Middle market brand</b>			
— Toyota . . . . .	Prius	Water pump	December 2012
— Toyota . . . . .	Corolla	Jackshaft	December 2012 to December 2013
— Toyota . . . . .	RAV4	Cap nut	September 2012 to August 2013
— Toyota . . . . .	Vios, Corolla and Rav 4	Power window	October 2012
— Toyota . . . . .	Corolla EX TV7164DLX/TV7164GD/TV7164GMD	Engine computer (ECU) shell	August 2011
— Toyota . . . . .	Crown Reiz	Rear-end rubber seal of brake master cylinder	November 2010
— Toyota . . . . .	Hiace	Drive shaft scrap	November 2010
— Toyota . . . . .	Crown	Engine	July 2010

### **Automobile survey services**

As part of our efforts to improve the quality of our own customer service and to provide market information to automobile suppliers, we conduct customer surveys to collect feedback from our customers on a regular basis. We do not derive any revenue from our automobile survey activities. Our large base of customers allows us to collect valuable market information both for our own use and for automobile suppliers. Some automobile suppliers provide their own questionnaires for the surveys services which are stored in the information technology systems in our 4S dealership stores that they provide. Some of our outlets also prepare periodic market condition reports for the automobile suppliers.

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## OUR BUSINESS

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### MARKETING

We utilize a variety of methods to promote our Sunfonda brand image, our dealerships and the products and services we offer to our customers. Our marketing campaigns are organized at three levels, including marketing campaigns of automobile brands, marketing campaigns of our Group under the Sunfonda brand and marketing campaigns at each of our outlets. As of the Latest Practicable Date, we had 568 sales and marketing personnel with an industry experience ranging from one to three years. All of the sales managers and marketing managers at our outlets have passed tests and interviews administered by the assessment centers of the relevant automobile suppliers.

At the beginning of each year, we submit our annual marketing budget and plans for an automobile brand to the automobile supplier. We are required to obtain the automobile supplier's approval before we can carry out the marketing campaigns. We coordinate our sales and marketing campaigns with the campaigns of automobile suppliers by incorporating the themes and elements of the national campaigns of the automobile suppliers. We also participate in the automobile suppliers' marketing campaigns, including new model launches, sponsorships, automobile fan club activities and other events. In particular, due to our strategic cooperation with the Volkswagen Group and its portfolio brand companies, we have been invited as a special guest to high-profile national and local marketing events held by the Volkswagen Group and its portfolio brand companies, such as national and overseas automobile trade fairs.

We strive to associate our Sunfonda brand image with a luxury life style and high-quality services appealing to our target customers. To unify our brand image, our Sunfonda brand has appeared in the events sponsored by us and large-scale automobile trade fairs. We also advertise our Sunfonda brand through outdoor advertisements, distributions of marketing materials at our outlets, radio and television commercials, Internet advertisements and advertisements in newspapers and magazines. Our headquarters is responsible for coordinating regional marketing campaigns and supervises the local marketing campaigns conducted by each of our outlets.

Each of our outlets is staffed with a team of marketing and sales personnel to carry out customized marketing activities. For example, we invite our existing and potential customers to our outlets for in-store promotion events and provide entertainment and complimentary gifts to them. Our sales and marketing teams may also coordinate with our outlets to develop advertising and sales campaigns for certain automobile models with low turn-over rates. Our sales initiatives for these automobiles include gifts, complimentary maintenance service packages and automobile detailing services.

We have established and maintained a database of the information of our customers from which we analyze market trends and customer demand in order to identify opportunities to sell new automobiles or provide after-sales services to our customers. Based on this database, we send our customers personalized telephone calls, short message service, e-mail and mail communications informing them of special promotional events at our outlets, new car models and new services. In addition, we also rely on our existing customers' referral for new business opportunities.

We have won numerous awards for our marketing initiatives, including the Best Practice of Marketing issued to Shaanxi Xinjie by Porsche in China in 2011 and the Marketing Project Bronze Award issued to Shaanxi Sunfonda by Audi in China in 2010. We have utilized directed marketing approaches and reduced our spending on mass media advertising during the Track



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## OUR BUSINESS

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Record Period, which we believe has helped us to control our selling and marketing expenses. As a result, for 2011, 2012 and 2013, we recorded advertising and business promotion expenses of RMB52.8 million, RMB46.1 million and RMB46.3 million, respectively.

Our marketing initiatives include:

### ***Airport VIP lounge***

We established a VIP lounge at Xi'an Xianyang International Airport in January 2005. This VIP lounge provides exclusive services to our important customers, such as group customers and long-term customers, which we believe promotes our brand image and reinforces our commitment to service.

### ***Sponsorship***

We also sponsored the Euro-Asia Economic Forum hosted by the PRC central government and the United Nations Development Programme in 2005, 2007, 2009, 2011 and 2013, and we were the supplier of automobiles for the forum's honored guests. We believe such sponsorships have successfully promoted our Sunfonda brand across the country.

### ***Customer loyalty program***

Based on our large customer base, we launched a customer loyalty program for each of the automobile brands sold by us in January 2012. We believe this program has allowed us to not only identify core customers and generate new business opportunities, but also retain our existing customers and attract potential customers.

### ***Fleet sales***

At some of our outlets, we have teams of sales personnel in charge of fleet sales for large business groups, governments and hotels. These sales personnel are responsible for maintaining and developing fleet sales customers. We schedule regular phone calls and on-site visits to understand the needs of these customers. In addition, we provide customized services to our fleet sales customers, such as priority of order placement and pick-up and delivery of the automobile for maintenance and repairs. In addition to these complimentary services, we also provide credit terms exclusively to our fleet sales customers for new automobile purchases and other automobile services. There is no significant difference between the gross margins of fleet sales and sales to individual customers.

For 2011, 2012 and 2013, the revenue generated from fleet sales accounted for no more than 1.5% of our total revenue.

## CUSTOMERS

We are devoted to cultivating long-term customer relationships and delivering high-quality services. Our sales, services and marketing initiatives primarily target high net worth and high income customers for ultra-luxury and luxury automobiles. We believe that these customers tend to require premium products and services, are of little price sensitivity and show great brand loyalty. We maintain records of our customers' profiles, including their maintenance and repair history, which we use to schedule calls, conduct surveys and send service reminders.

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## OUR BUSINESS

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Due to the retail nature of our business, our five largest customers contributed less than 1% of our total revenue for 2011, 2012 and 2013. All of our five largest customers are Independent Third Parties. We place great importance on fleet sales, and have launched various campaigns to promote our fleet sales. For more details, please see “— Marketing — Fleet sales”.

None of our Directors, their associates or any current Shareholders with over 5% of the share capital of our Company has any interest in any of our five largest customers, a fact which is required to be disclosed under the Listing Rules.

### SUPPLIERS AND PROCUREMENT

#### Suppliers

Our five largest suppliers are all automobile suppliers that supply new automobiles and spare parts. For 2011, 2012 and 2013, purchases from our top five suppliers accounted for 89.9%, 92.7% and 90.9% of our total purchases, respectively, and purchases from our largest supplier accounted for 29.5%, 36.9% and 37.8%, respectively, of our total purchases during the same periods. All of our five largest suppliers are Independent Third Parties. None of our Directors, their associates or any current Shareholders with over 5% of the share capital of our Company has any interest in any of our five largest suppliers, a fact which is required to be disclosed under the Listing Rules.

