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OVERVIEW

We are a leading manufacturer of passenger vehicles in China. According to ACMR, we are expected to be the second-largest passenger vehicle manufacturer listed on the Hong Kong Stock Exchange upon the Listing, based on the aggregate sales volume of Beijing Motor, Beijing Benz and Beijing Hyundai in 2013. We are engaged in the design, research and development, manufacture and sale of an extensive and diversified portfolio of passenger vehicle models, and the provision of related services in China.

We believe that we are a passenger vehicle manufacturer in China that is well positioned to meet market demand and that possesses high growth potential. Our business covers (i) Beijing Motor's proprietary brand (the "Beijing" brand), which has a leading technology platform and has experienced fast sales growth, (ii) the premier passenger vehicle brand of Mercedes-Benz which has a long history, and (iii) Beijing Hyundai's mid- to high-end brand with stable sales growth. We offer a diversified and highly complementary brand portfolio of passenger vehicles covering different market segments including joint-venture premium, joint-venture mid- to high-end, proprietary mid- to high-end and proprietary economy passenger vehicles. We offer a variety of passenger vehicle models, including mid- to large-size sedan, mid-size sedan, compact sedan, small-size sedan, SUV, MPV and CUV products to satisfy customer demands for different types of vehicles.

Beijing Motor's proprietary brand passenger vehicle business is carried out under three product series, including the mid- to high-end Senova series, economy BJ series and Wevan series. In 2011, 2012, 2013 and the six months ended June 30, 2014, the sales volume of Beijing Motor's proprietary brand was 24,415 units, 77,561 units, 202,280 units and 153,730 units, respectively.

We acquired 50.0% of Beijing Benz's equity interest from the BAIC Group on January 4, 2013, and increased our shareholding to 51.0% on November 18, 2013. As a result, Beijing Benz became our subsidiary and has been consolidated in our financial statements since November 18, 2013. According to ACMR, in terms of sales volume in 2013, Beijing Benz accounted for 15.3% of the joint-venture premium passenger vehicle market in China, and was the third-largest automobile manufacturer in the PRC market for premium joint-venture passenger vehicles. In 2011, 2012, 2013 and the six months ended June 30, 2014, the sales volume of Beijing Benz was 93,377 units, 103,445 units and 116,006 units and 64,494 units, respectively. Mercedes-Benz is a brand licensed to Beijing Benz by its owner, Daimler AG.

Beijing Hyundai is a joint venture between us and Hyundai Motor. Each of BAIC Investment, one of our subsidiaries, and Hyundai Motor holds 50.0% of the equity interest in Beijing Hyundai. According to ACMR, in terms of single-brand sales volume, Beijing Hyundai was the second-largest joint venture passenger vehicle brand in the PRC in 2013, accounting for 10.6% of the joint venture mid- to high-end passenger vehicle market. In 2013, the sales volume of Beijing Hyundai exceeded one million units, and as of October 2014, Beijing Hyundai reached a cumulative sales volume of over six million units since its inception in 2002. In 2011, 2012, 2013 and the six months ended June 30, 2014, the sales volume of Beijing Hyundai was 739,800 units, 859,595 units, 1,030,808 units and 552,970 units, respectively. For details of Beijing Hyundai and its products, see "—Beijing Hyundai." Hyundai is a brand licensed to Beijing Hyundai by its owner, Hyundai Motor.

Sales and marketing activities are primarily carried out separately through dealers of Beijing Motor, Beijing Benz and Beijing Hyundai, each of which has established an extensive distribution network in China.

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In addition, we manufacture engines and other key automobile parts and components, which are used for manufacturing our passenger vehicles, as well as for sales to other automobile manufacturers.

COMPETITIVE STRENGTHS

We believe that we are well positioned to benefit from the continuing growth of the PRC passenger vehicle market. Our strong position in the PRC passenger vehicle market is primarily attributable to our following competitive strengths:

We are a leading manufacturer of passenger vehicles in China, with a portfolio of complementary brands and products, and strong positioning in fast-growing segments of the market

We are a leading manufacturer of passenger vehicles in China. Upon the Listing, we expect to be the second-largest passenger vehicle manufacturer among those listed on the Hong Kong Stock Exchange, according to ACMR, in terms of the aggregate sales volume of Beijing Motor, Beijing Benz and Beijing Hyundai in 2013.

In 2011, 2012, 2013 and the six months ended June 30, 2014, the aggregate sales volume of Beijing Motor, Beijing Benz and Beijing Hyundai passenger vehicles was 857,592 units, 1,040,601 units, 1,349,094 units and 771,194 units, respectively, representing a CAGR of 25.4% between 2011 and 2013, which is higher than the growth rate of 15.7% for the PRC passenger vehicle industry during the same period.

We offer a complementary brand portfolio of passenger vehicles covering the market segments of joint-venture premium, joint-venture mid- to high-end, proprietary mid- to high-end and proprietary economy passenger vehicles. Our brands include:

- **Beijing**, a proprietary brand with leading technologies, comprising:
 - Senova, a leading mid- to high-end proprietary product series in China. Except for the D20 sedan, Senova models are developed using wholly-owned Saab-derived technology and focus on the fast-growing market of proprietary mid- to high-end passenger vehicles;
 - BJ, focusing on the market segment of economy passenger vehicles; and
 - Wevan, focusing on CUV and MPV products.
- **Mercedes-Benz**, a leading premium brand with a long global history, which, according to ACMR, was one of the fastest growing joint-venture premium passenger vehicle brands in China in terms of sales volume in the first half of 2014; and
- **Hyundai**, a leading global mid- to high-end brand, which, according to ACMR, was the second-largest joint-venture passenger vehicle brand in China in terms of single-brand sales volume in 2013.

As a result, we have a highly complementary portfolio of brands and products. Upon Listing, we expect to be the only automobile manufacturer listed on the Hong Kong Stock Exchange covering joint-venture premium, joint-venture mid- to high-end, proprietary mid- to high-end and proprietary economy brands.

We offer a comprehensive portfolio of passenger vehicles, including mid- to large-size sedan, mid-size sedan, compact sedan, small-size sedan, SUV, MPV and CUV products. See “—Products.”

As a result, we believe we offer opportunities to market growth in all key segments.

In particular, we offer strong exposure to outperformance in two key segment markets: premium passenger vehicles and SUVs. The SUV models offered by Beijing Benz and Beijing Hyundai, namely GLK, New Santa Fe, New Tucson, New ix35 and ix25, have received high market recognition, laying a solid foundation for our continued development in the SUV market in China. In addition, Beijing Hyundai was the largest joint-venture brand SUV manufacturer in 2013 in China in terms of sales volume. We plan to launch five new or upgraded SUV models in 2015, including two premium brand SUV models, as well as one premium brand sedan. We believe our comprehensive product portfolio has allowed us, and will continue to allow us, to capture opportunities in China's fast-growing passenger vehicle market.

