You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included in "Accountants' Report" in Appendix I, which has been prepared in accordance with the Hong Kong Financial Reporting Standards, or HKFRS, and "Unaudited Pro Forma Financial Information" in Appendix II, in each case together with the accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

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 were 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 same date, we had ten outlets covering such ultra-luxury automobile brands as Porsche and Ferrari/Maserati, for which we were the only dealer in the region, 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 generate revenue from 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 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%. Revenue 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 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:

	Year ended December 31,						
	2011		2012		2013		
Revenue source	**Revenue**	**Contribution**	**Revenue**	**Contribution**	**Revenue**	**Contribution**	**CAGR on revenue**
	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 brands	556,514	10.4	496,951	6.9	431,200	5.8	(12.0)
Subtotal	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
Total	**5,348,404**	**100.0**	**7,205,232**	**100.0**	**7,432,699**	**100.0**	**17.9**

BASIS OF PRESENTATION

Our Company became the holding company of the companies now comprising our Group on March 17, 2011. The companies now comprising our Group were under the common control of the Controlling Shareholders before the Reorganization and will be under the common control of the Controlling Shareholders after the Reorganization. Accordingly, for the purpose of this report, the financial information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2011, 2012 and 2013 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

The financial information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institution of Certified Public Accountants and accounting principles generally accepted in Hong Kong. All HKFRSs, effective for the accounting periods commencing on January 1, 2013, have been adopted by our Group in the preparation of the consolidated financial statements throughout the Track Record Period.

The financial information has been prepared under the historical cost convention, and is presented in Renminbi and all values are rounded to the nearest thousand unless indicated otherwise.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Demand for Luxury and Ultra-luxury Brand Automobiles in the PRC

The results of our operation depend significantly on new automobile sales. We sold a total of 11,032 units, 14,810 units and 15,834 units of new automobiles for 2011, 2012 and 2013, respectively. The rapid growth of the PRC economy has led to accelerated urbanization, improved living standards and higher per capita disposable income, which has in turn driven demand for automobiles in the PRC. Furthermore, as the number of high net worth individuals has increased in China, the demand for luxury products has also grown significantly, resulting in rapid growth in the sales of luxury and ultra-luxury automobiles. Notwithstanding such general trend, the market demand for certain brands of new luxury and ultra-luxury automobiles, including brands such as Audi and Volkswagen Imported, has declined during the Track Record Period. Changes in the foregoing and other factors affecting market demand for automobiles in the PRC, in particular luxury and ultra-luxury automobiles, could materially impact our business and prospects.

Our Dealership Network

The growth of our new automobile sales and after-sales services is directly affected by the number, locations, maturity and business performance of our outlets. To capture more of the increasing demand for luxury and ultra-luxury automobiles, we have rapidly expanded our dealership network through organic growth during the Track Record Period. The number of our outlets increased from 12 as of December 31, 2011 to 26 as of the Latest Practicable Date.

Our outlets are strategically located in Northwestern China, a region with abundant natural resources, such as coal, petroleum and natural gas. Northwestern China has experienced high economic growth in recent years as a result of favorable government policies alongside with its active campaigns to develop the region. The rapid economic growth in Northwestern China has led to increasing demand for automobiles, particularly for luxury and ultra-luxury automobiles.

The following table sets forth a breakdown of our revenue by region and the percentage contribution of each region for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Revenue	*%*	*Revenue*	*%*	*Revenue*	*%*
	(RMB'000, except percentages)					
Shaanxi	4,919,429	92.0	6,014,562	83.5	5,961,360	80.2
Others[(1)]	428,975	8.0	1,190,670	16.5	1,471,339	19.8
Total	5,348,404	100.0	7,205,232	100.0	7,432,699	100.0

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

We plan to expand into the more developed, populous and affluent areas of China, such as Jiangsu Province and Beijing. We believe that, partially due to their advantageous locations, newly established stores in these markets will be able to quickly ramp up sales and become profitable in a relatively short time period.

Product and Service Mix

We offer a diversified portfolio of ultra-luxury, luxury and middle market automobile brands, which bear different gross margins. Changes in the mix of automobile brands and automobile models that we sell and the relative contribution of our after-sales business to our revenue affect our overall gross margin.

Sales of luxury and ultra-luxury automobiles have had an increasing contribution to our revenue and gross profit from automobile sales over the Track Record Period. Revenue from sales of luxury and ultra-luxury automobiles accounted for 88.8%, 92.5% and 93.6% of our total revenue from automobile sales, and gross profit from sales of luxury and ultra-luxury automobiles accounted for 94.8%, 98.3% and 99.8% of our total gross profit from automobile sales for 2011, 2012 and 2013, respectively. As of the Latest Practicable Date, 25 of our 26 outlets were dedicated to the sales of luxury and ultra-luxury brands. During the Track Record Period, our sales of luxury and ultra-luxury brand automobiles have resulted in higher gross margins than our sales of middle market automobile brands.

Our after-sales services business has a higher gross profit margin than our automobile sales business. Our gross profit margin for after-sales services was 37.5%, 41.6% and 41.4%, respectively, for 2011, 2012 and 2013. In addition, the gross profit from our after-sales services accounted for 27.7%, 43.4% and 46.0%, respectively, of our total gross profit during the same periods. An increase in the revenue contribution of our after-sales services will help us improve our profitability.

The following table sets forth our revenue and gross profit for automobile sales and after-sales services for the periods indicated:

	Year ended December 31,														
	2011					2012					2013				
	Revenue	%	Gross Profit	%	Gross Margin	Revenue	%	Gross Profit	%	Gross Margin	Revenue	%	Gross Profit	%	Gross Margin
	(RMB'000)					(RMB'000)					(RMB'000)				
Automobile sales															
Luxury and ultra-luxury brands	4,410,970	82.5	353,833	68.6	8.0%	6,122,318	85.0	312,990	55.6	5.1%	6,308,165	84.9	336,655	54.0	5.3%
Middle market brands	556,514	10.4	19,319	3.7	3.5%	496,951	6.9	5,540	1.0	1.1%	431,200	5.8	568	0.0	0.1%
Subtotal	4,967,484	92.9	373,152	72.3	7.5%	6,619,269	91.9	318,530	56.6	4.8%	6,739,365	90.7	337,223	54.0	5.0%
After-sales services															
Luxury and ultra-luxury brands	339,750	6.3	126,698	24.6	37.3%	536,336	7.4	225,930	40.2	42.1%	645,914	8.7	268,209	43.0	41.5%
Middle market brands	41,170	0.8	16,054	3.1	39.0%	49,627	0.7	18,027	3.2	36.3%	47,420	0.6	18,494	3.0	39.0%
Subtotal	380,920	7.1	142,752	27.7	37.5%	585,963	8.1	243,957	43.4	41.6%	693,334	9.3	286,703	46.0	41.4%
Total	**5,348,404**	**100.0**	**515,904**	**100.0**	**9.6%**	**7,205,232**	**100.0**	**562,487**	**100.0**	**7.8%**	**7,432,699**	**100.0**	**623,926**	**100.0**	**8.4%**

Our Automobile Purchase Costs and Rebates from Automobile Suppliers

Our profitability is affected to a large extent by our costs of purchasing automobiles and spare parts from automobile suppliers and the rebates that they offer. The wholesale prices that we pay for new automobiles and spare parts are determined by the automobile suppliers and we do not exercise any control or influence over their pricing and business strategies. Our overall purchase costs of new automobiles can be affected by the rebates we receive from automobile suppliers based on the units of new automobiles we purchase or sell, depending on the rebate policies of automobile suppliers.

We believe that it is common practice in our industry for 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 an 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. The increases in rebate as a percentage of our gross profit for 2012 and 2013 were attributable to decreases in the average selling prices of the automobiles sold by us, while an increase in rebates we received as additional incentives provided by automobile suppliers to facilitate the sales of automobiles. 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.

Rebates relating to automobiles purchased and sold are deducted from our cost of sales. Rebates relating to automobiles purchased but still held by us as inventory on the reporting date are deducted from the carrying value of these automobiles so that the cost of our inventory recorded on our balance sheet is recorded net of applicable rebates. There was no material discrepancy between accrued rebates and actual rebates we received from the automobile suppliers during the Track Record Period. Any significant change to our purchase costs and the rebates that we receive from automobile suppliers will affect our results of operation and financial condition. See "Risk Factors — Risks Relating to Our Business — We depend on the cooperation of automobile suppliers in many different aspects of our operations. If our relationship with any automobile supplier were to deteriorate, our business, results of operations and growth could be materially and adversely affected" in this prospectus.

Seasonality

The automobile dealership industry is subject to seasonality. According to ACMR, automobile dealerships tend to sell more automobiles in the fourth quarter of every year than other quarters. According to ACMR, for 2011, 2012 and 2013, the sales volume of new automobiles sold in the fourth quarter accounted for approximately 27.1%, 27.3% and 28.3%, respectively, of the total volume of new automobiles sold in China during the same periods. ACMR estimates that this was primarily due to the promotions and marketing events initiated by both automobile suppliers and dealers at the end of the year to promote the sales of new automobiles and to ensure that the annual sales targets set at the beginning of each year will be met, as well as the fact that people generally increase their spending on luxury items, such as automobiles, after they receive their year-end bonuses in the fourth quarter. As a result, our revenue generated by outlets that we had operated for at least one fiscal year in the fourth quarters of 2011, 2012 and 2013 accounted for 29.3%, 31.3% and 26.8%, respectively, of the total revenue of these outlets for 2011, 2012 and 2013. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single fiscal year may not be meaningful and should not be relied upon as indicators of our performance.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Basis of Consolidation

The prospectus includes our consolidated financial information for the Track Record Period.

The acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The acquisition of subsidiaries not under common control has been accounted for using the purchase method of accounting. The merger method of accounting involves incorporating the financial statement items of the consolidating entities in which the common control combination occurs as if they had been consolidated from the date when the consolidating entities first came under the control of the controlling party.