For 2011, 2012 and 2013, revenue generated from sales of new automobiles of Bentley, Porsche, Audi and Volkswagen Imported accounted for 68.0%, 80.7% and 83.1%, respectively, of our revenue of automobile sales. See “Risk Factors — Risks Relating to Our Business — Sales of new automobiles manufactured by the Volkswagen Group and its portfolio brand companies generate a significant portion of our revenue”.

We have established long-term relationships with our automobile suppliers. In Northwestern China, we were the first to set up outlets for Cadillac, Porsche, Bentley, Ferrari/Maserati and Hongqi, and among the first dealerships to set up outlets for Audi. As of the Latest Practicable Date, we were the only dealership covering such ultra-luxury automobile brands as Porsche and Ferrari in the region. We believe our strong performance record demonstrates our outstanding capabilities and profound market knowledge of the automobile dealership business in Northwestern China. We believe that our operational capabilities and expertise have helped automobile suppliers gain market share and win customer loyalty in China, and as a result, our automobile suppliers frequently communicate with us with respect to their development strategies in Northwestern China and seek our advice.

Although the automobile suppliers identify and determine new markets to establish new stores and formulate their dealership network expansion plans, their decisions are made based on a number of factors. Automobile suppliers communicate with us to facilitate the formation of their dealership network expansion strategies based on our knowledge of the market, their communication with us and our advice.

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## OUR BUSINESS

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At the end of every year, the sales departments of the automobile suppliers will set forth their annual sales plan and the sales target for each of their dealerships for the following year, based on the sales performance for the current year and the market forecast for the next year. The automobile suppliers discuss with us to understand the market condition and trends before they set forth their annual sales targets for us.

The automobile suppliers review their pricing models at the very beginning of the development of a new model and revisit the pricing when the development is complete as well as before the formal launch of the model. The automobile suppliers will consult with us with respect to the suggested retail price of a new model before they formally launch it. We also communicate closely with our automobile suppliers with respect to prevailing market conditions so that they can review and adjust the prices of the automobiles in a timely manner.

### **Sales targets**

The procurement of our automobiles is determined by annual non-binding sales targets for each of our outlets, which are set by the automobile suppliers at the beginning of each year. At the end of every year, the sales departments of the automobile suppliers will set forth their annual sales plan and the annual sales target for each of their dealerships for the following year, based on the sales performance for the current year and the market forecast for the next year. We understand that these sales targets reflect the automobile suppliers' estimates of the market condition of that year, which are in turn partially based on market research and surveys carried out by the automobile suppliers. The automobile suppliers also discuss with the dealerships, including us, before they set forth their annual sales targets so that they are able to obtain feedback from the dealerships and leverage the dealerships' knowledge of the local markets.

Based on such annual sales targets, the sales departments of the automobile suppliers will prepare monthly sales plans, which cover the models, volumes, colors, engine displacements and specifications of the automobiles to be sold. In accordance with such monthly sales plans, the production departments will formulate the production plans. We also communicate closely with our automobile suppliers to help them understand market conditions on a timely basis and adjust their monthly sales targets as necessary. In the middle of each year, we and the automobile suppliers will evaluate our performance for the first half of the year and may enter into supplemental agreements to adjust the sales targets as necessary.

Although these sales targets are non-binding, achievement of these targets is critical to our success. Automobile suppliers decide the sales volume and models available to our outlets based on their analysis of our historical performance, including whether the sales targets in the previous year or period are met. If our performance exceeds the sales targets, automobile suppliers will allocate more automobiles with more popular models to us, which will in turn improve the results of our operations. During 2012, due to the Japan market sentiment, the sales of Japanese-banded automobiles dropped sharply across the PRC. See "— Industry— Recent Developments". As a result, for 2012, we did not reach the sales targets of Lexus and Toyota as set forth in early 2012 by the respective automobile suppliers. The automobile suppliers of Lexus and Toyota have acknowledged the changing market condition in 2012 and confirmed that they would not take any action against our Group. Our Directors have confirmed that such incidents have not had any material adverse impact on our operations, including the rebates we received from the automobile suppliers of Lexus and Toyota for 2012 and our relationship with these suppliers. Other than this, all of our outlets reached or exceeded the annual sales targets set by automobile suppliers during the Track Record Period.

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## OUR BUSINESS

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### Procurement of new automobiles

We place orders directly with our suppliers. The monthly purchase of new automobiles by an outlet is determined and adjusted by taking into account our current inventories, anticipated customer demands, expected sales trends and the delivery schedule of various automobile models. This helps us to not only optimize the mix of new automobiles and maximize our sales and profitability, but also to improve our relationships with our suppliers.

All of the new automobiles that we sell are purchased in the PRC, regardless of whether they are imported or manufactured locally. Suppliers of domestically manufactured automobiles are PRC-incorporated automobile suppliers, which are Sino-foreign joint ventures of the automobile brands we offer to customers, and suppliers of imported automobiles are PRC-incorporated affiliates of the automobile brands we offer to customers. As a result, we are not required to pay any import or custom duties or tariffs for our automobiles. Because our purchase of new automobiles is mainly based on the product mix in the sales targets provided by the automobile suppliers, we have little discretion when deciding whether to purchase domestically manufactured automobiles or imported automobiles. If any automobile model is out of stock, the lead time required for delivery of the new automobile we sell is typically three to 15 days for new automobile manufactured domestically and typically four to five months for imported new automobiles, especially for ultra-luxury automobiles. For 2011, 2012 and 2013, the cost of sales of new automobiles sold were RMB4,594.3 million, RMB6,300.7 million and RMB6,402.1 million, respectively, with the number of automobiles being sold totaling to 11,032 units, 14,810 units and 15,834 units, respectively, during the same periods.

### Rebate

Our overall purchase costs of new automobiles, depending on the rebate policies of the automobile suppliers, can be affected by the rebates we receive from the automobile suppliers based on the units of new automobiles that we purchase or sell.

We believe that it is common practice in our industry for the automobile suppliers to determine their rebate policies, which usually are not subject to negotiation with automobile dealerships. Automobile suppliers typically grant rebates in accordance with their internal policies and guidelines, which are generally determined with reference to the units of new automobiles which automobile dealers purchase or sell, and are further adjusted based on the automobile dealers' performance relative to the sales targets set by automobile suppliers. Automobile suppliers may also grant us additional rebates based on the evaluation of our overall performance, such as customer satisfaction, sales performance and marketing efforts. From time to time, automobile suppliers also offer special rebates for particular models of automobiles. These rebate amounts are settled from time to time according to the different business practices of different automobile suppliers. For 2011, 2012 and 2013, we recorded rebates of RMB71.1 million, RMB175.2 million and RMB226.8 million, respectively, which accounted for 13.8%, 31.1% and 36.4% of our gross profits during the same periods, respectively. During the Track Record Period, most of our rebates were settled by deducting the aggregate purchase price payable by us for subsequent automobile purchase orders, with the rest paid to us in cash.