Our Beijing brand has a long history, advanced technology and precise market positioning, and we intend to introduce a large number of new and competitive vehicle models under our Beijing brand

The history of our proprietary brand can be traced back to 1958. We have revived the Beijing brand in recent years. In 2013, our Beijing brand was recognized as a "Well-known Trademark" by the PRC government. Our proprietary product series are equipped with world-leading production facilities and advanced technologies, which enable us to achieve high efficiency and product quality, and to reduce per unit costs as our production grows.

Leveraging our in-depth knowledge of the PRC market, we believe that we have achieved precise market positioning for our models and our proprietary brand business has grown rapidly as a consequence. We launched Senova D70 sedan in May 2013 and sold over 10,000 units that year, ranking first among mid- to high-end mid-size sedans of proprietary brands in terms of sales volume, according to ACMR. We launched BJ E-Series sedan in March 2012 (rebranded as Senova D20 in November 2014), and sold over 20,000 units that year. In 2013, the sales volume of the E-Series increased significantly to more than 60,000 units, making it one of the two best selling small-size proprietary brand models in China. We launched Wevan 306 in March 2011 and Wevan 307 in October 2013, and the sales volume of the Wevan product series (including passenger vehicles produced by Yinxiang Motor on our behalf) increased significantly from approximately 10,016 units in 2011 to 130,274 units in 2013, representing a CAGR of 260.7%.

Our near-term expansion focuses on our Senova product series, mainly based on our Saab-derived technologies. The BAIC Group acquired Saab technology, including the architecture for three Saab models, two turbo engines and two transmissions, as well as related core technologies and intellectual property rights in 2009. The purchase cost of Saab technology was approximately US\$207.0 million. Our further innovation of these technologies has helped us to establish a technology platform with proprietary intellectual property rights. This platform includes four key pillars, namely vehicle development, production, supply chain management and quality management. All passenger vehicles of Senova (except Senova D20) are developed on this platform. The Senova platform provides us with great flexibility in the production of various models of passenger vehicles, enabling the potential for a passenger vehicle portfolio ranging from compact to mid- to large-size vehicles (up to five meters in length), including SUVs. We currently manufacture and sell the Senova D70 and D50 sedans based on this platform, and we plan to launch more models on the same platform in the future. As a result of this single platform strategy, by increasing the number of units produced on this platform we expect to be able to effectively reduce our procurement and production costs.

In addition, as part of our strategic partnership with Daimler AG, we have obtained permanent royalty-free licenses to use the Mercedes-Benz E-Class LWB V212 platform and related technologies from Daimler AG, which provides a solid foundation for the development of mid- to large-size

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premium sedans of Beijing Motor. We are currently at the early stage of developing a high-end sedan model based on the V212 platform. The new model is designed to be over five meters in vehicle length and have a wheelbase that is over three meters in length. The acquisition of the V212 platform and related technologies provides us with a significant advantage over our competitors and furthers the breadth and depth of the strategic partnership with Daimler AG, which in turn will help us succeed in the coveted high-end sedan segment market in China.

We have been continuously investing in research and development. As of the Latest Practicable Date, Beijing Motor and Beijing Benz had over 2,000 research and development personnel. As of June 30, 2014, we had 1,114 patents in the PRC, and had submitted 995 patent applications. With respect to the research and development of engines, we established the BAIC Powertrain Research and Development Center, which is capable of developing 1.3L and 1.5L naturally aspirated engine series, 1.8L, 2.0L and 2.3L turbo engine series, and F25 and F35 series of manual transmission, with experimental capacities meeting the needs of powertrain product research and development and future regulatory standards.

Our management and expert teams include individuals with international background and extensive experience. Most of the management members of our proprietary brand business have experience with leading domestic and foreign automobile manufacturers. Their experience, combined with our research and development capabilities, translates into our strength in technology development and product innovation, allowing for the rapid development of our proprietary brand business.

Beijing Benz, with the historic Mercedes-Benz premium brand, is primed for growth from new model launches, increased localization and an integrated sales platform

Through our 51% equity interest in Beijing Benz, we are the only manufacturer of Mercedes-Benz sedans and SUVs in China. The acquisition of Beijing Benz and its consequent consolidation into our Group in November 2013 had a positive impact on our results of operations and financial condition. With a brand value of US\$23.8 billion in November 2014, Mercedes-Benz ranked 17th among Forbes World's Most Valuable Brands. Mercedes-Benz is a global top-three premium passenger vehicle brand in terms of sales volume in 2013. The passenger vehicles of Mercedes-Benz had the largest market share in the premium passenger vehicle market in Germany, the United States and Japan, and ranked third among all premium passenger vehicle brands in China, in terms of sales volume in 2013.

Daimler AG aims to reclaim its position as the global top-one premium passenger vehicle brand (in terms of sales volume) by 2020. Because China is the world's largest market in terms of passenger vehicles unit sales and is expected to continue to grow, Daimler's commitment to and strategies in China are pivotal to achieving its goal. As a result, we and Daimler AG have announced the intention to further develop our long-term strategic partnership.

We have a long history of cooperation with Daimler AG. Beijing Benz, with a registered capital of US\$1.22 billion, is a joint venture between us and Daimler AG with a term of 50 years, from 1983 to 2033. There is no automatic renewal of the joint venture agreement. The renewal of the joint venture agreement is subject to mutual agreement, and the joint venture partners may apply to relevant regulatory authorities for renewal of the joint venture agreement no later than six months prior to the expiration of the joint venture term. Under the joint venture agreement, Beijing Benz's operations are geographically limited to the PRC (excluding Hong Kong, Macau and Taiwan), and our PRC legal

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advisers have advised us that there are no other limits (such as the licensing of intellectual property rights) that are not customary to joint venture agreements of a similar nature. According to ACMR, in terms of sales volume in 2013, Beijing Benz was the third largest manufacturer of premium joint-venture passenger vehicles in the PRC. Benefiting from its historical roots, the strategic relationship between our Group and Daimler AG has been deepening in recent years.