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

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

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

All significant intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full upon consolidation.

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

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Non-controlling interests represent the interests of outside shareholders not held by our Group in the results and net assets of the companies now comprising our Group. Any excess of our Group's interest in the book value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of non-controlling interests (previously referred to as negative goodwill), after reassessment, is recognized immediately in the statements of profit or loss.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) the revenue from automobile sales is recognized when: 1) sales agreements have been formally signed; 2) goods delivered with risk transferred to customers; and 3) collection amount can be measured reliably.

(b) the revenue from after-sales business is recognized when service is fully rendered and collection amount can be measured reliably.

Vendor Rebates

Volume-related vendor rebates are recognized as a deduction from cost of sales on an accrual basis based on the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

The vendor rebates on purchases or sales of automobiles were accrued at each reporting date. The rebates from the automobile suppliers on our overall performance were accrued at each reporting date. There was no material discrepancy between accrued rebates and actual rebates we received from the automobile manufacturers during the Track Record Period.

Judgements and Estimates

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

In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. Our management has formulated and implemented control measures with respect to our management's estimates in accordance with our internal management manual. We have not experienced any material deviation between our management's estimates and actual results and have not changed these estimates during the Track Record Period. Our management does not expect any changes in these estimates in the foreseeable future.

Judgements

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

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB7.8 million, RMB16.1 million and RMB16.8 million as of December 31, 2011, 2012 and 2013, respectively.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Useful lives of property, plant and equipment

We determine the estimated useful lives and related depreciation charges for our property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of a similar nature and function. This estimate could change significantly as a result of technical innovations or competitor actions in response to severe industry cycles. Our management will increase the depreciation charge where useful lives are less than previously estimated lives or our management will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

The following table sets forth the useful lives of our property, plant and equipment:

Category	Estimated useful life	Estimated residual value
Buildings	20 years	5%
Leasehold improvements	The shorter of the lease terms and five years	—
Plant and machinery	Five to ten years	5%
Furniture and fixtures	Three to five years	5%
Motor vehicles	Four to five years	5%

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer-product industry cycles. Our management reassesses these estimates at the end of the reporting period.

DESCRIPTION OF SELECTED STATEMENTS OF PROFIT OR LOSS LINE ITEMS

The following summarizes certain key items of the Accountants' Report set out in Appendix I to this prospectus.

Revenue

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

	Year ended December 31,						
	2011		2012		2013		
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	CAGR
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(%)*
— Automobile sales	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
Total	**5,348,404**	**100.0**	**7,205,232**	**100.0**	**7,432,699**	**100.0**	**17.9**

Our revenue increased from RMB5,348.4 million for 2011 to RMB7,205.2 million for 2012, and further to RMB7,432.7 million for 2013. These increases were primarily due to an increase in the number of outlets we operated and an increase in the sales volume of automobiles during the Track Record Period.

Sales of automobiles generated a substantial portion of our revenue, accounting for 92.9%, 91.9% and 90.7% of our revenue for 2011, 2012 and 2013, respectively. The contribution of our after-sales service business to our revenue increased from 7.1% for 2011 to 8.1% for 2012, and further to 9.3% for 2013, primarily due to our expanding cumulative pool of luxury and ultra-luxury brand automobile customers as a result of our new automobile sales growth in the previous years, as well as our increased marketing efforts for our after-sales services. All of our revenue is derived from our operations in the PRC.

The following table sets forth our average revenue per outlet that we had operated for at least one fiscal year for the periods indicated:

Year ended December 31,					
2011		2012		2013	
Number of outlets	Average revenue per outlet	Number of outlets	Average revenue per outlet	Number of outlets	Average revenue per outlet
	(RMB in millions)		*(RMB in millions)*		*(RMB in millions)*
7	731.8	12	525.7	18	405.2

Our average revenue per outlet that we had operated for at least one fiscal year decreased from RMB731.8 million for 2011 to RMB525.7 million for 2012, and further to RMB405.2 million for 2013. The decreases in our average revenue per outlet that we had operated for at least one fiscal year were primarily due to the combination of following reasons. We opened five new outlets in 2011, including one Bentley outlet, one Audi outlet, one Volkswagen Imported outlet, one Cadillac outlet and one Lexus outlet. It took us time to fully ramp up the operations of these five stores. Furthermore, two of these five outlets are showrooms, which usually generate less revenue than 4S dealership stores as showrooms do not provide after-sales services. We opened six new outlets in 2012, including two Porsche outlets, one Bentley outlet, one Ferrari/Maserati outlet, one Audi outlet and one Volkswagen imported outlet, two of which are showrooms, and for the similar reasons, our average revenue per outlet that we had operated for at least one fiscal year further decreased for 2013.

The following table sets forth our revenue from outlets that we had operated for at least one fiscal year and from outlets that we have operated for less than one fiscal year for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
At least one fiscal year	5,122.4	95.8	6,308.0	87.5	7,293.5	98.1
Less than one fiscal year	226.0	4.2	897.2	12.5	139.2	1.9
Total	**5,348.4**	**100.0**	**7,205.2**	**100.0**	**7,432.7**	**100.0**

The following table sets forth the revenue and percentage of revenue contribution by automobile brand for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
Ultra-luxury brands						
Porsche	1,162.7	21.7	1,942.2	27.0	2,077.9	28.0
Bentley	15.1	0.3	151.1	2.1	185.7	2.5
Ferrari/Maserati(1)	–	–	15.7	0.2	131.5	1.8
Subtotal	1,177.8	22.0	2,109.0	29.3	2,395.1	32.3
Luxury brands						
Audi	1,505.3	28.2	2,522.6	35.0	2,734.9	36.8
Volkswagen Imported(2)	970.3	18.1	1,160.0	16.1	1,137.2	15.3
Lexus	588.7	11.0	489.9	6.8	334.9	4.5
Cadillac	508.6	9.5	350.4	4.8	328.3	4.4
Chrysler(3)	—	—	26.7	0.4	13.8	0.2
Benz	—	—	—	—	2.5	0.0
Hongqi	—	—	—	—	7.4	0.1
Subtotal	3,572.9	66.8	4,549.6	63.1	4,559.0	61.3
Middle market brand						
Toyota	597.7	11.2	546.6	7.6	478.6	6.4
Total	**5,348.4**	**100.0**	**7,205.2**	**100.0**	**7,432.7**	**100.0**

Notes:

(1) We commenced the trial operation of the Ferrari/Maserati outlet in November 2012 and formally launched the outlet in April 2013.

(2) In June 2013, we disposed of our Volkswagen Imported outlet in Yangzhou in Jiangsu Province. For more details, see “Our Business – Our Outlets – Dealership Arrangements”.

(3) In August 2013, we terminated the operations of our Chrysler showroom in Yulin in Shaanxi Province after the trial operation. For more details, see “Our Business – Our Outlets – Dealership Arrangements”.

Our ultra-luxury automobiles have the highest average gross margin among the automobiles sold by us, and the gross margin of our middle market automobiles is lower than those of ultra-luxury and luxury automobiles.

The following table sets forth the sales volumes and average selling prices of each automobile brand we sold for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Volume	Average selling price	Volume	Average selling price	Volume	Average selling price
	(Unit)	*(RMB)*	*(Unit)*	*(RMB)*	*(Unit)*	*(RMB)*
Ultra-luxury Brands						
Porsche	1,010	1,085,267	1,814	993,635	1,956	974,806
Bentley	4	3,771,368	45	3,259,250	53	3,315,717
Ferrari/Maserati	—	—	7	2,240,537	75	1,744,987
Luxury Brands						
Audi	3,406	398,097	6,144	378,092	7,133	349,695
Volkswagen Imported	1,697	537,016	2,565	417,911	2,697	378,831
Cadillac	1,106	431,172	771	382,747	771	358,368
Lexus	914	607,938	824	535,011	597	467,898
Chrysler	—	—	99	268,936	43	318,732
Benz	—	—	—	—	3	832,667
Hongqi	—	—	—	—	24	288,167
Middle Market Brand						
Toyota	2,895	192,233	2,541	195,573	2,482	173,731
Total	11,032	450,280	14,810	446,946	15,834	425,626

The average selling prices of luxury and ultra-luxury brand automobiles offered by us generally decreased during the Track Record Period. These decreases were primarily due to (i) the fact that the mix of automobile models offered by us shifted to lower configuration models as our automobile suppliers have promoted sales of lower configuration models in order to cater to the change in customers’ demands given the change in market sentiment, as well as an increase in the supply of domestically-manufactured automobiles, which had lower prices than imported models; and (ii) the reduction of the selling prices of certain automobiles with low turnover rates by us pursuant to the policies and requests of our automobile suppliers in order to facilitate the turnover of older models. Please see “Our Business — Inventory Management” in this prospectus.

Revenue from the sale of automobiles represents the sales of automobiles sold. Revenue from our after-sales services includes charges for maintenance, repair and other services rendered by us and revenue from the sales of spare parts and automobile accessories. We receive payment from automobile suppliers for the repair and maintenance services and spare parts provided by us under their warranties. The warranty terms offered by automobile suppliers generally cover services at any authorized 4S dealership store under their brands. The customers of our after-sales services include both our automobile buyers and customers who had purchased their automobiles elsewhere. The prices of the automobiles and maintenance services that we offer to our customers are affected by our automobile suppliers' pricing guidelines. We generally require customers to make full payment in cash when our products and services are delivered. Sales of automobiles and revenue generated from the provision of our after-sales services are generally subject to a 17% value-added tax (VAT). Our revenue is recorded exclusive of VAT.