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## OUR BUSINESS

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### Payment

Automobile suppliers typically require us to pay for the procurement of new automobiles in full before we receive the new automobiles. The time lag between our payment to the automobile suppliers and our receipt of automobiles ranges from three to 15 days for domestically manufactured automobiles and five to 20 days for imported automobiles. One automobile supplier provides us with financing through their affiliates with an interest-free credit period of 90 days after we receive the new automobiles. In addition, we can also obtain financing from commercial banks in the form of bank acceptance notes by pledging the new automobiles with the banks.

We purchase new automobiles using a combination of cash and bank acceptance notes. These bank acceptance notes are generally secured by our bank deposits and inventories and are repaid with cash received from customers for their purchases of new automobiles from us. Banks generally require us to deposit approximately 10% to 20% of the amount of the bank acceptance notes issued. Upon the repayment of these bank acceptance notes, which usually have a term of two months, the pledged deposits are released and can be used to secure new bank acceptance notes. As of December 31, 2013, we had bills payable of RMB402.4 million, pledged bank deposits of RMB292.2 million and pledged inventories of RMB113.0 million. As of December 31, 2011, 2012 and 2013, our bills payable was RMB347.4 million, RMB546.9 million and RMB402.4 million, respectively. The significant increases in our bills payable as of December 31, 2012 was attributable primarily to our increased automobile purchases for 2012 as a result of our business growth and network expansion. Our bills payable decreased as of December 31, 2013, primarily because we improved our liquidity position as a result of using bank acceptance notes with shorter terms in 2013.

All of our procurements are settled in Renminbi.

### INVENTORY MANAGEMENT

We closely monitor our inventories of new automobiles and spare parts at each of our outlets to achieve a balance of cost efficiency, quality control and timely distribution. We strive to maintain optimal inventory levels of new automobiles and spare parts to meet customer demands while maintaining sufficient inventory levels for the expansion of our outlet network and managing our working capital requirements to finance our inventory. Our outlets generally order their inventory several times a month and plan their inventory purchases for each month with reference to the non-binding sales target set by the relevant automobile suppliers.

Our inventories are procured in accordance with the sales targets set by the automobile suppliers. We understand that these sales targets reflect the automobile suppliers' estimates of the market condition of that year, which are in turn based on market research carried out by automobile suppliers and discussions between automobile suppliers and us, taking into account of the local market conditions and the sales capacities of our outlets. In addition, in the middle of each year, we and the automobile suppliers will evaluate our performance for the first half of the year, and may enter into supplemental agreements to adjust the sales targets as necessary.

We have strict inventory control policies. We require that the average inventory turnover days of an outlet should not exceed 45 days by implementing a number of control measures. The store manager and sales manager of each outlet review the sales and inventory levels of their store on a daily basis to ensure that sales of different automobile models are meeting our expectations and sales targets. In addition, we are in the process of updating our centralized

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## OUR BUSINESS

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ERP system to provide our headquarters with real-time sales and inventory levels of different automobile models at different outlets, which enables our management team to supervise and work with individual stores to manage their sales and inventory levels. This information will be reviewed regularly by our senior management to ensure that our stores are adequately funded and appropriately stocked with inventory. We also consider inventory turnover days an important factor when we evaluate the performance of a store manager, which has direct impact on his or her remuneration.

Moreover, our outlets, together with our sales and marketing teams, may develop advertising and sales campaigns for certain automobile models with low turn-over rates, including gifts and complimentary repair and detailing services. We also have the flexibility, subject to certain restrictions by the automobile suppliers, to adjust inventories across our dealership network, such as transferring automobiles from one outlet to another to respond to market demand. For example, Lexus allows us to transfer new automobiles among the different dealerships. Audi allows us to transfer automobiles among a dealership's outlets within the same region. For Porsche, we are allowed to transfer new automobiles among our outlets within the same region with prior consent from the automobile supplier. If an outlet plans to purchase automobile models with low turnover rates, we will require such outlet to obtain advanced approval from our headquarters. In addition, we keep close communication with automobile suppliers to improve our new automobile mix to cater to market demands and further enhance our inventory management.

During the Track Record Period, pursuant to the policies and requests of our automobile suppliers, in some very exceptional cases, we have sold certain low-turnover models with very small volumes at prices lower than our procurement costs to facilitate the turnover of older models. However, we achieved a positive gross margin from such sales after taking into account the vendor rebates we received. We have obtained confirmations from our major suppliers that they have maintained sound working relationships with us and there are no circumstances which caused or might cause revocation of their dealership authorizations granted to our Group or termination of their cooperative relationships with us. Our Directors are of the view that the dealership authorizations are unlikely to be revoked by the automobile suppliers. Our Directors confirm this has not had any material adverse impact on our results of operations or any material adverse impact on the value of our inventories as of the Latest Practicable Date.

Our average inventory turnover days were 33.5 days, 40.8 days and 38.6 days for 2011, 2012 and 2013, respectively, which was generally shorter than the terms of our letters of credit, bank acceptance notes and interest-free periods of automobile financing. See "Financial Information — Inventory". We had not defaulted upon any repayment of our bank acceptance notes or automobile financing during the Track Record Period.

We aim to maintain a reasonable level of inventory of automobiles, spare parts and automobile accessories at our outlets to timely respond to customer demands. If we overstock inventory, we may be required to increase our working capital and incur additional financing costs. If we understock inventory, we may not be able to satisfy the demands of our customers, which may cause us to forgo revenue and may adversely affect our brand reputation. Please see "Risk Factors — Risks Relating to Our Business — Our business and financial performance depend on our ability to manage our inventory effectively".

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## OUR BUSINESS

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### INFORMATION TECHNOLOGY

We monitor the operations of our outlets through a centralized ERP system developed by a third party to achieve effective and efficient customer management, inventory management and employee management and to optimize the allocation of our internal financial, operating and human resources. We are upgrading our ERP system to provide our headquarters with real time information regarding our operations and financial condition such as cash, sales and inventory levels of different automobile models at different outlets, which will enable us to establish an integrated and centralized financing and accounting management system and generate various real-time financial indicators to support our management's decision-making processes. In addition, this system will allow our headquarters to closely monitor the operations of each outlet and improve our budgeting, planning, allocation and control of funds at our Group level and at the individual dealership level, which will further improve our inventory management and reduces our working capital needs.

By leveraging our information technology systems, we have established a comprehensive database across key areas of our businesses. For example, our information technology system collects information about potential and existing customers, such as telephone calls, on-site visits to our outlets or attendance at promotional events, as well as automobile purchases from our outlets and repair and maintenance records of those automobiles. This information is used by our sales personnel and customer relationship managers to better understand the needs of our potential and existing customers and to provide personalized communications and services for them on an individual basis.

### INTELLECTUAL PROPERTIES

We consider our trademark “新豐泰” and “SFD” important to our business operations. For more details, please see “Statutory and General Information — Further Information about Our Business — Intellectual Property Rights of Our Group” in Appendix V to this prospectus.

### EMPLOYEES

We view our experienced, dedicated and innovative employees as critical to our success. We dedicate significant resources to personnel recruiting, training and promotion. We offer attractive remuneration packages, including competitive fixed salaries plus performance-based bonuses.

Our management team includes outlet managers and managers from various departments at our headquarters. They have extensive expertise and experiences in the automobile dealership business in China. Approximately 51% of them possess undergraduate degrees or above, and approximately 35% of them majored in automobile related studies. Our management team has remained relatively stable since our inception, and our management members' average length of time working with us is more than seven years.