As part of the overall strategic cooperation between Daimler AG and us, Daimler AG became our shareholder with a 12% equity interest following the completion of the Pre-IPO Strategic Investment (in the amount of approximately RMB5.1 billion), and appointed two of our Directors. Daimler AG is committed to deepening the strategic cooperation with us through a number of initiatives, including, without limitation, the launch of new car models to support Beijing Benz's business expansion, the establishment of Benz Sales Service as an integrated sales organization for the sales and distribution of both locally produced and imported Mercedes-Benz passenger vehicles in China, the establishment of a new research and development center to focus on vehicle testing and adaptation as well as research and development activities with suppliers, and the establishment of the first Mercedes-Benz engine plant outside of Germany in order to support further localization of vehicles produced by Beijing Benz. These initiatives help ensure the sustainability of our business relationship with Daimler AG.

We believe that Beijing Benz will improve its profitability rapidly through the following measures:

- ***Mercedes-Benz is entering a renewal phase in its model launch cycle both globally and in China***

Mercedes-Benz is introducing approximately 20 new or facelifted models throughout 2015 as part of a global product launch plan. These new models will promote its brand image and increase its appeal to the younger generation. For example, certain new models introduced by Mercedes-Benz, such as E-Class sedan and new C-Class sedan, have two editions, namely sport and elegance, presenting more choices to its customers. We expect that this will significantly increase the appeal of the brand image and models of Mercedes-Benz, which we believe will in turn boost sales.

- ***Beijing Benz will greatly benefit from the launch of new models and increased localization of production***

Beijing Benz plans to launch three new models by 2015, including the new C-Class (regular-wheelbase version), the GLA and the facelift of GLK. According to ACMR, the SUV was the fastest growing premium joint-venture passenger vehicle segment in China from 2003 to 2013. The LWB version of the new C-Class sedan, launched in August 2014, is the first LWB model of a mid-size vehicle to be launched by Beijing Benz in China. The LWB segment of the premium sedan market is a critical segment in China. Production of premium LWB sedans represented 87% of total premium sedan production in China in 2012, according to ACMR. We expect that this launch will improve our competitiveness in the premium mid-size passenger vehicle market.

In addition, Beijing Benz aims to increase its local procurement in China, which we expect will further reduce its production costs.

- ***New manufacturing plants will expand the production capacity and promote the localization of more Mercedes-Benz models***

Beijing Benz will continue to expand its production capacity. See “—Manufacturing Facilities and Process—Manufacturing Facilities and Production Capacity—Expansion plan.” Our new production line will be able to produce models based on the new flexible and lightweight MRA platform (such as the new C-Class and GLK) and the MFA platform (such as the GLA and other compact models). The platform reorganization strategy of Mercedes-Benz will allow Beijing Benz to offer a large proportion of future models based on the MRA and MFA platforms. Daimler AG plans to increase the percentage of passenger vehicles sold in China that are produced by Beijing Benz from approximately 30% in 2010 to approximately 67% in 2015, which will further increase the sales of Beijing Benz. We expect this will enable us to further localize the production of more models, minimize production costs and enhance profitability.

- ***Beijing Benz has reorganized and expanded its sales network and distribution platform***

In December 2012, we established Benz Sales Service, a joint venture with Daimler Greater China, a wholly-owned subsidiary of Daimler AG, to integrate the Mercedes-Benz sales networks in China and create a more cohesive and responsive platform. Benz Sales Service is responsible for all domestic sales and distribution of imported and domestically produced Mercedes-Benz passenger vehicles. We believe this new integrated structure allows us to better coordinate the sales and marketing strategy for new models of Mercedes-Benz. In addition, Beijing Benz has also actively expanded its sales network, with the number of dealership outlets having increased from 212 as of December 31, 2011 to 380 as of June 30, 2014. We expect that the optimization of the distribution platform and sales network will promote the sales volume of passenger vehicles offered by Beijing Benz.

- ***Beijing Benz has extended its presence in the industry value chain and is increasing its cost competitiveness***

Beijing Benz’s full engine production line commenced production in November 2013 with an initial designed annual production capacity of 300,000 units. This is Daimler AG’s first engine production plant outside of Germany, enabling us to expand our presence in the production value chain. Through local production, we believe that we can avoid high import costs of engines and engine components, reduce our production costs and improve our profitability.

- ***Beijing Benz has built up strong research and development capabilities***

Beijing Benz’s research and development center is the largest under Daimler AG’s overseas joint ventures, mainly comprised of a trial production unit, a laboratory, and test roads, and equipped with advanced laboratory facilities imported from Germany. Upon completion, this research and development center will be responsible for the trial production and test of the new models to be launched by Beijing Benz, and will be able to provide test and verification services for various parts and components, as well as passenger vehicles, which we expect will significantly enhance the competitiveness of Beijing Benz.

Beijing Hyundai is a rapidly growing mid- to high-end passenger vehicle business with a competitive product portfolio, and has grown rapidly from a new entrant to a market leader in China

Hyundai was the second-largest joint venture passenger vehicle brand in China in terms of single-brand sales volume in 2013. From 2008 to 2013, Beijing Hyundai's sales volume grew at a CAGR of 28.4%, outperforming its rivals, as well as Hyundai Motor's global growth rate of 11.2%. In 2013, the annual sales volume of Beijing Hyundai exceeded one million units, and in October 2014, the cumulative sales volume of Beijing Hyundai exceeded six million units since its establishment in 2002.

Beijing Hyundai is underpinned by our partnership with Hyundai Motor, which has exhibited significant global momentum in recent years. In terms of sales volume, Hyundai Motor grew at a CAGR of 11.2% from 2008 to 2013, representing the highest growth rate among the top five automobile manufacturers in the world. In addition, Hyundai Motor grew from the world's seventh largest automobile manufacturer in 2002 to the fifth in 2013. Hyundai Motor ranked 71st among Forbes World's Most Valuable Brands, with a brand value of US\$7.8 billion in November 2014.

Beijing Hyundai continues to introduce new models to meet market demand and to further improve its product mix and overall pricing position. In recent years, Beijing Hyundai has successfully increased its sales percentage of mid-size sedans and SUVs from 15.0% in 2009 to 40.7% in 2013 and, in turn, improved its profitability. In 2013, mid-size sedans and SUVs accounted for 13.1% and 27.6% of the total sales volume of Beijing Hyundai. We are continuing to seek to optimize this mix and believe the recent launch of the Mistra in 2013 and ix25 in October 2014 will support further product mix improvement.

Beijing Hyundai follows Hyundai Motor's global passenger vehicle platform strategy by meeting customer demand through product variation based on a relatively small number of passenger vehicle model platforms. Beijing Hyundai also has high single-model sales volume. According to ACMR, the average single-model sales volume of Beijing Hyundai in 2013 was approximately 104,000 units, which surpassed most of its rivals in China.