Cost of Sales and Services

The following table sets forth a breakdown of our cost of sales and services for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	%	Amount	%	Amount	%
	(RMB'000, except for percentages)					
Cost of sales of automobiles	4,594,332	95.1	6,300,739	94.9	6,402,142	94.0
Cost of after-sales services	238,168	4.9	342,006	5.1	406,631	6.0
Total	**4,832,500**	**100.0**	**6,642,745**	**100.0**	**6,808,773**	**100.0**

Our cost of sales and services is primarily comprised of the cost of new automobiles purchased from automobile suppliers, which represented 95.1%, 94.9%, and 94.0% of our total cost of sales and services for 2011, 2012 and 2013, respectively. Our cost of sales and services also includes the costs of our after-sales services business, which is primarily comprised of the cost of purchasing spare parts for our repair, maintenance and automobile detailing services and the cost of purchasing other products that we sell.

We record the purchase of automobiles upon the delivery of automobiles to our outlets.

Other Income and Gains, Net

The following table sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Commission income	8,759	42,820	62,922
Service income	13,625	16,482	20,937
Interest income	2,913	2,333	3,260
Advertisement support received from automobile suppliers	4,345	3,396	—
Net gain/(loss) on disposal of property, plant and equipment	5,329	(1,526)	(2,040)
Gain on disposal of a subsidiary	—	—	4,704
Others	599	614	4,118
Total	**35,570**	**64,119**	**93,901**

Our other net income and gains primarily are comprised of commission received from insurance companies and finance companies for our automobile insurance agency service and automobile financing service, service income from the warehousing, management and distribution services provided by our FAW-Volkswagen spare parts distribution center, advertisement support received from automobile suppliers for the advertising activities we offer to promote their automobiles, interest income from our bank deposits and net gain/(loss) on disposal of property, plant and equipment, mainly from the disposal of test drive automobiles. For 2011, 2012 and 2013, other net income and gains were RMB35.6 million, RMB64.1 million and RMB93.9 million, respectively. Our commission income increased significantly from RMB8.8 million for 2011 to RMB42.8 million for 2012, and further to RMB62.9 million for 2013, primarily due to a significant increase in both commissions from automobile insurance agency services and automobile financing services, which were in turn due to a significant increase in the volume of such services provided by us during the same periods. For 2012 and 2013, we recorded a net loss on disposal of property, plant and equipment of RMB1.5 million and RMB2.0 million, respectively, primarily due to the loss arising from the disposal of test drive automobiles. We disposed of Yangzhou Sunfonda in 2013 and recorded a net gain of RMB4.7 million. For more details, please see "Our History and Reorganization — Corporate Reorganization — On-shore Reorganization".

Selling and Distribution Costs

Our selling and distribution costs are primarily comprised of (i) advertising and promotion expenses for the automobiles and services that we offer, (ii) salary and welfare for our sales team and (iii) depreciation of property, plant and equipment, and amortization of the land use rights of our outlets.

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

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Salary and welfare	30,553	38,337	42,073
Rental expenses	2,201	15,681	14,522
Advertising and promotion expenses	52,815	46,102	46,258
Depreciation and amortization	20,571	38,433	53,001
Logistics and petroleum costs	6,104	8,553	6,366
Office expenses	4,512	8,751	6,497
Travelling expenses	2,929	4,212	2,810
Others	19,963	15,978	20,864
Total	**139,648**	**176,047**	**192,391**

For 2011, 2012 and 2013, our selling and distribution costs were RMB139.6 million, RMB176.0 million and RMB192.4 million, respectively, representing 2.6%, 2.4%, and 2.6% of our revenue, respectively. Our salary and welfare increased from RMB30.6 million for 2011 to RMB38.3 million for 2012, primarily due to an increase in the head count of our sales and marketing personnel which in turn was attributable to the expansion of our outlet network. Our salary and welfare expenses remained relatively stable at RMB38.3 million and RMB42.1 million, respectively, for 2012 and 2013. Our depreciation and amortization increased from RMB20.6 million for 2011 to RMB38.4 million for 2012, and further to RMB53.0 million for 2013, primarily due to an increase in the amount of depreciable assets in connection with our new outlets that we opened during the period. Our rental expenses increased from RMB2.2 million for 2011 to RMB15.7 million for 2012, primarily due to our new outlets on leased land and in leased buildings.

Administrative Expenses

Our Administrative expenses principally include: (i) salary and welfare for our administration personnel; (ii) office supplies and utilities for our administrative activities; (iii) depreciation of property, plant and equipment, and amortization of the land use rights of our offices; and (iv) travelling and business entertainment expenses.

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

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Salary and welfare	29,934	41,763	47,473
Office supplies and utilities	23,440	28,223	24,932
Travelling and business entertainment	13,018	15,634	10,852
Depreciation and amortization	15,644	22,473	29,733
Taxation	8,540	12,705	14,774
Rental expenses	3,772	6,116	2,204
Bank charges	3,393	5,327	5,790
Professional fees	3,223	4,463	8,623
Others	9,061	8,855	7,889
Total	**110,025**	**145,559**	**152,270**

For 2011, 2012 and 2013, our administrative expenses were RMB110.0 million, RMB145.6 million and RMB152.3 million, representing 2.1%, 2.0% and 2.0% of our revenue, respectively. Our salary and welfare increased from RMB29.9 million for 2011 to RMB41.8 million for 2012, and further to RMB47.5 million for 2013, primarily due to an increase in the head count of our administration personnel, which in turn was attributable to the expansion of our outlets network. Our depreciation and amortization increased from RMB15.6 million for 2011 to RMB22.5 million for 2012, and further to RMB29.7 million for 2013, primarily due to an increase in the amount of depreciable assets in connection with our new outlets that we opened during the period. Our office supplies and utilities decreased from RMB28.2 million for 2012 to RMB24.9 million for 2013, primarily due to our increased cost control efforts by limiting the amount of office supplies expenditures and reducing utility consumption.

Finance Costs

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

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000, except for percentages)					
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
Interest expense on bank borrowings wholly repayable within five years	30,901	75.4	88,333	75.7	102,592	82.3
Interest expense on other borrowings	10,093	24.6	32,193	27.6	25,531	20.5
Less: interest capitalized	—	—	(3,831)	(3.3)	(3,539)	(2.8)
Total	**40,994**	**100.0**	**116,695**	**100.0**	**124,584**	**100.0**

Our finance costs primarily include interest expenses on bank borrowings wholly repayable within five years and interest expense on other borrowings. Interest expense on other borrowings mainly includes interest we paid for bank notes and financing provided by automobile suppliers. For 2011, 2012 and 2013, our finance costs were RMB41.0 million, RMB116.7 million, and RMB124.6 million, representing 0.8%, 1.6% and 1.7% of our revenue, respectively. The increases in finance cost from 2011 to 2012 and 2013 were primarily due to our increased need for borrowings as a result of our business expansion.

The effective interest rates of our bank borrowings and other borrowings ranged from 5.1% to 9.5% for 2011, 4.7% to 8.7% for 2012 and 5.9% to 8.7% for 2013. For 2012 and 2013, we capitalized interest of RMB3.8 million and RMB3.5 million, respectively, of borrowings related to the construction and development of our new outlets during the year.

Tax

Income tax expenses represent our total current and deferred tax expenses. During the Track Record Period, income tax expenses consisted entirely of tax expenses incurred by our PRC subsidiaries. Our PRC subsidiaries were subject to an enterprise income tax at the rate of 25%. For 2011, 2012 and 2013, our effective income tax rate was 25.6%, 25.5% and 25.3%, respectively.

We have decided that the retained profits of RMB714.2 million as of December 31, 2013 generated by our PRC subsidiaries which recorded distributable profits during the Track Record Period will be used to further expand our operations in China and will not be distributed to members of our Group incorporated outside the PRC in the foreseeable future. As a result, we have not provided for withholding taxes on such retained profits.

We have fully paid all relevant taxes due during the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth a summary of our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
Revenue	5,348,404	7,205,232	7,432,699
Cost of sales and services	(4,832,500)	(6,642,745)	(6,808,773)
Gross profit	515,904	562,487	623,926
Other income and gains, net	35,570	64,119	93,901
Selling and distribution costs	(139,648)	(176,047)	(192,391)
Administrative expenses	(110,025)	(145,559)	(152,270)
Profit from operations	301,801	305,000	373,166
Finance costs	(40,994)	(116,695)	(124,584)
Profit before tax	260,807	188,305	248,582
Income tax	(66,809)	(48,091)	(62,969)
Profit for the year	193,998	140,214	185,613
Attributable to:			
Owners of the parent	193,998	140,214	185,636

2013 Compared with 2012

Revenue. Our revenue remained relatively stable at RMB7,205.2 million and RMB7,432.7 million, respectively, for 2012 and 2013.

Revenue from sales of automobiles remained relatively stable at RMB6,619.3 million and RMB6,739.4 million, respectively, for 2012 and 2013.

Revenue from after-sales services increased by 18.3% from RMB586.0 million for 2012 to RMB693.3 million for 2013, primarily due to an increase in the throughput volume of after-sales services provided by our luxury and ultra-luxury outlets, which was primarily attributable to our expanding cumulative pool of luxury and ultra-luxury brand automobile customers as a result of our new automobile sales growth in the previous years, as well as our increased marketing efforts for our after-sales services, including more frequent follow-ups with our customers and promotional events.

Cost of sales and services. Our cost of sales and services remained relatively stable at RMB6,642.7 million and RMB6,808.8 million, respectively, for 2012 and 2013. Cost of sales of new automobiles remained relatively stable at RMB6,300.7 million and RMB6,402.1 million, respectively, for 2012 and 2013. As a percentage of revenue, our cost of sales of automobiles remained relatively stable at 87.4% and 86.1%, respectively, for 2012 and 2013. Cost of after-sales services increased by 18.9% from RMB342.0 million for 2012 to RMB406.6 million for 2013, which was primarily attributable to the increase in revenue from after-sales services.

Gross profit. Our gross profit increased by 10.9% from RMB562.5 million for 2012 to RMB623.9 million for 2013. Our gross margin increased from 7.8% for 2012 to 8.4% for 2013, primarily due to increases in the gross margins of both sales of new automobiles and after-sales services.