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## OUR BUSINESS

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As of the Latest Practicable Date, we had a total of 2,251 full-time employees with various job functions as set forth below:

<b>Job Function</b>	<b>Number of Employees</b>	<b>Percentage of Total</b>
Management .....	193	8.6%
Administrative .....	332	14.8%
Automobile Sales and Marketing .....	568	25.2%
Automobile Services .....	1,044	46.4%
Finance and Accounting .....	114	5.0%
<b>Total</b> .....	<b><u>2,251</u></b>	<b><u>100.0%</u></b>

The following table sets forth our employees by location as of the Latest Practicable Date:

	<b>Number of employees</b>	<b>Percentage of total</b>
Shaanxi .....	1,716	76.2%
Jiangsu .....	208	9.2%
Inner Mongolia .....	72	3.2%
Shanxi .....	115	5.1%
Gansu .....	54	2.4%
Ningxia .....	86	3.8%
<b>Total</b> .....	<b><u>2,251</u></b>	<b><u>100.0%</u></b>

We have sound relationships with our employees. During the Track Record Period, we have not experienced any strikes, work stoppages or significant labor disputes and we have not experienced any significant difficulties in recruiting or retaining our qualified staff.

### Hiring

When we make hiring decisions, we take into account factors such as our development strategies, our expansion plans, the industry trends, the competition environment and our competitors. We usually work with recruitment agencies to identify candidates for senior positions. We also use professional online recruitment websites and newspapers to distribute hiring information. In addition, we have entered into hiring arrangements with several vocational schools and colleges.

### Training

We provide regular training courses to our employees to improve their skills and professional knowledge as well as to keep them updated on new developments in their jobs at both the outlet level and the group level. Our outlets hold regular training programs, covering such topics as product knowledge and sales and service skills.

We also provide on-the-job training to our employees. For example, we frequently arrange for new joiners to work at our established outlets for training by leveraging the accumulated operational expertise and know-how in our network. In addition, we have implemented a mentorship program in which we assign experienced employees familiar with our products and policies to train new joiners for a period of at least three months.



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## OUR BUSINESS

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In addition to our internal training programs, automobile suppliers require our employees to attend mandatory training programs provided by them. For example, before the launch of a new outlet, the automobile suppliers require all of the key personnel of the outlet, such as the outlet manager and the chief technician, to attend their training programs and obtain their certification.

Moreover, as we have a diversified portfolio of automobile brands, we are able to offer our employees opportunities to work with different automobile brands, which we believe contributes to our employee retention rates.

### **Promotion and incentives**

We place significant emphasis on internal promotion as a means of offering long-term career development and performance incentives to our employees.

We believe internal promotion is an important way to promote employee satisfaction, which in turn enables us to improve service quality, enjoy a low turnover rate and remain competitive. We have established a system to identify and promote talented employees by comprehensive evaluation, such as sales performance, training and testing results, business and technical skills and customer satisfaction. We often rotate our employees to different stores, which offers them long-term career development and performance incentives, and allows us to leverage the skills and know-how of our more experienced employees at our new stores. Over 80% of our outlet managers were internally promoted.

We offer attractive remuneration packages, including competitive fixed salaries plus performance-based bonuses. We offer our automobile sales and marketing staff as well as automobile services staff performance-based bonuses by taking into consideration their sales or revenue contribution, technical skills, customer satisfaction degrees and other assessments of their performance based on the nature of their work. These performance bonuses are calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and compensation. To maintain consistent service quality across our growing network, we conduct site visits, including unscheduled visits and mystery shopper surveys, to our outlets to monitor their operations.

### **OUR PROPERTIES**

We have constructed a large portion of our outlets on premises to which we own the land use rights which, in the view of our Directors, places us in a stronger position to apply for new dealership authorization from automobile suppliers compared with competitors with outlets on leased premises. As of the Latest Practicable Date, we owned 19 properties in the PRC, and owned one property in Hong Kong. As of the Latest Practicable Date, we leased 18 properties in the PRC.

Among these owned and leased properties, 26 of them are considered important to us as we operate outlets and spare parts distribution center thereon, which altogether contributed substantially all of our revenue during the Track Record Period. For details of such properties, please see the section headed “Statutory and General Information — Further Information about Our Business — Material Properties” in Appendix V to this prospectus.

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## OUR BUSINESS

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### Owned properties

As of Latest Practicable Date, we owned 15 completed properties with an aggregate gross floor area of 104,703 square meters, one property under construction with a site area of 13,348 square meters and three properties for future development with an aggregate site area of 59,983 square meters in the PRC which were vacant as of the Latest Practicable Date. We also own one completed property in Hong Kong with a gross floor area of 66 square meters which is used as an office.

The following table sets forth the breakdown of our 19 owned properties in the PRC by provinces and municipalities as of Latest Practicable Date:

<b>Provinces and Municipalities</b>	<b>Number of Properties</b>
<b>Completed Properties</b>	
Shaanxi .....	11
Inner Mongolia .....	2
Gansu .....	1
Jiangsu .....	1
Subtotal .....	15
<b>Properties under construction</b>	
Jiangsu .....	1
Subtotal .....	1
<b>Properties for future development</b>	
Jiangsu .....	2
Beijing .....	1
Subtotal .....	3
<b>Total</b> .....	<b>19</b>

14 of our 15 completed owned properties are primarily used for outlets, with a range of gross floor area from 513 square meters to 23,913 square meters. The remaining one completed owned property is used as our spare parts distribution center and has a gross floor area of 14,706 square meters.

We own two parcels of land located in Jiangsu Province with an aggregate site area of 23,229 square meters, and will use those parcels of land to construct a Volkswagen Imported automobile showroom and for future development, respectively. We have obtained the land use right certificates for those two properties. We purchased one parcel of land with a site area of 36,754 square meters located in Beijing which will be used to construct an Audi automobile 4S dealership store. We have paid in full the land premium and are in the process of obtaining the land use right certificate. Our PRC legal advisors, King & Wood Mallesons advised us that there are no material legal impediments which will keep us from obtaining the land use right certificate.

As of the Latest Practicable Date, certain of the properties we own have title defects:

We own one property in Xi'an with a gross floor area of 1,500 square meters ("**Owned Property 1**"), representing 1.4% of the aggregate gross floor area of the properties that we own. Owned Property 1 is used as a vehicle pre-inspection site and a parking lot for vehicles to be repaired and is not crucial to our operations. The property carries a book value of RMB349,584. It was constructed without obtaining construction approvals, and we have not obtained the building ownership certificate. The current use for commercial purpose is in compliance with the

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## OUR BUSINESS

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designated usage of the relevant land. However, its design and construction is not completely consistent with the construction plan as a result of our misunderstanding. Based on the written confirmation issued by the Weiyang Branch of the Planning Bureau of Xi'an (西安市規劃局未央規劃分局), Owned Property 1 is in compliance with the general planning of both Xi'an City and Weiyang District. We have been advised by King & Wood Mallesons that we may be required by the government authorities to obtain the construction approvals and the building ownership certificate, pay the penalty or demolish the ancillary building within a certain period. We have applied to the Weiyang Branch of the Planning Bureau of Xi'an and the Construction Bureau of Weiyang District, Xi'an City (西安市未央區建設局) for the relevant approvals and certificate. However, it is uncertain when the relevant approvals and certificate will be obtained based on our communication with the relevant government authorities. In the mean time, we have obtained a confirmation from the Weiyang Branch of the Planning Bureau of Xi'an, a competent authority, indicating that Owned Property 1 is in compliance with the general planning of both the Xi'an City and the Weiyang District. Based on such confirmation, King & Wood Mallesons is of the view that our ability to use Owned Property 1 will not be adversely affected. We have explored and believe alternative sites are available in the nearby areas. Should we be asked to relocate the relevant business activities from Owned Property 1 to other alternative places, the cost for renting similar premises to carry out the relevant operations on Owned property 1 would be between RMB50,000 and RMB100,000 per annum, and there would be no material adverse effect on the business or financial condition of our Group to relocate the relevant operations taking into consideration its ancillary nature, the immaterial book value of the property and the additional rental costs.