Beijing Hyundai also benefits from the fact that it is the only Hyundai-branded passenger vehicle production joint venture in China, which enables it to benefit from significantly larger production scale than most other joint ventures that often share a brand's products with another automobile manufacturer in China. Beijing Hyundai has also successfully implemented its localization strategy in China. In 2013, more than 90% of Beijing Hyundai's parts and components were produced or sourced in China.

Beijing Hyundai has been expanding its production capacity in recent years, although the utilization rate of its production facilities remains high. To support future growth, Beijing Hyundai plans to build its No. 4 passenger vehicle factory in China.

Beijing Hyundai has also won a number of awards for its rigorous quality control system. Beijing Hyundai was ranked sixth in the "2014 China Initial Quality Studysm (IQS)" by J.D. Power Asia-Pacific. A number of Beijing Hyundai models enjoy high rankings in their respective market segments. For instance, Elantra Langdong ranked first and Verna ranked third in their respective market segments by J.D. Power Asia-Pacific in 2014.

Beijing Hyundai is also focused on the expansion of its dealership network. The number of its dealership outlets increased from approximately 720 by the end of 2011 to approximately 860 by the end of 2013.

We have a diversified and international shareholding structure and sound corporate governance

We have a diversified shareholding structure. BAIC Group is our Controlling Shareholder. According to ACMR, BAIC Group was the fifth-largest passenger vehicle manufacturer in China in terms of sales volume in 2013, and was ranked 248th among the “Fortune Global 500” companies in 2014. We are positioned within the BAIC Group as its key business development platform for passenger vehicles, consolidating BAIC Group’s passenger vehicle assets and resources. BAIC Group and other state-owned shareholders hold 80.72% of our Shares immediately prior to the Listing.

Since February 2013, Daimler AG has been our third-largest shareholder, holding 12.0% of our Shares prior to the Listing. Daimler AG ranked 20th among the “Fortune Global 500” companies in 2014. We believe that a diversified and international shareholding structure will enhance our management structure and corporate governance, which in turn will enhance our brand value and recognition internationally and provide strong support for our long-term growth.

We have established a sound and market-oriented corporate governance structure. We set up our shareholders’ meeting, Board of Directors and Board of Supervisors upon our establishment, and we have carried out our corporate governance in strict compliance with our Articles of Association. We currently have 14 non-executive Directors, including two appointed by Daimler AG. In addition, we have retained five independent non-executive Directors, which we believe will help us strengthen the supervision over our operations. We have also established the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee in line with the modern corporate governance practice. We believe these measures will facilitate our evaluation, control and prevention of operational risks, enhance the transparency of our decision making, and provide support for our long-term growth.

We have an international management team with an excellent track record, supported by a professional workforce

Our outstanding management team is critical to our long-term business growth. Mr. Xu Heyi, Chairman of the Board, has over 30 years of industry and management experience in the automobile and related industries. Mr. Xu has won numerous awards, including the “National Model Worker” (全國勞動模範), “The Most Influential People of the 50th Anniversary of the Chinese Auto Industry” (中國汽車工業50周年最具影響力人物), “Top Ten People in the News of China’s Economy” (中國經濟十大新聞人物), “2010 CCTV Person of the Year in the Chinese Economy” (2010 CCTV中國經濟年度人物) and “Person of the Year of the PRC Automobile Industry 2013-2014” (2013年-2014年中國汽車年度人物) and was granted special government allowances by the State Council of the PRC. The rich experience of Mr. Xu is crucial to the development of our Group. Mr. Li Feng, president of our Company, has 30 years of industry and management experience in the automobile and related industries. Mr. Li has received a number of awards, including the “National May First Labor Medal” (全國五一勞動獎章), and has been named a “Person of the Year in China Automobile Industry” (中國汽車年度風雲人物) twice by institutions including the research center of SASAC in 2010 and 2012. For more details, see “Directors, Supervisors, Senior Management and Employees.”

In addition, our senior management members have, on average, over 20 years of industry experience and have rich experience in corporate management in many leading international and domestic automobile companies, which we believe enables us to position for future passenger vehicle trends, and technology and industry developments, and to formulate effective and visionary development strategies. Our Directors and senior management members are dedicated to creating value

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for us with their in-depth understanding of market dynamics, internal training and customer demands. We believe the knowledge of our management team is essential to our success and enables us to seize market opportunities, formulate effective business strategies, evaluate and control risks, implement management and production plans, and enhance our profitability.

Our professional employees with extensive experience provided strong support to our management and development. Because we believe our employees are essential to our business success, we focus on the selection, hiring and training of talented individuals. Based on our experience, we have formulated comprehensive training courses with standardized procedures in order to continuously improve the skills of our employees. We believe that the continuous improvement of our staff provides a solid basis for the sustainable development of our business.

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Our goal is to further strengthen our leading position in China's passenger vehicle market. We believe that our future plans can be achieved through the following major business development strategies:

Further expand our product portfolio and offer new vehicle models

We will continue to expand our product portfolio to meet China's changing market demands for high-quality passenger vehicles. We plan to further expand our passenger vehicles product portfolio by developing and launching new proprietary brand vehicles. In addition, we will further cooperate with our joint-venture partners and introduce other popular models to China. We will continue to focus on the development of new passenger vehicles in order to further expand our product portfolio. For details on the new models in our pipeline, see “—Products.”

We intend to increase our market share in China's growing SUV market segment by introducing new products and upgrading existing products. According to ACMR, in terms of sales volume, China's SUV market grew more rapidly than the overall passenger vehicle market from 2003 to 2013. We expect to launch five new or upgraded SUV models in 2015. For details, see “—Products”. We believe that our passenger vehicles are technologically advanced, and enjoy a competitive advantage compared with those from domestic competitors.

To continuously diversify our product portfolio and respond to market demand, our proprietary brand, Beijing Benz and Beijing Hyundai all plan to increase their production capacity of passenger vehicles. For details, see “—Manufacturing Facilities and Process—Manufacturing Facilities and Production Capacity—Expansion plan.” To optimize our production cost, we will continue to increase our in-house production of engines by increasing the production capacity of our engine manufacturing facilities. We may also increase our production capacity through acquisition, although we had not identified any particular acquisition target as of the Latest Practicable Date.

Continue to improve the cost structure of our Beijing brand passenger vehicle business and improve its profitability

Our product strategy is focused on maximizing the use of our Saab-derived technology platform. We plan to launch five new Senova models based on this platform in 2015. These new models will be aimed at different market segments, which will allow us to capitalize on our previous investment in the platform.