Our gross profit from sales of luxury and ultra-luxury automobiles increased by 7.6% from RMB313.0 million for 2012 to RMB336.7 million for 2013, primarily due to an increase in the sales volume of luxury and ultra-luxury automobiles and an increase in the gross profit margin from sales of luxury and ultra-luxury automobiles. Our gross margin from sales of luxury and ultra-luxury automobiles increased from 5.1% for 2012 to 5.3% for 2013, primarily due to an increase in the revenue contribution from sales of ultra-luxury automobile models, in particular Porsche and Ferrari, as a result of the ramp-up of one Porsche outlet opened in February 2012 and one new Porsche outlet, one new Bentley outlet and one new Ferrari/Maserati outlet opened in late 2012. Our ultra-luxury automobile models generally have higher gross margins than other models. Our gross profit from sales of middle market automobiles decreased significantly from RMB5.5 million for 2012 to RMB0.6 million for 2013, and our gross profit margin from sales of middle market automobiles decreased from 1.1% to 0.1% during the same periods, primarily due to a change in market sentiment towards Japanese automobiles in the PRC. For more details, please see “Risk Factors — Risks Relating to Our Business — We may not be able to sustain growth rates similar to those we experienced during the Track Record Period, or maintain our financial performance in the future” and “Our Business — Industry — Recent Developments”.

Our gross profit from after-sales services increased by 17.5% from RMB244.0 million for 2012 to RMB286.7 million for 2013, primarily due to an increase in gross profit from after-sales services provided to luxury and ultra-luxury automobiles as a result of an increase in the throughput volume of luxury and ultra-luxury automobiles. Our gross margin from after-sales services remained relatively stable at 41.6% and 41.4%, respectively, for 2012 and 2013.

Other income and gains, net. Other net income and gains increased by 46.5% from RMB64.1 million for 2012 to RMB93.9 million for 2013, primarily due to an increase in commission income, mainly reflecting a significant increase in both commission from automobile insurance agency services and automobile financing services, which was in turn due to a significant increase in the amount of such services provided by us, and, to a lesser extent, a gain on disposal of our subsidiary Yangzhou Sunfonda.

Selling and distribution costs. Our selling and distribution costs increased by 9.3% from RMB176.0 million for 2012 to RMB192.4 million for 2013. This increase was primarily due to an increase in depreciation and amortization, primarily reflecting an increase in the amount of depreciable assets in connection with our new outlets. As a percentage of revenue, sales and distribution costs remained stable at 2.4% and 2.6%, respectively, for 2012 and 2013.

Administrative expenses. Our administrative expenses increased by 4.6% from RMB145.6 million for 2012 to RMB152.3 million for 2013, primarily due to (i) an increase in depreciation and amortization as a result of an increase in the amount of depreciable assets in connection with our new outlets; and (ii) an increase in salary and welfare costs as a result of an increase in the head count of our administration personnel, which in turn was attributable to the expansion of our sales network. This increase was partially offset by (i) a decrease in travelling and business entertainment expenses as a result of our increased cost control efforts; and (ii) a decrease in the purchase of office supplies and utilities as a result of our increased cost control efforts, whereby we reduced the budgets for office supplies and reduced our utility consumption. As a percentage of revenue, administrative expenses remained stable at 2.0% for both 2012 and 2013.

Profit from operations. As a result of the foregoing, our profit from operations increased by 22.4% from RMB305.0 million for 2012 to RMB373.2 million for 2013. Our operating profit margin increased from 4.2% for 2012 to 5.0% for 2013, primarily due to an increase in our gross margin.

Finance costs. Our finance costs increased by 6.8% from RMB116.7 million for 2012 to RMB124.6 million for 2013. Our interest expense on bank borrowings wholly payable within five years increased from RMB88.3 million for 2012 to RMB102.6 million for 2013, primarily due to an increase in the amount of our bank borrowings in late 2012. Our interest expense on other borrowings decreased by 20.8% from RMB32.2 million for 2012 to RMB25.5 million for 2013, primarily due to (i) an increase in the use of bank loans to replace the bank acceptance notes used to pay for the purchases of new automobiles, as the latter had higher interest rates; and (ii) our improved liquidity position because we used bank acceptance notes with shorter terms.

Profit before tax. As a result of the foregoing, our profit before tax increased by 32.0% from RMB188.3 million for 2012 to RMB248.6 million for 2013.

Income tax. Our income tax increased by 31.0% from RMB48.1 million for 2012 to RMB63.0 million for 2013 as a result of an increase in our taxable income. Our effective income tax rate decreased from 25.5% for 2012 to 25.3% for 2013.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year increased by 32.4% from RMB140.2 million for 2012 to RMB185.6 million for 2013. Our net profit margin increased from 1.9% for 2012 to 2.5% for 2013.

2012 Compared with 2011

Revenue. Our revenue increased by 34.7% from RMB5,348.4 million for 2011 to RMB7,205.2 million for 2012, primarily due to an increase in revenue from sales of automobiles.

Revenue from sales of automobiles increased by 33.3% from RMB4,967.5 million for 2011 to RMB6,619.3 million for 2012, primarily due to an increase in the overall sales volume of automobiles from 11,032 units for 2011 to 14,810 units for 2012 as a result of the growth of our outlets that were opened before 2012 and, to a lesser extent, the addition of eight new outlets during 2012.

Revenue from after-sales services increased by 53.8% from RMB380.9 million for 2011 to RMB586.0 million for 2012, primarily due to an increase in the throughput volume of after-sales services provided by our luxury and ultra-luxury brand outlets, which demanded higher services fee than our middle market brand outlets. The increase in the throughput volume of after-sales services provided by our luxury and ultra-luxury brand stores was primarily due to our expanding cumulative pool of luxury and ultra-luxury brand automobile customers as a result of our new automobile sales growth in the previous years, which in turn generated demand for services when warranties on the related automobiles expired.

Cost of sales and services. Our cost of sales and services increased by 37.5% from RMB4,832.5 million for 2011 to RMB6,642.7 million for 2012. This increase was generally due to the growth in our sales of new automobiles for 2012. As a percentage of revenue, our cost of sales of automobiles remained relatively stable at 85.9% and 87.4% for 2011 and 2012, respectively. Our cost of after-sales services increased by 43.6% from approximately RMB238.2 million for 2011 to RMB342.0 million for 2012, which was in line with the increase in revenue of after-sales services.

Gross profit. For the foregoing reasons, our gross profit increased by 9.0% from RMB515.9 million for 2011 to RMB562.5 million for 2012. Our gross margin decreased from 9.6% for 2011 to 7.8% for 2012, primarily due to decreases in the gross margins of both luxury and ultra-luxury models and middle market models, partially offset by an increase in the gross margin of after-sale services.

Our gross profit from sales of luxury and ultra-luxury automobiles decreased by 11.5% from RMB353.8 million for 2011 to RMB313.0 million for 2012. Our gross margin from the sales of luxury and ultra-luxury automobiles decreased from 8.0% for 2011 to 5.1% for 2012. This decrease was primarily due to the shift in the mix of luxury and ultra-luxury automobile models to low configuration models as our automobile suppliers have increasingly promoted sales of lower configuration automobile models in order to cater to the changes in customers' demands. In addition, we reduced the selling prices of certain older models pursuant to the policies and requests of our automobile suppliers. However, our procurement prices for new automobiles form our automobile suppliers did not decrease by the same rate as the decrease in the average selling price of new automobiles. Nevertheless, we achieved a positive gross margin from such sales after taking into account the vendor rebates we received. Gross profit from the sales of middle market automobiles decreased by 71.5% from RMB19.3 million for 2011 to RMB5.5 million for 2012. Our gross margins from the sales of middle market automobiles decreased from 3.5% for 2011 to 1.1% for 2012, which was primarily due to a change in market sentiment towards Japanese automobiles in the PRC. For more details, please see "Risk Factors – Risks Relating to Our Business – We may not be able to sustain growth rates similar to those we experienced during the Track Record Period, or maintain our financial performance in the future" and "Our Business – Industry – Recent Developments".

Our gross profit from after-sales services increased by 70.9% from RMB142.8 million for 2011 to RMB244.0 million for 2012, primarily due to an increase in the gross profit of after-sales services provided to luxury and ultra-luxury automobiles as a result of an increase in the throughput volume of luxury and ultra-luxury automobiles. Our gross margin for after-sales services increased from 37.5% for 2011 to 41.6% for 2012, primarily due to an increase in the revenue contribution from luxury and ultra-luxury automobiles and, to a lesser extent, an increase in the revenue contribution from accessory installation, personalized modification and automobile beautification, all of which had higher gross margins than other after-sales services.

Other income and gains, net. Other net income and gains increased by 80.1% from RMB35.6 million for 2011 to RMB64.1 million for 2012, primarily due to an increase in commission income from our agency services during 2012, which was partially offset by a net loss on the disposal of property, plant and equipment arising from the disposal of test drive automobiles.

Selling and distribution costs. Our selling and distribution costs increased by 26.1% from RMB139.6 million for 2011 to RMB176.0 million for 2012. This increase was primarily due to (i) an increase in depreciation and amortization due to our new outlets opened during 2012 and (ii) an increase in salary and welfare costs as a result of an increase in the head count of our sales and marketing personnel which in turn was attributable to the expansion of our outlet network, and which was partially offset by a decrease in advertising and promotion expenses, primarily because we utilized more directed marketing approaches and reduced our spending on advertising through mass media. As a percentage of revenue, sales and distribution costs remained relatively stable at 2.6% and 2.4% for 2011 and 2012, respectively.