We have obtained the building ownership certificate for a spare parts distribution center located in Xi'an ("**Owned Property 2**") in 2006 with a gross floor area of 14,706 square meters, representing 14% of the aggregate gross floor area of the properties that we own. However, based on the general planning of the local government, the designated use of the land where the building is located was changed to residential, which is different from our current use, in 2010 after the construction of the property had already been completed and the property had been put into use. Our use of Owned Property 2 was originally in compliance with the previous designated use of the relevant land before the change, and the current title defect resulted from the authority's request to change the usage of the land. No compensation was received by us for the change of the usage of the land. Instead, we paid an additional land grant premium of RMB4,139,540 for the change of land use. As advised by King & Wood Mallesons, we may (i) be required to change the use of Owned Property 2 to a warehouse or re-apply for the relevant certificates within a certain period and adjust the land premium, and (ii) be subject to fines; furthermore, the land use rights may be withdrawn without compensation. Gaoling County Planning and Housing Security Bureau (高陵縣規劃建設和房屋保障局), a competent authority, has (i) confirmed the historical change of the designated usage of the land; (ii) acknowledged our current use of Owned Property 2; and (iii) confirmed that it will not impose any punishment on us for our use of the land. As such, King & Wood Mallesons is of the view that our ability to use Owned Property 2 will not be adversely affected.

No revenue generated from our owned properties with defective titles was recorded for the years ended December 31, 2011, 2012 and 2013 as these properties have been used for ancillary operations.

## OUR BUSINESS

### Leased properties

As of Latest Practicable Date, we leased 18 properties in the PRC with an aggregate gross floor area of 53,491.01 square meters. The following table sets forth the breakdown of our 18 leased properties in the PRC by provinces and municipalities as of Latest Practicable Date:

Provinces and Municipalities	Number of Properties
Shaanxi <sup>(1)</sup> .....	8
Jiangsu <sup>(2)</sup> .....	3
Shanxi .....	3
Beijing .....	2
Ningxia .....	2
<b>Total</b> .....	<b>18</b>

*Notes:*

(1) We leased one property in Shaanxi Province with a site area of 20,593 square meters for future development.

(2) We leased one property in Jiangsu Province with a gross floor area of 350 square meters for future development.

14 of our leased properties are used or will be used for 4S dealership stores and showrooms, with a gross floor area ranging from 350 square meters to 12,000 square meters. The remaining four leased properties are used as offices, with an aggregate gross floor area of 768.95 square meters. Among these properties:

We leased five properties with an aggregate gross floor area of 7,628 square meters, representing 14.3% of the aggregate gross floor area of our leased properties. Two of these properties are located in Xi'an, and one of these properties is located in Taiyuan, on which we operate three automobile showrooms on the relevant properties ("**Leased Property 1**", "**Leased Property 2**" and "**Leased Property 3**"). One of these properties is located in Yinchuan, and we operate one 4S dealership store on this property ("**Leased Property 4**"). We plan to open one automobile showroom in the remaining one property which is located in Xi'an ("**Leased Property 5**"). As at the Latest Practicable Date, the relevant lessors have not provided to us the copies of the relevant title certificates for these leased properties. We are advised by King & Wood Mallesons, our PRC legal advisors, that our lease agreements may be deemed invalid if the lessors failed to obtain valid title certificates, and should disputes arise due to any title defects of these leased properties, our entitlements to use the properties according to the relevant lease agreements may be adversely affected. We have requested the relevant lessors to obtain the building ownership certificates as soon as possible, and all the relevant lessors have agreed to indemnify us for any potential liabilities we would incur as a result of the title defects (including but without limitation to penalties and fines imposed by the relevant PRC authorities) under the lease agreements or their respective confirmations to us. We have been advised by King & Wood Mallesons that we will have the right to seek compensation from the lessors pursuant to the relevant lease agreements or confirmations from the relevant lessors. We are of the view that most of these leased properties can, if necessary, be replaced by other comparable alternative premises without having any material adverse effect on our business or financial condition.

We leased one property with a gross floor area of 3,705 square meters ("**Leased Property 6**"), representing 6.9% of the aggregate gross floor area of our leased properties. The property is located on a State-owned allocated land, and the lessor has not obtained approval from the competent authority for leasing the site to us. Leased Property 6 is located in Taiyuan, and we operate a 4S dealership store and plan to open another 4S dealership store on such property in the future. As advised by King & Wood Mallesons, there is no specific provision regarding the

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## OUR BUSINESS

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penalties to the tenant under the PRC laws and regulations, however, we might need to relocate the relevant operations if the lessor is challenged by local authorities for the absence of the relevant approval. Our lessor has agreed to indemnify us for any potential liabilities we would incur as a result of the above defects, and against any costs, expenses and operating or business losses (including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from such property. We have requested the lessor to apply to the relevant government authorities to resolve any irregularities as soon as possible. In addition, we obtained a confirmation from Taiyuan City Land and Resources Bureau (太原市國土資源局), a competent authority, that our use of land is not invalid. Based on such confirmation, King & Wood Mallesons is of the view that our ability to use this property will not be adversely affected.

We leased one property with a gross floor area of 12,000 square meters (“**Leased Property 7**”), representing 22.4% of the aggregate gross floor area of our leased properties and a parcel of land with a site area of 20,593 square meters (“**Leased Property 8**”). These two properties are located on collectively-owned land, and the lessors are not permitted to lease the sites for non-agricultural or commercial use under applicable PRC laws and regulations. Leased Property 7 is located in Yan’an, and we operate a 4S dealership store on such property. Leased Property 8 is located in Yulin, and we hold such property for future development. As advised by King & Wood Mallesons, the maximum penalties or liabilities to which we may be subject to is an order of rectification within a time limit prescribed by the local authorities, confiscation of the illegal income generated and a fine at an amount prescribed by the authorities. Our lessors have agreed to indemnify us against any costs, expenses and operating or business losses (including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from such property. We have requested the lessor to apply to the relevant government authorities to resolve any irregularities as soon as possible. In respect of Leased Property 7, Chengqu Branch of Yan’an Land and Resource Bureau (延安國土資源局城區分局), a competent authority, issued an approval confirming that such use of land is in compliance with the general planning for land use. In respect of Leased Property 8, we have obtained a confirmation from Hengshan County Land and Resources Bureau (橫山縣國土資源局), a competent authority, that we may operate on this property without punishment imposed by them, and they will assist us in relocating our operating premises if we cannot continue our operation on this property. Based on such confirmations, King & Wood Mallesons is of the view that our ability to use these two properties will not be adversely affected.