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We seek to leverage the common components on models launched from this platform to reduce component costs. In addition, we will seek to employ other strategies, including using modular components and leveraging our scale as we ramp up production, to further reduce procurement costs.

We also plan to expand the production capacity of our engine plant. We expect that this expansion will improve our cost structure, and enable us to equip more models with our proprietary engines. In addition, we plan to reduce production costs by improving our operational efficiency, utilizing a modular parts system and optimizing the design of parts.

Further strengthen our research and development and innovation capabilities, enhance our competitiveness and achieve sustainable development

We plan to produce a series of Beijing brand passenger vehicles. We will continue to invest significant resources in the development of our research and development capabilities and attract experienced engineers and researchers. We will continue to cooperate with domestic and international research institutions with the aim of enhancing our research and development capabilities, in particular the capacity to develop our proprietary brand models, improve our existing technology, and successfully industrialize our proprietary technology.

In the meantime, we will continue to attract and hire professional talent from different backgrounds, in particular, those with work experience at leading domestic and foreign automobile manufacturers, and researchers with work experience in countries with a developed automobile industry.

Further explore business models in automobile sales and expand our sales network

In order to promote the long-term development of our automotive business, we plan to explore business opportunities in automobile sales and related service areas. For example, we will continue to improve the customer experience and service by hosting the “Saab Land Fly Show,” inviting potential customers to participate in test drives and other activities.

We intend to further expand our sales network in the PRC to increase our sales volume and market share. We also intend to explore opportunities in overseas markets, in particular in emerging markets, which will broaden our revenue sources and promote our brand image.

OUR BRAND PORTFOLIO

We offer a complementary brand portfolio and product portfolio. We are principally engaged in the manufacture, marketing and distribution of passenger vehicles under Beijing Motor’s proprietary brand, which consists of three product series, namely Senova (紳寶), BJ (北京) and Wevan (威旺). We also manufacture and distribute Mercedes-Benz-branded passenger vehicles through Beijing Benz. For the history of Beijing Benz, see “History, Reorganization and Corporate Structure.”

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The following table sets forth certain details of the existing brand portfolios of Beijing Motor and Beijing Benz:

	<u>Launch year</u>	<u>Marketing position</u>	<u>Major products</u>
Beijing Motor			
Senova (紳寶)	2013	Mid- to high-end passenger vehicle	Compact, small-size and mid-size sedan
BJ (北京)	2012	Economy passenger vehicle	Small-size sedan and off-road vehicles
Wevan (威旺)	2011	Economy passenger vehicle	CUV and MPV
Beijing Benz			
Mercedes-Benz	2006	Premium passenger vehicle	Mid- to large-size sedan, mid-size sedan and SUV

Beijing Hyundai is a joint venture between us and Hyundai Motor. For details on Hyundai-branded passenger vehicles, see “—Beijing Hyundai” in this prospectus.

Beijing Motor

Beijing Motor’s proprietary brand (the “Beijing” brand) business currently manufactures passenger vehicles under three product series, namely Senova (紳寶), BJ (北京) and Wevan (威旺).

Senova

We commenced the sales of Senova passenger vehicles in May 2013. Senova passenger vehicles (except for Senova D20) are based on the Saab technologies acquired in 2009, which we have further developed. Senova is a mid- to high-end proprietary passenger vehicle product series, and targets customers who value both vehicle performance and cost-efficiency. At present, we manufacture and sell the D70, D50 and D20 sedans under the Senova product series, and we plan to launch the D60, D80 and Senova CC sedans and the X65, X55 and C33 SUVs under the Senova product series in 2015. In 2013 and the six months ended June 30, 2014, we sold 10,032 units and 10,274 units of Senova passenger vehicles.

BJ

We commenced the sales of BJ passenger vehicles in 2012. Our BJ product series focuses on economy passenger vehicles. During the Track Record Period, we manufactured and sold E-Series sedans and BJ40 off-road vehicles under the BJ product series. As part of an initiative to rebrand our proprietary brand passenger vehicles, we discontinued the E-Series product line and rebranded the E-Series facelift as the Senova D20 in November 2014. We currently manufacture and sell BJ40 off-road vehicles as part of the Transition Period Arrangement. See “Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—3. Off-road Vehicle Branch—Operational Independence.” In 2012, 2013 and the six months ended June 30, 2014, we sold 20,008 units, 60,297 units and 49,526 units, respectively, of BJ passenger vehicles.

Wevan

We commenced the sale of Wevan passenger vehicles in 2011. Our Wevan product series focuses on CUV and MPV products, and targets small and micro businesses and individuals in China.

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We currently manufacture and sell the CUV models Wevan 306 and Wevan 307. We sold the MPV model Wevan M20, which was manufactured by Yinxiang Motor on our behalf during the Track Record Period. We started to manufacture Wevan M20 in our Zhuzhou Branch in the third quarter of 2014. We also sell CUV models Wevan 205 and Wevan 206, each of which is manufactured by Yinxiang Motor on our behalf. We plan to launch facelifts of Wevan 306 and Wevan 307 in 2015. In 2011, 2012, 2013 and the six months ended June 30, 2014, we sold 10,016 units, 46,368 units, 130,274 units and 93,540 units, respectively, of Wevan automobiles.

Beijing Benz

Beijing Benz commenced the sale of Mercedes-Benz-branded passenger vehicles in 2006. Mercedes-Benz is a brand owned by Daimler AG, and is licensed to Beijing Benz by Daimler AG. Beijing Benz currently manufactures and sells the E-Class sedan, the C-Class sedan and the GLK SUV. Beijing Benz launched an LWB version of the new C-Class in August 2014, and plans to launch a new generation of the GLK SUV, a regular-wheelbase version of the new C-Class sedan, and the GLA SUV in 2015. For 2011, 2012, 2013 and the six months ended June 30, 2014, Beijing Benz sold 93,377 units, 103,445 units, 116,006 units and 64,494 units of passenger vehicles, respectively.

PRODUCTS

We engage in the design, research and development, manufacturing and distribution of passenger vehicles and key automobile parts and components, such as engines and transmission systems.

Passenger Vehicles

During the Track Record Period, we sold passenger vehicles across four product categories, namely, sedans, SUVs, MPVs and CUVs.