Administrative expenses. Our administrative expenses increased by 32.4% from RMB110.0 million for 2011 to RMB145.6 million for 2012, primarily due to (i) an increase in salary and welfare costs as a result of an increase in the head count of our administration personnel which in turn was attributable to the expansion of our outlets network, (ii) an increase in depreciation and amortization due to our new outlets opened during 2012 and (iii) an increase in office supplies and utilities purchased as a result of the expansion of our outlets network and the growth of our business. As a percentage of revenue, administrative expenses remained relatively stable at 2.1% and 2.0% for 2011 and 2012, respectively.

Profit from operations. As a result of the foregoing, our profit from operations increased by 1.1% from RMB301.8 million for 2011 to RMB305.0 million for 2012. Our operating profit margin decreased from 5.6% for 2011 to 4.2% for 2012, primarily due to a decrease in our gross margin and increases in our selling and distribution costs and administrative expenses.

Finance costs. Our finance costs increased significantly from RMB41.0 million for 2011 to RMB116.7 million for 2012. Our interest expense on bank borrowings wholly payable within five years increased significantly from RMB30.9 million for 2011 to RMB88.3 million for 2012, primarily due to a significant increase in the amount of our bank borrowings during 2012, primarily reflecting our increased need for capital as a result of (i) eight new stores opened in 2012, and (ii) expenditures for the acquisition of land use rights and the construction of stores under development. Our interest expense on other borrowings increased significantly from RMB10.1 million for 2011 to RMB32.2 million for 2012, primarily due to our increased use of bank acceptance notes to pay for the purchases of new automobiles driven by our business growth.

Profit before tax. As a result of the foregoing, our profit before tax decreased by 27.8% from RMB260.8 million for 2011 to RMB188.3 million for 2012.

Income tax. Our income tax decreased by 28.0% from RMB66.8 million for 2011 to RMB48.1 million for 2012 as a result of a decrease in our taxable income. Our effective income tax rate remained relatively stable at 25.6% and 25.5% for 2011 and 2012, respectively.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year decreased by 27.7% from RMB194.0 million for 2011 to RMB140.2 million for 2012. Our net profit margin decreased from 3.6% for 2011 to 1.9% for 2012.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new outlets, including purchase of land use rights and construction costs, and to fund our working capital and normal operating expenses. Historically, we have financed our liquidity requirements through a combination of cash flows generated from our operating activities, bank loans and other borrowings, including financing provided by our Shareholders and by the financing institutions owned by automobile suppliers in the PRC, and capital injection from our Shareholders, including Standard Chartered Private Equity. We expect the finance costs of our Group to increase as our inventory level and prepayments for new automobiles grow due to the continuing expansion of our business. Our operating cash flows in 2013 were positive and our operating cashflows in 2011 and 2012 were negative. Please see "Risk Factors — Risks Relating to Our Business — We have recorded, and may continue to record, negative operating cash flows due to our rapid expansion" in this prospectus. We have historically repaid our bank acceptance notes and repaid or rolled over our bank loans when due. During the Track Record Period, we did not experience any significant difficulties in rolling over our bank loans. Taking into account our existing cash and cash equivalents of RMB306.8 million as of February 28, 2014, and the fact that we had positive net operating cash flow of RMB403.2 million for 2013, anticipated cash flow from our operating activities, undrawn and unrestricted bank facilities of RMB1.2 billion as of February 28, 2014 (out of our total bank credit facilities of RMB3.4 billion) and the net proceeds expected to be received from the Global Offering, our Directors are satisfied that, after due and careful inquiry, we have sufficient working capital available to satisfy our requirements, including to fund our planned dealership network expansion, for at least 12 months following the date of this prospectus.

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

	Year ended December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
Net cash generated from/(used in) operating activities	(12,851)	(294,484)	403,155
Net cash used in investing activities	(375,790)	(383,038)	(357,724)
Net cash generated from financing activities	430,167	734,838	78,858
Net increase in cash and cash equivalents	41,526	57,316	124,289
Cash and cash equivalents at the end of year	**271,442**	**328,741**	**451,930**

Cash Flow Generated from/(Used in) Operating Activities

For 2013, our net cash generated from operating activities was RMB403.2 million, which was mainly attributable to a profit before taxation of RMB248.6 million adjusted for a decrease in working capital. The decrease in working capital primarily reflected (i) a decrease in pledged bank deposits of RMB108.8 million, primarily due to our decreased use of pledged bank deposits to secure bank acceptance notes, as we used more bank loans to replace the bank acceptance notes used to pay for the purchases of new automobiles with a view to reducing our finance costs, as well as our improved liquidity position because we used bank acceptance notes with shorter terms; and (ii) a decrease in prepayments, deposits and other receivables of RMB54.9 million as a result of a decrease in prepayments and deposits to automobile suppliers as we tightened the management of prepayments to automobile suppliers to improve our liquidity position, partially offset by a decrease in trade and bills payables of RMB117.4 million, primarily due to a decrease in bills payables due to the suppliers of our after-sales services as a result of our using bank acceptance notes with shorter terms.

For 2012, our net cash used in operating activities was RMB294.5 million, which was mainly attributable to profit before taxation of RMB188.3 million adjusted by (i) an increase in inventories of RMB303.5 million, primarily due to our dealership network expansion, which in turn required us to maintain higher inventories for the new stores, an increase in automobile procurement as a result of an increase in sales targets provided by our major automobile suppliers, and a slow turnover of our inventories as a result of the general economic condition; (ii) an increase in pledged bank deposits of RMB192.6 million, primarily due to an increase in our use of bank acceptance notes; (iii) an increase in prepayments, deposits and other receivables of RMB138.4 million primarily due to our dealership network expansion, which required us to purchase more automobiles and make more prepayments in 2012; and (iv) a decrease in other payables and accruals of RMB108.8 million, primarily due to a decrease in advances from customers as a result of a decrease in our customers' orders for new automobiles, which were partially offset by an increase in trade and bills payables of RMB208.7 million as a result of an increase in purchase of automobiles and spare parts.

We had negative net cash flow from operating activities for 2012, mainly due to (i) our need to increase our inventories for the eight new stores (including one Ferrari/Maserati outlet which commenced trial operations in November 2012) opened in 2012 as a result of our outlet network expansion; and (ii) our need to make prepayments for our automobile purchases. There is typically a time lapse ranging from three to 15 days, and in extreme cases, 30 days, before the related automobiles are delivered to our stores for sale. As a result, our prepayments for automobile purchases are reflected in our operating cash flows before the proceeds from the related automobile sales are received. The automobile purchases made in anticipation of increased sales for future periods result in significant cash outflow for the current period. Due to our continued expansion plan, we are likely to continue to have negative operating cash flow in the foreseeable future, particularly during the ramp-up period required by our newly opened outlets. Please refer to the section headed "Our Business — Our Outlets — Dealership Network Expansion" for a description of our planned network expansion.

For 2011, our net cash used in operating activities was RMB12.9 million, which was mainly attributable to a profit before taxation of RMB260.8 million adjusted for the increase in working capital requirements. The increase in working capital primarily reflected (i) an increase in inventories of RMB251.4 million, primarily due to our dealership network expansion, which in turn required us to maintain higher inventories for the new outlets; (ii) an increase in prepayments, deposits and other receivables of RMB248.3 million, primarily due to our dealership network expansion, which required us to purchase more automobiles and make more prepayments in 2011; and (iii) an increase in pledged bank deposits of RMB184.6 million to secure increased bills payables, which were partially offset by (i) an increase in trade and bills payables of RMB288.6 million, primarily due to an increase in purchase of automobiles and spare parts; and (ii) an increase in other payables and accruals of RMB109.7 million, primarily due to an increase in advances we received from our customers as a result of an increase in customer orders for new automobiles.

Our net cash flow from operating activities was negative for 2011, mainly due to (i) our need to purchase inventory for the five new stores opened in 2011 as a result of our outlet network expansion; and (ii) our need to make prepayments for our automobile purchases.

Cash Flow Used in Investing Activities

For 2013, our net cash used in investing activities was RMB357.7 million, consisting primarily of (i) the purchases of property, plant and equipment of RMB353.6 million; and (ii) the purchases of land use rights of RMB148.3 million for our new outlets, both of which were primarily due to our five new outlets opened in 2013 and additional planned outlets.

For 2012, our net cash used in investing activities was RMB383.0 million, consisting primarily of (i) the purchases of property, plant and equipment of RMB276.1 million, primarily due to the expansion of our dealership network; and (ii) the purchases of land use rights of RMB160.3 million for our new outlets.

For 2011, our net cash used in investing activities was RMB375.8 million, consisting primarily of (i) the purchases of property, plant and equipment of RMB267.0 million, primarily due to the expansion of our dealership network; and (ii) the purchases of land use rights of RMB141.1 million for our new outlets.

Cash Flow Generated from Financing Activities

For 2013, our net cash generated from financing activities was RMB78.9 million, consisting primarily of proceeds from bank loans and other borrowings of RMB4,113.2 million, partially offset by repayment of bank loans and other borrowings of RMB3,913.0 million. Our net cash generated from financing activities for 2013 remained minimal as a result of our improved cash flow generated from operating activities.

For 2012, our net cash generated from financing activities was RMB734.8 million, consisting primarily of proceeds from bank loans and other borrowings of RMB3,824.9 million, primarily due to our increased need for working capital for increased inventories as a result of our business expansion, which was partially offset by repayment of bank loans and other borrowings of RMB2,969.5 million.

For 2011, our net cash generated from financing activities was RMB430.2 million, consisting primarily of proceeds from bank loans and other borrowings of RMB2,553.0 million, primarily due to our increased need for working capital as a result of our business expansion, which was partially offset by repayment of bank loans and other borrowings of RMB2,251.9 million.