We record revenue from our leased properties with defective titles which amounted to RMB418.1 million, RMB881.0 million and RMB961.4 million for the years ended December 31, 2011, 2012 and 2013, representing 7.8%, 12.2% and 12.9% of our total revenue for the relevant periods, respectively.

Our Directors consider the aforementioned properties collectively to be crucial to our operations as we operate some of our 4S dealership stores thereon. We consider our land reserve to be one of the key factors to the continuous growth of our automobile dealership business in the long run. However, our Directors are of the view that, factors such as brand portfolio, relationships with automobile suppliers, store design and layout, the types of services offered, the quality of services provided and management are more important in terms of attracting customers and generating revenue than the locations of our 4S dealership stores.

Given that our outlets are mostly located in sub-urban areas where comparable properties are generally available for our relocation at low cost, and given the fact that our Controlling Shareholders and the lessors of our defective leased properties have agreed to indemnify us for

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## OUR BUSINESS

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any potential liabilities, losses and/or relocation costs resulting from the defective titles, and taking into account the various confirmations from competent authorities and the legal advice provided by our PRC legal advisors as disclosed above, our Directors are of the view that the defects in the properties owned or leased by us will not have material adverse impact to our business.

Based on information currently available, our Directors have assessed the possibility of relocating our businesses on properties with defective titles. They have estimated that the total costs and expenses for such relocation will not exceed RMB9 million. We expect that, in the event that any relocation is required, the relocation will have minimal impact on the operation of the stores. Our Directors have also estimated that the relocation process for any outlet will not exceed 30 days and do not expect it to cause a material disruption to the business of the outlets.

For more details regarding the deed of indemnity entered into by our Controlling Shareholders, please see the paragraph entitled “Statutory and General Information — Other Information — Tax and other indemnities” in Appendix V to this prospectus. Please also see the paragraph entitled “Risk Factors — Risks Relating to Our Business — There are defects in our titles of or rights to use certain properties” in this prospectus for details regarding the risks associated with properties affected by defects in title.

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all our Company’s interests in land or buildings, for the reason that as of December 31, 2013, each of our properties has a carrying amount below 15% of our consolidated total assets and the leased properties are considered to have no commercial value.

### COMPETITION

The automobile dealership industry in China is highly fragmented. According to ACMR, the top ten automobile dealership groups in China accounted for approximately 17.4% of the total revenue of the passenger automobile market in 2012.

We compete against other dealership groups, including those selling the same brands of automobiles as us, for dealership authorization rights, prime store locations, capital to finance expansion and inventory, customers of automobile sales and services as well as management personnel and skilled employees. Our dealership business is also affected by competition among the automobile suppliers and their brands in terms of quality, design and price.

According to ACMR, the luxury and ultra-luxury automobile market in Northwestern China is highly competitive. As of December 31, 2013, there were 126 luxury and ultra-luxury outlets in Northwestern China, among which the five largest dealerships in terms of the number of luxury and ultra-luxury outlets operated 70 luxury and ultra-luxury outlets, accounting for 55.6% the total number of luxury and ultra-luxury outlets in the region. As of the Latest Practicable Date, we were the only dealership of Porsche and Ferrari/Maserati in Northwestern China.

Beijing is the traditional stronghold for ultra-luxury and luxury passenger vehicles in the PRC, with a well-developed economy and residents with high incomes. As of December 31,

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## OUR BUSINESS

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2013, there were a total of 150 luxury and ultra-luxury brand dealership outlets in Beijing, among which 20 were ultra-luxury outlets covering 12 brands. As of December 31, 2013, Beijing was the third largest market of ultra-luxury automobiles in terms of the number of dealership outlets in China, only following Zhejiang Province and Guangdong Province.

The luxury and ultra-luxury automobile market in Jiangsu Province is highly competitive. As of December 31, 2013, there were 273 luxury and ultra-luxury automobile outlets in Jiangsu Province, which made it the third largest market in China, after Zhejiang Province and Guangdong Province. Suzhou ranked sixth among all cities in the PRC in terms of GDP in 2012, and is the largest market for passenger vehicles in Jiangsu Province. The economy of Yangzhou has experienced rapid growth in recent years. As of the Latest Practicable Date, we operated one Volkswagen Imported 4S dealership store in Suzhou and plan to open two new outlets in Suzhou and one new outlet in Yangzhou. As of December 31, 2013, there were a total of 41 luxury and ultra-luxury automobile dealership outlets in Suzhou and 12 luxury and ultra-luxury automobile dealership outlets in Yangzhou.

The major after-sales service providers in China include 4S dealership stores, small-scale service centers and franchises. ACMR expects that 4S dealership stores will become the dominant after-sales service provider in China. As the purchasing power of customers expands over time, the aftermarket service business is expected to be a more significant contributor to the profits of dealership groups.

As a leading luxury and ultra-luxury-branded automobile dealership group in Northwestern China with a proven track record of consistently improving performance, we believe we are well positioned to take advantage of opportunities in the growing luxury and ultra-luxury passenger automobile market in China in order to meet our competition.

### INSURANCE

We carry insurance which covers such risks as loss and theft of, and damage to, property such as our fixed assets and inventories at our outlets, and losses due to fire, flood and a broad range of other natural disasters. Our insurance policies generally exclude earthquakes. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business. Neither do we maintain any insurance coverage for business interruption due to the limited coverage of any business interruption insurance in China. We believe our insurance coverage is adequate and in line with industry practices in China. However, significant uninsured damage to any of our properties, inventory or other assets could have a material and adverse effect on our results of operations. For further information, see the section headed “Risk Factors — Risks Relating to Our Business — Our insurance coverage may be inadequate to protect us from certain types of losses”.

### LEGAL AND COMPLIANCE

Our Directors have confirmed that, during the Track Record Period, there were no litigation or arbitration proceedings, and, to their best knowledge, they are not aware of any pending or threatened litigation or arbitration proceedings against us or any of our Directors which had or could have a material and adverse effect on our financial condition or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. See “Risk Factors — Risks Relating to Our Business — Any failure by us or our automobile suppliers or other suppliers to comply with applicable laws, regulations and rules may adversely affect our business” for further information.

During the Track Record Period, we had a number of incidents of non-compliance.