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The following table sets forth sales details of passenger vehicles sold by Beijing Motor's continuing operations and Beijing Benz, by model for the periods indicated:

	Market position	Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)	Year ended December 31,			Six months ended June 30,
			2011	2012	2013	2014
			Sales volume (units)			
Beijing Motor						
Senova (绅宝)						
D70	Mid- to high-end mid-size sedan	139.8 - 215.8	—	—	10,032	2,072
D50	Mid- to high-end compact sedan	74.8 - 119.8	—	—	—	8,202
BJ (北京)⁽¹⁾						
E-Series	Economy small-size sedan	53.8 - 87.8	—	20,008	60,297	44,603
BJ40	Off-road vehicle	146.8 - 186.8	—	—	—	4,923
Wevan (威旺)⁽²⁾						
306	Economy CUV	31.8 - 46.8	10,016	46,368	82,838	31,450
307	Economy CUV	44.8 - 51.8	—	—	2,226	4,089
M20	Small-size MPV	43.8 - 63.8	—	—	12,933	37,598
205	Economy CUV	29.8 - 35.8	—	—	30,927	20,074
206	Economy CUV	32.3 - 40.8	—	—	1,350	329
New Energy⁽³⁾						
Others⁽⁴⁾						
Subtotal			<u>24,415</u>	<u>77,561</u>	<u>202,280</u>	<u>153,730</u>
Beijing Benz⁽⁵⁾						
E-Class (LWB)	Premium mid- to large-size sedan	429.0 - 798.0	44,951	36,765	39,623	24,525
C-Class	Premium mid-size sedan	315.0 - 468.0	32,585	30,970	35,411	12,843
GLK	Premium SUV	398.0 - 558.0	259	25,929	40,972	27,126
Others⁽⁶⁾						
Subtotal			<u>93,377</u>	<u>103,445</u>	<u>116,006</u>	<u>64,494</u>

(1) As part of an initiative to rebrand our proprietary brand passenger vehicles, we discontinued the BJ E-Series product line and rebranded the BJ E-Series facelift as Senova D20 in November 2014. The BJ40 off-road vehicle was launched in late December 2013. For more information about the manufacture and sale of BJ40, see "Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—3. Off-road Vehicle Branch—Operational Independence."

(2) We utilized BAIC Limited's production capacity to manufacture a limited number of Wevan 306 in the second half of 2014, and procured the whole vehicles for re-sale through our own distribution network by means of an exclusive sales agency arrangement. For more details, see "Business—Manufacturing Facilities and Process—Provisional Arrangement with BAIC Limited." During the Track Record Period, Wevan M20, Wevan 205 and Wevan 206 were manufactured by Yinxiang Motor, from whom we purchased and resold. Our Zhuzhou Branch started to manufacture certain Wevan M20 models in the third quarter of 2014. For more details, see "Business—Manufacturing Facilities and Process—Arrangement with Yinxiang Motor."

(3) In October 2013, we disposed of New Energy to BAIC Group. For details, see "History, Reorganization and Corporate Structure—Major Acquisitions and Disposals," "Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—5. New Energy" and "Connected Transactions—Continuing Connected Transactions Relating to BAIC Group and Its Associates—Non-exempt Continuing Connected Transactions—4. Products and Services Purchasing Framework Agreement ("Transaction 4")—Arrangement of Purchasing New Energy Vehicle Components and Related Assembly Services during the New Energy Transition Period" in this prospectus.

(4) Others primarily include commercial vehicles and off-road vehicles, which were manufactured by BAIC Limited. We disposed of BAIC Limited to BAIC Group in November 2012.

(5) In 2011, 2012 and the period from January 1, 2013 to November 17, 2013, we did not consolidate Beijing Benz, and its sales volumes during these periods are intended for reference and comparison only.

(6) These passenger vehicles included the Mercedes-Benz E-Class, GLK, A-Class and B-Class, which were manufactured by Daimler AG and imported and sold by Beijing Benz in China in 2011 and 2012.

BUSINESS

Beijing Motor

The pictures of our existing proprietary brand passenger vehicles are set out as follows:



Senova D70



Senova D50



Senova D20
(two-box)



Senova D20
(three-box)



Senova D20
(cross)



BJ E-Series Hatchback
(two-box)



BJ E-Series
(three-box)



Wevan 306/307



Wevan 205/206



Wevan M20

The following set out the pictures of our proprietary brand passenger vehicles which have been introduced in 2014 and will be commercially launched in 2015:



Senova D60



Senova D80



Senova X65



Senova CC

Senova (绅宝)

Senova is a mid- to high-end passenger vehicle product series under our proprietary brand, and its passenger vehicle models (except for D20) are developed based on our Saab-derived technologies and platforms acquired in 2009. Our Senova product series comprises three product lines, namely the D series, the X series and the CC series. We currently offer three sedan models, namely D70, D50 and D20, and plan to launch six passenger vehicle models, namely D60, D80, X65, X55, C33 and Senova CC in 2015. The following are the details of the Senova passenger vehicles:

D70

We launched the D70 model in May 2013. It is a mid- to high-end mid-size sedan of our proprietary brand. The D70 is available with 1.8L, 2.0L and 2.3L turbo engine options and with automatic transmission.

The D70 has been well accepted by the market. We sold over 10,000 units of the Senova D70 in 2013. In terms of sales volume in 2013, the D70 model ranked first in the market of mid- to high-end proprietary brand mid-size sedans, according to ACMR.

D50

We commercially launched the D50 model in April 2014. It is a mid- to high-end compact sedan model of our proprietary brand. The D50 is available with a 1.5L naturally aspirated engine option, and will be available with a 1.5L turbo engine option in 2015. The D50 is available with manual or CVT transmission.

D20

We commercially launched the D20 model (previously branded as the facelift of the BJ E-Series) in November 2014. It is a small-size sedan, available in the two-box, three-box and “cross” versions. It is available with 1.3L and 1.5L naturally aspirated engine options and with manual or automatic transmission.

D60

We introduced the compact sedan model D60 in September 2014 and plan to commercially launch this model in the first half of 2015. It is a mid- to high-end compact sedan model of our proprietary brand, available with 1.8L and 2.0L turbo engine options and with manual or automatic transmission.

D80

We introduced the mid-size sedan model D80 in November 2014 and plan to commercially launch this model in the first half of 2015. It is a high-end mid-size sedan model of our proprietary brand, available with 1.8L and 2.3L turbo engine options and with automatic transmission.

X65

We introduced the X65 model in November 2014, and expect to commercially launch this model in the first quarter of 2015. The X65 will be a mid- to high-end compact SUV model, and will be available with a 2.0L turbo engine option and with manual or automatic transmission.

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X55

We expect to commercially launch the X55 model in the third quarter of 2015. The X55 will be a mid-end compact SUV model that we expect will be offered with a 1.5L naturally aspirated engine and 1.5L turbo engine options. The X55 will be available with manual or automatic transmission.