NET CURRENT ASSETS/(LIABILITIES)

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

	As of December 31,			As of February 28,
	2011	2012	2013	2014
		(RMB'000)		
Current assets				
Inventories	449,505	753,021	730,594	924,250
Trade receivables	16,223	47,481	50,841	48,474
Prepayments, deposits and other receivables	490,150	628,501	565,303	683,013
Amounts due from related parties	—	—	6,371	9,159
Pledged bank deposits	208,381	400,994	292,209	369,260
Cash in transit	17,397	19,610	33,240	7,605
Cash and cash equivalents	271,442	328,741	451,930	306,797
Total current assets	**1,453,098**	**2,178,348**	**2,130,488**	**2,348,558**
Current liabilities				
Interest bearing bank loans and other borrowings	534,684	1,425,582	1,523,674	1,668,698
Trade and bills payables	356,471	565,194	444,792	519,740
Other payables and accruals	314,336	219,873	190,355	193,600
Amounts due to related parties	29,381	9,280	7,684	—
Income tax payable	71,689	34,844	39,400	35,395
Total current liabilities	**1,306,561**	**2,254,773**	**2,205,905**	**2,417,433**
Net current assets/(liabilities)	**146,537**	**(76,425)**	**(75,417)**	**(68,875)**

As of December 31, 2012, we had net current liabilities of RMB76.4 million, which was primarily due to a significant increase in short-term bank borrowings from RMB485.0 million as of December 31, 2011 to RMB1,337.4 million as of December 31, 2012 in order to fund the expansion of our business. Part of our short-term loans were used to finance the purchase of our property, plant and equipment and to provide pre-payment for purchase of land use rights, which are non-current assets. As of February 28, 2014, our net current liabilities decreased slightly to RMB68.9 million from December 31, 2013. As of December 31, 2013, our net current liabilities remained relatively stable at RMB75.4 million compared to December 31, 2012. As of February 28, 2014, we had unutilized and unrestricted banking facilities of RMB1.2 billion. Our Directors believe that, with the available banking facilities, the cash generated from our operating activities and the net proceeds we expect to receive from the Global Offering, we will be able to further improve our liquidity position in the future. See "Risk Factors — Risks Relating to Our Business — We had net current liabilities position as of December 31, 2012 and 2013". As of December 31, 2011, we had net current assets of RMB146.5 million.

All amounts due to and due from related parties that are non-trade in nature will be fully settled before the Listing.

CAPITAL EXPENDITURE

Our capital expenditures during the Track Record Period were primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During the Track Record Period, our total capital expenditures were RMB409.6 million, RMB439.8 million and RMB502.2 million, respectively. The following table sets forth our expenditures on property, plant and equipment, land use rights and intangible assets for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Purchase of property, plant and equipment	266,970	276,073	353,560
Purchase of land use rights	141,148	160,300	148,278
Purchase of intangible assets	1,518	3,401	328
Total	**409,636**	**439,774**	**502,166**

As of the Latest Practicable Date, we planned to open 11 additional outlets. We estimate that the capital expenditure required for these outlets will range from RMB30 million to RMB80 million per outlet, depending on factors such as location and the brands of the outlets. We expect to use 30% of the capital expenditures for the acquisition of land use rights, 55% for the construction and decoration of our outlets, 10% for equipment and furniture and 5% for the procurement of test drive automobiles. The estimated capital expenditures for each new outlet are in line with the historical capital expenditures we have incurred.

As of December 31, 2013, we expected to incur approximately RMB805.7 million of capital expenditures for our planned outlets by the end of 2014, of which approximately RMB365.7 million of capital expenditures have already been incurred as of December 31, 2013. We expect to fund the remaining capital expenditures primarily through the net proceeds from the Global Offering and cash generated from our operations.

CAPITAL COMMITMENTS

The following table sets forth our capital commitments in respect of land use rights and buildings and investee companies as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Contracted, but not provided for land use rights and buildings	20,347	76,114	39,723

OPERATING LEASE COMMITMENTS

The following table sets forth our total future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Within one year	14,686	16,568	19,832
After one year but within five years	57,829	51,178	67,735
After five years	58,598	49,375	45,202
Total	**131,113**	**117,121**	**132,769**

Operating lease commitments decreased from RMB131.1 million as of December 31, 2011 to RMB117.1 million as of December 31, 2012, primarily because we terminated the lease of two properties that we no longer needed. Operating lease commitments increased to RMB132.8 million as of December 31, 2013, primarily because we entered into lease agreements for our new and planned outlets during 2013.

INVENTORY

During the Track Record Period, our inventories primarily consisted of new automobiles, spare parts and accessories. Each of our outlets individually manages their orders for new automobiles and after-sales products. We coordinate and aggregate orders for automobile accessories and other automobile-related products across our 4S dealership network.

The following table sets forth a summary of our total inventories as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Automobiles	418,358	703,801	655,677
Spare parts and accessories	31,147	49,220	74,917
Total	**449,505**	**753,021**	**730,594**

The following table sets forth a breakdown of our inventories by brand segment as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Ultra-luxury brands	145,570	224,890	251,894
Luxury brands	278,694	488,209	409,790
Middle market brand	25,241	39,922	68,910
Total	**449,505**	**753,021**	**730,594**

Our inventories decreased by RMB22.4 million from RMB753.0 million as of December 31, 2012 to RMB730.6 million as of December 31, 2013, primarily due to a decrease in our inventories of new automobiles, in particular those of luxury and ultra-luxury brands, primarily due to the fact that (i) we increased our sales efforts to facilitate the turnover of older models and sold more luxury and ultra-luxury automobiles for 2013 as compared to 2012. As a result of our increased sales efforts, our average inventory turnover days decreased from 40.8 days for 2012 to 38.6 days for 2013; and (ii) we only slightly increased our procurement because the sales targets for 2013 only marginally increased from 2012.

Our inventories increased by RMB303.5 million from RMB449.5 million as of December 31, 2011 to RMB753.0 million as of December 31, 2012, primarily due to an increase in our inventories of new automobiles from RMB418.4 million as of December 31, 2011 to RMB703.8 million as of December 31, 2012. This primarily reflected (i) an increase in procurement of new automobiles attributable to an increase in sales targets of our major automobile suppliers as a result of their high expectations, compared with the actual general economic condition, which resulted in a slower turnover of our inventories, and (ii) the opening of eight new outlets (including one Ferrari/Maserati outlet which commenced trial operation in 2012) as a result of our dealership network expansion.

As of February 28, 2014, the subsequent utilization and sales of our inventories as of December 31, 2013 was RMB455.5 million.

We provide inventory provision on an item-by-item basis when the carrying value of the inventories is higher than their net realizable value. Net realizable value is determined based on the estimated selling price of the relevant inventories in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale. We did not record any inventory provisions during the Track Record Period.

Certain of our inventories with a carrying amount of RMB77.1 million, RMB105.3 million and RMB180.5 million as of December 31, 2011, 2012 and 2013, respectively, were pledged as security for our Group's bank loans and other borrowings. Certain of our inventories with a carrying amount of RMB25.2 million, RMB76.4 million and RMB113.0 million as of December 31, 2011, 2012 and 2013, respectively, were pledged as security for our Group's bills payables. 22.8%, 24.1% and 40.2% of our inventories were pledged to secure our bank loans, other borrowings and bills payables as of December 31, 2011, 2012 and 2013, respectively. The increase in pledged inventories during the Track Record Period was primarily due to an increase in secured borrowings due to our increased need for working capital as a result of our business expansion.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
Average inventory turnover days[(1)]	33.5	40.8	38.6

Note:

(1) The average inventory turnover days for a year is the closing inventory balance divided by the cost of sales and services for that year and multiplied by 360 days.

The following table sets forth our average inventory turnover days by brand segment for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
Ultra-luxury brands	51.0	43.4	43.9
Luxury brands	30.9	41.3	34.4
Middle market brand	16.2	27.5	54.0

Our average inventory turnover days were increased from 33.5 days for 2011 to 40.8 days for 2012, primarily due to significant increases in inventory balances because (i) we needed to build up inventories for our new outlets opened during these periods; and (ii) our automobile suppliers increased their sales targets. Our average inventory turnover days decreased to 38.6 days for 2013, primarily due to a decrease in inventories due to the fact that (i) we increased our sales efforts to facilitate the turnover of older models and sold more luxury and ultra-luxury automobiles for 2013 as compared to 2012; and (ii) we only slightly increased our procurement because the sales targets for 2013 only marginally increased from 2012.

In 2012 and 2013, we reduced the selling prices of certain older models of automobiles pursuant to the policies and requests of our automobile suppliers. However, our procurement prices of new automobiles form automobile suppliers did not decrease by the same rate as the decrease in the average selling price of new automobiles. Nevertheless, we achieved a positive gross margin from such sales after taking into account the vendor rebates we received. In addition, our average inventory turnover days remained relatively low. As a result, our Directors believe that it is not necessary to make any adjustment to the inventory valuation.

To effectively manage our inventories, we usually consider automobiles that have not been sold within six months to be aged inventories, and we will increase our efforts to sell these aged inventories. The following table sets forth the aging analysis of our automobiles as of December 31, 2013:

	Total	Within 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Over 3 years
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Automobiles	655,677	622,226	23,992	9,459	—	—

As of December 31, 2013, we had inventories of RMB33,451 million, aged from six months to two years, which accounted for 5.1% of our total inventories of automobiles as of that date.

Because we have historically been able to sell these inventories aged over six months with a positive gross margin, our Directors are of the view that no provision for impairment is necessary in respect of these aged inventories.

TRADE RECEIVABLES

The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Trade receivables	16,223	47,481	50,841

Our trade receivables are mainly attribute to fleet sales with a payment term of one to three months, after-sales services to fleet sales customers with a payment term of three to six months, and repair service charges settled through insurance companies with a payment term within three weeks. Our trade receivables increased from RMB16.2 million as of December 31, 2011 to RMB47.5 million as of December 31, 2012 as a result of our after-sale services business growth. Our trade receivables increased to RMB50.8 million as of December 31, 2013, primarily due to the expansion of our operation in 2013.