## OUR BUSINESS

### PRC Non-Compliance Incidents

No.	Non-compliance incidents	Remedial measures	Possible legal consequences and impact
1.	<p>Pursuant to the applicable PRC laws, regulations and rules, a foreign-invested enterprise engaging in the automobile maintenance and repair business must obtain the Project Initiation Approval from the Ministry of Transport, and must submit the Project Initiation Approval in order to apply to the local department of the Ministry of Transport for a Road Transport License for its automobile maintenance and repair business.</p> <p>Five of our PRC subsidiaries, namely Shaanxi Sunfonda Boao, Yan'an Sunfonda Boao, Ordos Sunfonda Kaisheng, Ordos Sunfonda Xinjie and Lanzhou Sunfonda, and our former subsidiary Yangzhou Sunfonda, had historically carried out automobile maintenance and repair businesses without obtaining Project Initiation Approvals and Road Transport Licenses.</p>	<p>All of these subsidiaries obtained their respective Project Initiation Approvals and Road Transport Licenses by June 2013. We have also obtained written confirmations from the relevant local transport authorities, namely the Xi'an Automobile Maintenance and Repair Administration Department (西安市汽車維修行業管理處), the Yan'an Transportation Bureau (延安市交通運輸局), the Ordos Transportation Administration Department (鄂爾多斯市交通運輸管理處), the Transportation Bureau of Yangzhou (揚州市交通運輸局) and the Lanzhou Transportation Bureau (蘭州市交通運輸局), that these subsidiaries can provide automobile maintenance and repair services before the relevant Project Initiation Approvals and the Road Transport Licenses have been obtained. In addition, the Xi'an Automobile Maintenance and Repair Administration Department, the Ordos Transportation Administration Department and the Transportation Bureau of Yangzhou have confirmed in writing, respectively, that they will not penalize Shaanxi Sunfonda Boao, Ordos Sunfonda Kaisheng, Ordos Sunfonda Xinjie or Yangzhou Sunfonda for such non-compliance incidents. King &amp; Wood Mallesons, our PRC legal advisors, have confirmed that the relevant local transport authorities are competent to issue such confirmations.</p> <p>We disposed of Yangzhou Sunfonda to Mr. Zhao in June 2013. According to an agreement entered into between Sunfonda HK, Mr. Zhao and Yangzhou Sunfonda in October 2013, Mr. Zhao and Yangzhou Sunfonda have undertaken to us that (i) in addition to the undertakings in item (ii) below, they will not bring any claim against our Group should there be any penalties imposed by the relevant government authorities due to the historical non-compliance incidents, including Yangzhou Sunfonda historically carrying out automobile maintenance and repair business without obtaining the Project Initiation Approval and the Road Transport License, and (ii) they will fully reimburse us for any penalties imposed on us or losses incurred by us due to the historical non-compliance incidents in connection with the undertakings mentioned in item (i) above.</p> <p>Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Company, whereby they have agreed to indemnify our Group from and against, among others, any costs, expenses, losses, claims, damages, actions or proceedings which any member of our Group may suffer as a result of, or in connection with, such non-compliance incidents.</p>	<p>King &amp; Wood Mallesons, our PRC legal advisors, have advised us that, according to the Road Transportation Regulations (道路運輸條例), any income generated from such unauthorized business may be confiscated and a fine ranging from two to ten times of such income may be imposed. We have not been punished for these non-compliance by any relevant governmental authority. King &amp; Wood Mallesons have further advised us that the Road Transportation Regulations do not specify whether such income refers to revenue or net profit, and that the final amounts of the income and the fines are subject to the determination of the competent road transportation authorities.</p> <p>King &amp; Wood Mallesons have advised us that, based on the confirmations issued by the Xi'an Automobile and Repair Administration Department, the Ordos Transportation Administration Department and the Transportation Bureau of Yangzhou, it is unlikely that we will be penalized by such governmental authorities for the non-compliance incidents of three of our PRC subsidiaries and Yangzhou Sunfonda. For the remaining two subsidiaries, although the Yan'an Transportation Bureau and the Lanzhou Transportation Bureau have not confirmed that we will not be penalized, based on the fact that (i) these authorities were aware of the non-compliance incidents and confirmed that we could provide automobile maintenance and repair services before the relevant approvals and licences were obtained; (ii) we have obtained the Project Initiation Approvals and the Road Transport Licenses; and (iii) we have not been penalized by these authorities for such non-compliance incidents, King &amp; Wood Mallesons are of the view that it is unlikely that we will be penalized by these two governmental authorities for such historical non-compliance of two of our PRC subsidiaries.</p>



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## OUR BUSINESS

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No.	Non-compliance incidents	Remedial measures	Possible legal consequences and impact
2.	<p>According to PRC laws and regulations, a foreign-invested automobile dealership company must obtain the approval from the NDRC or its local branch before it can commence the construction and operation of its foreign-invested project. Yangzhou Sunfonda, a former subsidiary of our Group, commenced operations without NDRC approval.</p>	<p>We disposed of Yangzhou Sunfonda to Mr. Zhao in June 2013. According to an agreement entered into between Sunfonda HK, Mr. Zhao and Yangzhou Sunfonda in October 2013, Mr. Zhao and Yangzhou Sunfonda have undertaken to us that (i) in addition to the undertakings in item (ii) below, they will not bring any claim against our Group should there be any penalties imposed by the relevant government authorities due to the historical non-compliance incidents, and (ii) they will fully reimburse us for any penalties imposed on us or losses incurred by us due to the historical non-compliance incidents in connection with the undertakings mentioned in item (i) above.</p> <p>We believe that the business of Yangzhou Sunfonda will not compete directly or indirectly with the business of our Group for the following reasons: (i) we currently do not operate or intend to open outlets for Volkswagen Imported in Yangzhou; (ii) pursuant to the requirement of Volkswagen Imported, Yangzhou Sunfonda is only allowed to conduct sales to companies located in Yangzhou and resident individuals in Yangzhou based on their identification; and (iii) our subsidiaries, including those operating outlets in Suzhou and Wuxi are subject to similar requirement of designated regions to carry out their automobile sales businesses. Therefore, the customers and target markets of Yangzhou Sunfonda are completely separate from those of our Group.</p>	<p>King &amp; Wood Mallesons, our PRC legal advisors, have advised us that there are no explicit provisions regarding the penalties and the procedures for the punishment regarding lack of approval for foreign invested projects from the NDRC or its local branches under current PRC laws and regulations. Yangzhou Sunfonda has not been punished for its lack of NDRC approval by any relevant governmental authority.</p> <p>King &amp; Wood Mallesons, our PRC legal advisors, have confirmed that (i) the undertakings by Mr. Zhao and Yangzhou Sunfonda are valid and legally binding under PRC law; (ii) based on these undertakings, Mr. Zhao and Yangzhou Sunfonda are not entitled to bring any claim against our Group for any penalties imposed on them by competent government authorities or any other losses incurred by them due to the historical non-compliance incidents; and (iii) based on these undertakings, we are entitled to full reimbursement from Mr. Zhao and Yangzhou Sunfonda for any penalties imposed on us or losses incurred by us due to the historical non-compliance incidents.</p>

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## OUR BUSINESS

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The non-compliance incidents relating to our PRC subsidiaries summarized above were primarily due to our reliance on communication with, and verbal and written confirmations from, relevant local authorities regarding our commencement of the relevant operations. As the relevant authorities are the competent authorities responsible for our application of the necessary approvals, permits and licenses and are responsible for imposing any penalties, after receiving their verbal or written confirmations, we have reasonable grounds to believe that such confirmations represented the authorities' view or consent and should be reliable as the basis for us to commence the relevant construction or operations. However, as advised by King & Wood Mallesons, such verbal and written confirmations from local authorities are not sufficient to exempt us from the relevant legal requirements. We have made significant efforts to rectify such non-compliance incidents. To avoid any non-compliance incidents from reoccurring in the future, we have enhanced our regulatory compliance measures. For details, please refer to “— Risk Management — Internal Control”.