C33 (product development code)

We expect to commercially launch the SUV model C33 in the third quarter of 2015. We expect the C33 to be offered with 1.3L and 1.5L naturally aspirated engine options and with automatic or manual transmission.

Senova CC

We introduced the Senova CC model in November 2014, and plan to launch this model in the first half of 2015. The Senova CC was originally conceived as a more advanced version of the D60, and we plan to develop the Senova CC as a high performance product line of the Senova product series that may comprise both sedans and SUVs.

BJ (北京)

Our BJ product series focuses primarily on economy small-size passenger vehicles. During the Track Record Period, we manufactured and sold E-Series sedans and BJ40 off-road vehicles under the BJ product series.

E-Series

The E-Series model was commercially launched in March 2012. It was an economy small-size sedan model in two versions, namely the E-Series sedan (three-box) and the E-Series hatchback (two-box). The E-Series was available with 1.3L and 1.5L naturally aspirated engine options and with manual or automatic transmission. As part of an initiative to rebrand our proprietary brand passenger vehicles, we discontinued the E-Series product line and rebranded the E-Series facelift as the Senova D20 in November 2014.

We also manufacture and sell BJ40 off-road vehicles as part of the Transition Period Arrangement. As of the Latest Practicable Date, no manufacture or sale arrangement in relation to BJ40 after the Transition Period has been officially determined. We will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) with respect to any manufacture and sale arrangements in relation to BJ40 after the Transition Period. See “Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—3. Off-road Vehicle Branch—Operational Independence.”

Wevan (威旺)

Our Wevan product series focuses on CUV and MPV products, and targets small and micro businesses and individuals in China. We offer four CUV models under the Wevan product series, namely the 306, 307, 205 and 206, as well as the MPV model M20. Wevan 205, 206 and M20 are manufactured by Yinxiang Motor on our behalf. The following are the details of these models:

306

The 306 model was commercially launched in March 2011. The 306 is an economy CUV model, and is available with 1.0L, 1.2L and 1.3L naturally aspirated engine options and with manual transmission.

We outsourced the manufacturing of a limited number of Wevan 306 to BAIC Limited in the second half of 2014. See “—Manufacturing Facilities and Process—Provisional Arrangement with BAIC Limited.”

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307

The 307 model was commercially launched in October 2013. The 307 is an economy CUV model, and is available with a 1.2L naturally aspirated engine option and with manual transmission.

M20

The M20 is an MPV model which was manufactured by Yinxiang Motor and sold by BAIC Sales, one of our subsidiaries, based on a purchase arrangement during the Track Record Period. The M20 is available with a 1.5L naturally aspirated engine option and with manual transmission.

Our Zhuzhou Branch started to manufacture this model in the third quarter of 2014. Yinxiang Motor continues to produce a certain volume of M20, and we continue to purchase and distribute the M20 units manufactured by Yinxiang Motor. See “—Manufacturing Facilities and Process—Arrangement with Yinxiang Motor.”

205

The 205 model was commercially launched in November 2012. The 205 is an economy CUV model. It is available with 1.0L and 1.3L naturally aspirated engine options and with manual transmission.

206

The 206 model was commercially launched in November 2012. The 206 is an economy CUV model. It is available with 1.0L and 1.3L naturally aspirated engine options and with manual transmission.

The following are the details of our planned models under Wevan:

306 facelift

We plan to manufacture a facelift of the 306 model beginning in the third quarter of 2015. The 306 model will be available with 1.2L naturally aspirated engine option and with manual transmission.

307 facelift

We plan to manufacture a facelift of the 307 model beginning in the third quarter of 2015. The 307 model will be available with 1.2L naturally aspirated engine option and with manual transmission.

Beijing Benz

Our Mercedes-Benz brand passenger vehicles focus on premium sedan and SUV, and target high net-worth customers in China. Beijing Benz currently manufactures and sells the E-Class sedan, the C-Class sedan, and the GLK SUV.

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The pictures of the Mercedes-Benz brand passenger vehicles manufactured and sold by us are set out as follows:



LWB version
E-Class



LWB version
E-Class (sport)



C-Class



GLK



LWB version
New C-Class



LWB version
New C-Class
(sport)

The picture of the Mercedes-Benz brand passenger vehicle which has been introduced and will be commercially launched in 2015 is set out as follows:



GLA

The following are the details of these models:

E-Class (LWB version)

The LWB version of the E-Class model produced by Beijing Benz was commercially launched in 2010. It is a premium mid- to large-size sedan model. The current model is the ninth generation of the E-Class manufactured and sold globally. The LWB version of the E-Class model is available with 1.8L turbo engine, 3.0L naturally aspirated engine and 3.5L hybrid engine options and with automatic transmission. We also offer a sport version of the E-Class.

According to ACMR, the LWB version of the E-Class model is one of the best-selling premium sedan models in China. It ranked third and accounted for approximately 11.8% in the premium mid- to large-size joint-venture sedan market in China in terms of sales volume for 2013, according to ACMR.

C-Class

The C-Class model produced by Beijing Benz was commercially launched in 2008. It is a premium mid-size sedan model. This model is the fourth generation of C-Class manufactured and sold globally. This C-Class model is available with 1.8L turbo engine and 3.0L naturally aspirated engine options and with automatic transmission. We have ceased the production of this C-Class model shortly before the commercial launch of the new C-Class (LWB version).

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According to ACMR, the C-Class model is one of the best-selling premium sedan models in China. It ranked third and accounted for approximately 16.2% in the premium mid-size joint-venture sedan market in China in terms of sales volume for 2013, according to ACMR.

GLK

The GLK model produced by Beijing Benz was commercially launched in October 2012. It is a premium SUV model. The current model is the first generation of the GLK model manufactured and sold globally. The GLK model is available with 2.0L turbo engine and 3.0L naturally aspirated engine options and with manual transmission.

According to ACMR, the GLK model is one of the best-selling premium joint-venture SUV models in China. It ranked second and accounted for approximately 20.0% in the premium joint-venture SUV market in China in terms of sales volume for 2013, according to ACMR.

New C-Class (LWB version)

The LWB version of the new C-Class produced by Beijing Benz was commercially launched in August 2014. Its wheelbase is eight centimeters longer than the C-Class model. It is available with 1.6L and 2.0L turbo engine options and with seven-speed automatic transmission. We also offer a sport version of the new C-Class. This is the first model based on the new MRA platform in the PRC market.

This product launch gave us a presence, for the first time, in the PRC market for joint-venture premium mid-size LWB sedans.