The table below sets forth the aging analysis of our trade receivables as of the dates indicated:

	As of December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
Within 3 months	14,473	44,476	48,116
More than 3 months but less than 1 year	1,714	2,586	2,085
Over 1 year	36	419	640
Total	**16,223**	**47,481**	**50,841**

The table below sets forth the aging analysis of our trade receivables that are not considered to be impaired as of the dates indicated:

	As of December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
Neither past due nor impaired	16,187	47,062	50,201
Over one year past due	36	419	640
Total	**16,223**	**47,481**	**50,841**

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with our Group. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances, which are still considered fully recoverable, as there has not been a significant change in the credit quality of these customers. We do not hold any collateral or other credit enhancements over our trade receivables.

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
Average trade receivables turnover days[1]	1.1	2.4	2.5

Note:

(1) The average trade receivables turnover days for a year is the closing gross trade receivables balance divided by revenue for that year and multiplied by 360 days.

We maintained short turnover days during 2011, 2012 and 2013, mainly due to our sales typically being settled by cash. The average trade receivables turnover days increased for 2012 and 2013, primarily due to the growth of our after-sales services business. As of February 28, 2014, we had settled trade receivables of RMB35.9 million, or 70.7%, of the trade receivables as of December 31, 2013.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES OF CURRENT ASSETS

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

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Prepayments and deposits to suppliers	465,194	545,592	437,897
Vendor rebate receivables	9,273	44,690	77,083
VAT recoverables	5,886	18,657	21,925
Others	9,797	19,562	28,398
Total	**490,150**	**628,501**	**565,303**

Our prepayments, deposits and other receivables of current assets decreased from RMB628.5 million as of December 31, 2012 to RMB565.3 million as of December 31, 2013, primarily due to a decrease in prepayments and deposits to automobile suppliers as we tightened the management of prepayments to automobile suppliers to improve our liquidity position. The increase in our prepayments, deposits and other receivables of current assets as of December 31, 2012 was primarily attributable to an increase in prepayments and deposits to suppliers in 2012 as a result of our business expansion.

PREPAYMENTS FOR NON-CURRENT ASSETS

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

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Prepayments	118,011	257,948	132,841

Prepayments for non-current assets decreased by 48.5% from RMB257.9 million as of December 31, 2012 to RMB132.8 million as of December 31, 2013, primarily due to the transfer of the prepayments of RMB203.7 million for land use rights upon completion of the acquisition of such rights, partially offset by new prepayments of RMB73.9 million made by us during 2013. Prepayments for non-current assets increased significantly from RMB118.0 million as of December 31, 2011 to RMB257.9 million as of December 31, 2012, primarily due to a significant increase in prepayments for the acquisition of land use rights for new outlets as a result of our business expansion.

INTANGIBLE ASSETS

Intangible assets mainly includes computer software. The following table sets forth the value of our intangible assets as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Intangible assets	1,495	4,488	4,239

Intangible assets remained relatively stable as of December 31, 2012 and 2013. Intangible assets increased from RMB1.5 million as of December 31, 2011 to RMB4.5 million as of December 31, 2012, primarily because we purchased an enterprise application suite.

DEFERRED TAX ASSETS

The following table sets forth our deferred tax assets as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Deferred tax assets	7,767	16,074	16,816

Deferred tax assets increased significantly from RMB7.8 million to RMB16.1 million as of December 31, 2012, and increased slightly to RMB16.8 million as of December 31, 2013. Such increases were primarily due to an increase in deferred tax assets arising from losses from newly opened outlets as a result of our business expansion.

TRADE AND BILLS PAYABLES

The table below sets forth our trade and bill payables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Trade payables	9,107	18,245	42,409
Bills payable	347,364	546,949	402,383
Trade and bill payables	356,471	565,194	444,792

Trade payables primarily relate to purchases of spare parts and automobile accessories, and are recognized upon receipt of the spare parts and automobile accessories. Our bills payable primarily relate to our use of bank acceptance notes to finance our purchases of new automobiles. These bank acceptance notes are generally secured by bank deposits and inventories. 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. We are required to bear relevant bank charges for the issuance of these bank acceptance notes, which are generally non-interest bearing. Upon the repayment of bank acceptance notes, the pledged deposits are released and can be used to secure new bank acceptance notes. If we are unable to generate sufficient sales from our existing inventory of new automobiles to repay our bank acceptance notes within their terms, which are typically two to three months, we may be required to repay the banks from other cash resources. This could adversely affect our working capital and our ability to acquire new inventory. We may incur additional financing costs as a result of the new borrowings. During the Track Record Period, our inventory turnover days were generally shorter than the credit term of our bank acceptance notes and we did not experience any difficulty in repaying our bank acceptance notes with payments from customers for the sales of new automobiles.

Our trade payables were RMB9.1 million, RMB18.2 million and RMB42.4 million as of December 31, 2011, 2012 and 2013, respectively. These increases were primarily due to an increase in amounts due to our suppliers of spare parts and accessories as a result of the expansion of our after-sales service business during the Track Record Period. Our bills payable increased from RMB347.4 million as of December 31, 2011 to RMB546.9 million as of December 31, 2012, primarily due to our increased automobile purchases as a result of our business expansion. Bills payable decreased to RMB402.4 million as of December 31, 2013, primarily because we used more bank loans to replace the bank acceptance notes used to pay for the purchases of new automobiles with a view to reducing our finance costs.

The following table sets forth an ageing analysis of our trade and bills payables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Within 3 months	355,790	558,349	436,798
3 to 6 months	570	6,140	6,918
6 to 12 months	66	563	856
Over 12 months	45	142	220
Total	**356,471**	**565,194**	**444,792**

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
Average trade and bills payables turnover days(1)	26.6	30.6	23.5

Note:

(1) The average trade and bills payables turnover days for a year is the closing trade and bills payables balance divided by cost of sales and services for that year and multiplied by 360 days.

The increases in our average trade and bills payables turnover days from 2011 to 2012 were primarily due to increases in the balances of both bills payables and trade payables as a result of our business growth and, to a lesser extent, better payment terms for our after-sales business as a result of our increased bargaining power. The decrease for 2013 was primarily due to (i) a decrease in bills payable as a result of our increased use of bank loans to replace the bank acceptance notes used to pay for the purchases of new automobiles with a view to reducing our finance costs, as well as (ii) the use of bank acceptance notes with shorter terms by us to control our finance costs.

OTHER PAYABLES AND ACCRUALS

The following table sets forth the major items of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Payables for purchase of property, plant and equipment	9,895	24,190	24,490
Advances from customers	263,662	148,355	112,259
Staff payroll and welfare payables	23,970	31,251	32,326
Tax payable (other than income tax)	4,465	5,095	5,336

Other payables and accruals decreased from RMB219.9 million as of December 31, 2012 to RMB190.4 million as of December 31, 2013, primarily due to an increase in sales of new automobiles that were in stock, which in turn caused us to charge less advances from our customers. Other payables and accruals decreased from RMB314.3 million for 2011 to RMB219.9 million for 2012, primarily due to the decrease in advances from customers, partially offset by the increase in payables for the purchase of property, plant and equipment, which was primarily due to the internal decoration of our new outlets and purchase of land use rights. The decrease in advances from customers was primarily due to the fact that our customers provided less advance payments as a result of the general economic conditions as well as a decrease in orders for automobiles by our customers.

For 2011, 2012 and 2013, our advances from customers were RMB263.7 million, RMB148.4 million and RMB112.3 million, respectively, accounting for 4.9%, 2.1% and 1.5% of our total revenue, respectively, during the same periods. The decreases in the contribution of advances from customers to our total revenue in 2012 and 2013 were primarily because our automobile supplier increased the supply of certain popular models, in particular those of Porsche and Audi, during these periods, and as a result, we had more popular models in stock. This resulted in an increase in the percentage of our customers who were able to pick up the automobiles directly from our outlets without putting in an order with us and paying advances to us.

RELATED-PARTY TRANSACTIONS

During the Track Record Period, certain of our loans were guaranteed by our Controlling Shareholders. Please see "— Indebtedness". All of these guarantees will be released prior to the Listing.

In 2011, we capitalized amounts due to the Controlling Shareholders of RMB104.7 million, among which RMB6,000 was recorded as share capital and the remaining RMB104.7 million was recorded as capital reserve. This amount related to the Pre-IPO Investment. Please see "Our History and Reorganization — Pre-IPO Investment — Novation and capitalization of Top Wheel's loans" in this prospectus.

The following table sets forth our amounts due from related parties as of each date indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Trade related			
Yangzhou Sunfonda	—	—	6,371
	—	—	6,371

The following table sets forth our amounts due to related parties as of each date indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Non-trade related			
The Controlling Shareholders			
— Mr. Wu and Ms. Chiu	29,381	9,280	7,684
	29,381	9,280	7,684

The amounts due to Mr. Wu and Ms. Chiu were all non-trade related. We will settle all amounts due from and due to our related parties that are non-trade in nature prior to the Listing.

Our Directors believe that these related-party transactions and amounts due to and due from our related parties did not distort our results of operations during the Track Record Period.

INDEBTEDNESS

Bank Loans and Other Borrowings

Bank loans and other borrowings remained relatively stable at RMB1,508.8 million as of December 31, 2012 and RMB1,668.9 million as of December 31, 2013. Bank loans and other borrowings increased from RMB653.4 million as of December 31, 2011 to RMB1,508.8 million as of December 31, 2012, primarily due to our increased need for working capital as a result of our business growth and dealership network expansion.