Based on the measures undertaken as set out above, and in light of the remedial actions taken, and considering that the Group has adopted substantially all of the recommendations made by the Internal Control Consultant, our Directors believe, and the Sole Sponsor concurs, that the enhanced internal control measures are adequate and effective to ensure future compliance with PRC laws, regulations and rules, and they are not aware of any facts or situations that might affect the suitability of our Directors and our suitability for listing.

Our Controlling Shareholders have entered into the Deed of Indemnity in favor of us, whereby they have agreed to indemnify our Group from and against, among others, any costs, expenses, losses, claims, damages, actions and proceedings which any member of our Group may suffer as a result of, or in connection with, the above non-compliance incidents.

Based on confirmations received from competent authorities, the rectifications we have carried out, the undertakings from Mr. Zhao and Yangzhou Sunfonda, the legal advice from our PRC legal advisors and the indemnity provided by our Controlling Shareholders, our Directors are of the view that there is unlikely to be any material adverse impact on our operations and it is unnecessary to make any provision for these non-compliance incidents.

King & Wood Mallesons, our PRC legal advisors, have confirmed that during the Track Record Period and up to the Latest Practicable Date, and save as described in this prospectus, we have complied with all applicable PRC laws, regulations and rules in all material respects, and have obtained all licenses, approvals and permits from the appropriate regulatory authorities that are material for our business operations in China.

Our Directors are of the view that it is very unlikely that our dealership authorizations will be revoked by our automobile suppliers due to the non-compliance incidents as disclosed in this prospectus, and none of our dealership authorizations have ever been revoked in the past due to any non-compliance incidents. Since our inception, none of our dealership authorization agreements have been terminated by automobile suppliers, and we have been able to renew all of our dealership authorization agreements before or upon expiration. In addition, we have obtained written confirmations from our major suppliers that they maintain a good working relationship with us and there are no circumstances which might cause them to (i) revoke their dealership authorizations granted to us, or (ii) terminate their cooperation with us. Our Directors are of the view that the dealership authorizations are unlikely to be revoked by the automobile suppliers.

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## OUR BUSINESS

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### Hong Kong Non-Compliance Incident

<u>Non-compliance incidents</u>	<u>Brief explanation and remedial measures</u>	<u>Possible legal consequences and impact</u>
<p>The audited financial statements which were presented before Sunfonda HK at its annual general meetings held from 2000 to 2011 (both years inclusive) were made up to a date which was more than nine months before the respective dates of the meetings, and Sunfonda HK failed to submit its audited financial statements to its shareholder at its annual general meeting held in 2012. These were in breach of section 122 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.</p>	<p>As advised by Ms. Chiu, a director of Sunfonda HK, such non-compliance occurred inadvertently due to the failure of Sunfonda HK's professional secretarial firm to advise Sunfonda HK appropriately regarding its accounting and corporate secretarial obligations under the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Company is in the process of selecting other candidates to replace the above secretarial firm and plans to complete this before its listing.</p> <p>To rectify such non-compliance, Sunfonda HK obtained an order from the Court of First Instance of the High Court of Hong Kong on August 1, 2012, which extended the statutory period to include the respective dates on which each of the relevant financial statements were submitted to the shareholder.</p>	<p>Mr. Wu and Ms. Chiu, executive Directors of our Company, have been directors of Sunfonda HK since 1997, and Mr. Zhu Wei, a non-executive Director of our Company, has been a director of Sunfonda HK since 2011.</p> <p>As advised by a Hong Kong law firm, the directors of Sunfonda HK were in breach of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong. The court's order does not necessarily absolve the directors of wrongdoing, and in a worst case scenario, the directors will be subject to a fine of HK\$300,000 and 12 months imprisonment. However, the Hong Kong law firm advised that possibility of the directors of Sunfonda HK being prosecuted was low given the remedial action and the fact that there was no evidence of any prejudice caused to the shareholders.</p>

To ensure future compliance with the Companies Ordinance, our Company Secretary, Ms. So Yee Kwan, who is a Chartered Secretary and an Associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries, will, together with the Board and our legal advisors, oversee the compliance matters of our Group, including Sunfonda HK. An audit committee has also been established to review and supervise the financial reporting process and internal control system of our Group. Our Directors are of the view that such measures will enable our Group to avoid any future non-compliance with the Companies Ordinance.

### RISK MANAGEMENT

We are exposed to various risks during our operations. For more details, please see "Risk Factors". We have implemented various policies and procedures to ensure effective risk management. Such policies and procedures include the following:

#### Board and Audit Committee

Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. The audit committee consists of three members, namely Mr. Liu Jie, who will serve as chairman of the committee, Mr. Yu Yuanbo and Mr. Fu Johnson. For the qualifications and experience of these committee members, please see "Directors and Senior Management". We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

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## OUR BUSINESS

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### Internal Control

In September 2013, we engaged the Internal Control Consultant, to carry out a comprehensive review of our internal control system, including controls and procedures over regulatory compliance, control environment, risk management, information system control, financial management control, disclosure control, human resources and payroll, revenue and receivable, purchase and payable, inventory management, and fixed asset management. The Internal Control Consultant issued a final report in November 2013, and there is no statement on finding of material weakness or material insufficiency in that report.

### Regulatory Compliance

To strengthen our regulatory approval procedures, we have established a regulatory compliance taskforce (the “Regulatory Compliance Taskforce”) in September 2012. Ms. You Jia, an executive Director and vice president, and Mr. Xu Songliu, our director of the legal department, were appointed as members of the Regulatory Compliance Taskforce in September 2012, and Mr. Wang Taisong, our chief financial officer, was appointed a member of the Regulatory Compliance Taskforce in October 2012. Ms. You and Mr. Xu are responsible for monitoring our regulatory compliance from operational and legal perspective, while Mr. Wang is responsible for monitoring our regulatory compliance from financial management perspective.

We have formulated and implemented regulatory compliance measures (the “Regulatory Compliance Measures”) since December 2012. According to the Regulatory Compliance Measures, the strategic investment and development department, the corporate administration department and the legal department are responsible for obtaining all governmental approvals and licenses necessary for the operations of a dealership outlet, which cover three stages, namely site selection, construction of the new outlet and commencement of operations. For each step, the strategic investment and development department, the corporate administration department and the legal department are only permitted to submit an application to the Regulatory Compliance Taskforce when all necessary governmental approvals and licenses have been obtained. The Regulatory Compliance Taskforce will review the application and the relevant governmental approvals and licenses, and decide whether to grant an approval. Only after the approval from the Regulatory Compliance Taskforce is obtained, the strategic investment and development department, the corporate administration department and the legal department are allowed to enter into the next stage. All of these activities are carried out on our operation administration system.

The Regulatory Compliance Taskforce maintains a database of compliance information, such as the details of the necessary governmental approvals and licenses, to ensure the ongoing compliance with PRC laws and regulations. In addition, our audit department also carries out regular internal audit work, which also covers the compliance work of our Group.

Since its inception, the Regulatory Compliance Taskforce has helped us to rectify the historical incidents of non-compliance, and enabled us to comply with applicable PRC laws and regulations. For example, we opened five new outlets in 2013, and all of them have obtained all necessary approvals, licenses and permits, including the Project Initiation Approvals, the Road Transport Licenses and the NDRC approvals, before we commenced the operation of these new outlets.