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

	As of December 31,			As at February 28,
	2011	2012	2013	2014
		(RMB'000)		
Interest bearing bank loans and other borrowings				
— secured	304,589	273,504	734,803	806,457
— guaranteed	148,409	885,312	906,653	1,026,429
— unsecured	200,379	349,936	27,406	—
Total	**653,377**	**1,508,752**	**1,668,862**	**1,832,886**

Certain of our bank loans and other borrowings are secured by pledges. Pledged land use rights had an aggregate carrying value of RMB59.0 million, RMB67.4 million and RMB85.3 million as of December 31, 2011, 2012 and 2013, respectively. Pledged buildings had an aggregate carrying value of RMB57.7 million, RMB104.3 million and RMB149.5 million as of December 31, 2011, 2012 and 2013, respectively. Inventories pledged as security for our bank loans and other borrowings had an aggregate carrying value of RMB77.1 million, RMB105.3 million and RMB180.5 million, respectively, as of December 31, 2011, 2012 and 2013. The increases in our inventories pledged as security for our bank loans and other borrowings from December 31, 2011 to December 31, 2013 were primarily due to an increase in secured borrowings due to our increased need for working capital as a result of our business expansion. The increases in our pledged land use rights and pledged inventories from December 31, 2011 to December 31, 2013 were primarily due to an increase in the outstanding balances of our bank loans, which was primarily attributable to our increased need for funding as a result of our business growth. The significant increase in our pledged buildings as of December 31, 2012 was primarily due to an increase in secured borrowings due to our increased need for working capital as a result of our business expansion.

As of December 31, 2011, 2012 and 2013, RMB148.4 million, RMB885.3 million and RMB906.7 million, respectively, of our bank loans and other borrowings were guaranteed by the Controlling Shareholders. All of the guarantees provided by the Controlling Shareholders will be released prior to the Listing Date.

As of February 28, 2014, which is the latest practicable date for our indebtedness statement, we had total bank credit facilities of RMB3.4 billion, of which RMB1.2 billion was unutilized and unrestricted.

Our Directors have confirmed that our Group has not had any material default with regard to our trade or other payables or any bank borrowings, and has not breached any financial covenants in our bank borrowings during the Track Record Period. We do not have any financial covenants in our outstanding bank borrowings. Our Directors have confirmed that we do not have any plan to raise material external debt financing as of the date of this prospectus.

Statement of Indebtedness

As of February 28, 2014, being the latest practicable date for the purpose of this indebtedness statement, and save as disclosed in the sub-section entitled "— Bank Loans and Other Borrowings" in this section, we did not have any other debt securities, borrowings, indebtedness, mortgages, contingent liabilities or guarantees. Since March 1, 2014, there has been no material adverse change in our indebtedness.

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Off-Balance Sheet Commitments and Arrangements

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

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods and as of the dates indicated:

	Year ended and as of December 31,		
	2011	2012	2013
Profitability			
Return on equity[1]	28.4%	16.6%	17.9%
Return on total assets[2]	9.2%	4.4%	5.5%
Liquidity			
Current ratio[3]	1.1	1.0	1.0
Capital Adequacy			
Debt to equity ratio[4]	57.6%	138.6%	115.0%
Interest coverage[5]	7.4	2.6	3.0

Notes:

(1) Return on equity is calculated by dividing profit attributable to equity holders of our Company by total equity and multiplying the resulting value by 100%.

(2) Return on total assets is calculated by dividing profit attributable to equity holders of our Company by total assets and multiplying the resulting value by 100%.

(3) Current ratio is calculated by dividing total current assets by total current liabilities.

(4) Debt to equity ratio is calculated by dividing net debt by total equity.

(5) Interest coverage is calculated by dividing profit before interest and tax by interest.

Profitability

Our return on equity decreased from 28.4% for 2011 to 16.6% for 2012, primarily due to a significant increase in total equity as of December 31, 2012 as a result of an increase in retained profit compared with a decrease in profit attributable to equity holders of the Company.

Our return on total assets decreased from 9.2% for 2011 to 4.4% for 2012, primarily due to a significant increase in our total assets as of December 31, 2012 compared with a decrease in our profit for 2012.

Liquidity

Our current ratio remained relatively stable at 1.1, 1.0 and 1.0 as of December 31, 2011, 2012 and 2013, respectively.

Capital Adequacy

Our debt to equity ratio increased significantly from 57.6% as of December 31, 2011 to 138.6% as of December 31, 2012, primarily due to the increase in net debt as compared with the increase in total equity. Our debt to equity ratio decreased from 138.6% as of December 31, 2012 to 115.0% as of December 31, 2013, primarily due to a decrease in our net debt as a result of our improved liquidity and an increase in our total equity as a result of an increase in our profit for 2013.

Our interest coverage decreased from 7.4 for 2011 to 2.6 for 2012, primarily due to the increase in interest costs as compared with the increase in operating profit. Our interest coverage remained relatively stable at 2.6 and 3.0 for 2012 and 2013.

MARKET RISK DISCLOSURE

Interest rate risk

We do not have significant interest-bearing assets other than pledged bank deposits and cash and cash equivalents. Our interest rate risk arises from our borrowings. Borrowings at variable rates expose us to the risk of changes in market interest rates. We have not used any interest rate swaps to hedge our exposure to interest rate risk.

Had interest rates been 50 basis points higher or lower with all other variables being held constant, our finance costs for 2011, 2012 and 2013 would change by RMB2.4 million, RMB8.0 million and RMB8.2 million, respectively. Please see "Risk Factors — Risks Relating to Our Business — We may not be able to obtain adequate financing on commercially reasonable terms on a timely basis or at all, and any debt financing may contain covenants that restrict our business or operations" in this prospectus.

Credit risk

We do not have significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in our consolidated financial statements represent our maximum exposure to credit risk in relation to our financial assets.

As of December 31, 2011, 2012 and 2013, all of our pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

We monitor our liquidity risk using a recurring liquidity planning tool. This tool considers the maturity of both financial instruments and financial assets, such as trade receivables, and projected cash flows from operations. The following table sets forth the maturity profile of our financial liabilities as at the end of the reporting period based on the contractual undiscounted payments:

	As of December 31, 2013					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(RMB'000)					
Interest bearing bank loans and other borrowings	–	441,346	1,145,587	154,871	–	1,741,804
Trade and bills payables	42,409	402,383	–	–	–	444,792
Other payables	14,612	6,456	19,366	–	–	40,434
Amounts due to related parties	7,684	–	–	–	–	7,684
	64,705	**850,185**	**1,164,953**	**154,871**	**–**	**2,234,714**

	As of December 31, 2012					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(RMB'000)			
Interest bearing bank loans and other borrowings	—	387,978	1,087,973	89,549	—	1,565,500
Trade and bills payables	18,245	546,949	—	—	—	565,194
Other payables	10,364	6,202	18,606	—	—	35,172
Amounts due to related parties	9,280	—	—	—	—	9,280
Total financial liabilities	**37,889**	**941,129**	**1,106,579**	**89,549**	**—**	**2,175,146**

	As of December 31, 2011					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(RMB'000)			
Interest bearing bank loans and other borrowings	—	51,217	524,052	120,969	—	696,238
Trade and bills payables	9,107	347,364	—	—	—	356,471
Other payables	11,527	2,678	8,034	—	—	22,239
Amounts due to related parties	29,381	—	—	—	—	29,381
Total financial liabilities	**50,015**	**401,259**	**532,086**	**120,969**	**—**	**1,104,329**

DIVIDEND POLICY

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

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

Historically, we have not distributed any dividends to our Shareholders. We currently intend to pay dividends of no more than 30% of our profits available for distribution in each accounting year after the Listing. Our Board has absolute discretion in whether to declare any dividend for any year end, if it decides to declare a dividend, how much dividend to declare. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. The amounts of distribution that we have declared and made in the past should not be taken as indications of the dividends, if any, that we may pay in the future.

We have decided that the distributable earnings of approximately RMB714.2 million as of December 31, 2013 generated by our PRC subsidiaries which recorded distributable profits during the Track Record Period will be used to further expand our operations in China and will not be distributed to members of our Group incorporated outside the PRC in the foreseeable future.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and because of their hypothetical nature, they may not give a true picture of the financial position of our Group had the Global Offering been completed as of December 31, 2013 or any future date. They are prepared based on our consolidated net assets as of December 31, 2013 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets do not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as of December 31, 2013[(1)]	**Estimated net proceeds from the Global Offering**[(2)]	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**[(3)(4)]	
	RMB'000	***RMB'000***	***RMB'000***	***RMB***	***(HK$ equivalent)***
Based on the Offer Price of HK$3.61 per Share.	1,026,865	374,328	1,401,193	2.34	2.92

Notes:

1. The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2013 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the audited consolidated equity attributable to owners of our Company as of December 31, 2013 of RMB1,031.1 million less intangible assets as of December 31, 2013 of RMB4.2 million.
2. The estimated net proceeds from the Global Offering are based on the Offer Prices of HK$3.61 per Share after deduction of the underwriting fees and commissions (including the discretionary incentive fee) and other related expenses payable by our Company and 150,000,000 Shares expected to be issued under the Global Offering, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 600,000,000 Shares are in issue assuming that the Global Offering has been completed on December 31, 2013 and the Offer Price of HK$3.61 per Share, excluding Shares which may be issued upon the exercise of the Over-allotment Option.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.80269.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2013.

LISTING EXPENSES

The estimated expenses in relation to the Global Offering are approximately RMB60.3 million, of which approximately RMB41.3 million is directly attributable to the issue of new Shares to the public and will be accounted for as a deduction from equity upon completion of the Global Offering in the year 2014. The remaining estimated listing expenses of approximately RMB19.0 million, which cannot be so deducted, was or will be charged to profit or loss, of which approximately RMB12.4 million was charged during the Track Record Period, and approximately RMB6.6 million is expected to be incurred before or upon completion of the Global Offering in the year 2014. This calculation is based on the Offer Price of HK$3.61 per Offer Share and the assumption that 150,000,000 Shares expected to be issued under the Global Offering and 600,000,000 Shares are issued and outstanding immediately following the Global Offering (assuming the Over-allotment Option is not exercised).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since January 1, 2014 and there has been no event since January 1, 2014 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus. Our Directors consider that all information necessary for the public to make an informed assessment of the activities and financial position of our Group has been included in this prospectus.