We plan to launch the new C-Class sedan (regular-wheelbase version), as well as the GLA and the new generation of GLK SUVs by 2015. The following are the details of our planned models under the Mercedes-Benz brand:

New C-Class (regular-wheelbase version)

We expect to commercially launch the regular-wheelbase version of the new C-Class in the second quarter of 2015. We expect the regular-wheelbase version of the new C-Class to be offered with 1.6L and 2.0L turbo engine options and with seven-speed automatic transmission.

GLA

We expect to commercially launch the GLA model in the second quarter of 2015. The GLA will be a premium SUV model. We expect the GLA to be offered with 1.6L and 2.0L turbo engine options and with automatic transmission.

This will be Beijing Benz's first compact model, based on our new MFA platform.

New GLK

We expect to commercially launch the next generation of the GLK model in the fourth quarter of 2015. We expect the new GLK to be offered with 1.8L turbo engine and 3.0L naturally aspirated

engine options and with manumatic transmission. This will be the second model, produced by Beijing Benz, based on our new MRA platform in the PRC market after the new C-Class.

Engines and Automobile Parts

We manufacture engines and other key automobile parts and components, which are used for manufacturing our passenger vehicles, as well as for sale to other automobile manufacturers. In 2011, 2012, 2013 and the six months ended June 30, 2014, our revenue derived from sale of automobile parts and components from Beijing Beinei Engine Parts and Components Co., Ltd. to other automobile manufacturers was approximately RMB245.8 million, RMB278.1 million, RMB379.9 million and RMB195.5 million, respectively, accounting for approximately 12.8%, 7.9%, 3.0% and 0.8%, respectively, of our total revenue during the same periods.

Engines

We develop and manufacture engines based on the Saab technologies, and these engines are used in our passenger vehicles under our Senova product series (except for the D20). We commenced the manufacturing of the B185 (1.8L), B205 (2.0L) and B235 (2.3L) turbo engines in 2012. All of the B185, B205 and B235 engines are used in our existing Senova D70; the B185 and B205 engines will be used in our Senova D60 model; and the B205 engine will be used in our planned Senova X65 model.

In addition, we started the production of the engine model A12 (1.2L) in the second quarter of 2013, which is used in Wevan 306 and Wevan 307. We started the production of engine models A131 (1.3L) and A151 (1.5L) in the second quarter of 2014. The A131 and A151 engines were used in our BJ E-Series sedans and continue to be used in our rebranded Senova D20 sedans. The A151 engine is used in our Senova D50 sedan, and will be used in our planned SUV models Senova X55 and C33.

Beijing Benz started to import key parts and components and assemble engines in April 2006. Beijing Benz launched the manufacture of engines in 2013. The manufacturing base is located in Beijing and is the only engine manufacturing base for Mercedes-Benz-branded automobiles outside of Germany, which has enabled Beijing Benz to manufacture key parts and components of engines. Beijing Benz also sold engines that it assembled during the Track Record Period. In 2011, 2012, 2013 and the six months ended June 30, 2014, Beijing Benz sold 6,838 units, 5,674 units, 9,257 units and 5,357 units of engines, respectively, which generated revenue of approximately RMB259.0 million, RMB203.3 million, RMB289.3 million and RMB169.1 million, respectively. In mid-2014, Beijing Benz started to export key engine components (cylinder head, cylinder block and crankshaft) it manufactured to Germany for engine production.

Automobile parts and components

We mainly produce connecting rods and camshafts for our own use under Beijing Motor. In addition, we started the trial manufacturing of transmission models F25 and F35 based on the Weigl technology in September 2012, which will be used in the Senova D60. See “—Research and Development—Research and Development of Beijing Motor.” We plan to produce CVT transmission models in 2015, which are and will be used in the Senova D50, D60, X55 and X65 models. We also sell connecting rods and camshafts to other automobile manufacturers in the PRC.

Daimler AG announced in August 2014 that it would reduce the prices of spare parts and components for after-sales services. We believe that such price reduction would not likely have a

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material and adverse impact on Beijing Benz's results of operations and financial condition, because (i) Daimler AG sells the spare parts and components for after-sales services in China through Mercedes-Benz (China) Ltd. and Daimler Northeast Asia Parts Trading and Services Co., Ltd. Our Company does not have any equity interest in either of those two companies, and would not be affected should the operating results of any of those two companies be affected by the price reduction; and (ii) Beijing Benz's business is primarily focused on the manufacture and sales of passenger vehicles. During the Track Record Period, Beijing Benz only sold a small number of automobile parts and components, which generated revenue of approximately RMB71.0 million, RMB74.2 million, RMB104.0 million and RMB34.9 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, accounting for 0.2%, 0.3%, 0.3% and 0.2%, respectively, of the total revenue of Beijing Benz during the same periods.

MANUFACTURING FACILITIES AND PROCESS

Manufacturing Facilities and Production Capacity

We have specialized production facilities to manufacture and assemble our products. All of our manufacturing bases are located in China, and are equipped with advanced production facilities, which not only allow us to improve efficiency and maintain the high quality of our products, but also to reduce per unit product costs as our volume ramps up. See “—Supplies—Procurement of Raw Materials, Parts and Components” for more details.

The following table sets forth certain information relating to our existing production facilities as of the Latest Practicable Date:

	<u>Location</u>	<u>Production commencement date</u>	<u>Land area (square meters)</u>	<u>Gross floor area (square meters)</u>	<u>Product</u>	<u>Designed annual production capacity (units)</u>
Passenger Vehicle						
Beijing Motor						
Beijing Branch	Beijing	March 2013	1,060,386	385,850	Passenger vehicle	150,000
Zhuzhou Branch (Phase I of No. 1 Factory)	Zhuzhou	June 2011	531,706	258,818	Passenger vehicle	100,000
Zhuzhou Branch (Phase II of No. 1 Factory)	Zhuzhou	June 2013	531,706	73,900	Passenger vehicle	100,000
Beijing Benz						
MRA Factory	Beijing	July 2006	1,983,256	358,163	Passenger vehicle	230,000
Engine						
Beijing Motor						
Powertrain	Beijing	December 2012	297,000	133,780	Engine	100,000 ⁽¹⁾
Zhuzhou Branch (Phase II of No. 1 Factory) ⁽²⁾	Zhuzhou	June 2013	531,706	73,900	Engine	100,000
Beijing Benz						
Engine Factory	Beijing	November 2013	292,518	160,700	Engine	300,000

(1) Approved designed production capacity of engines of Powertrain is 300,000 units. As of the Latest Practicable Date, designed production capacity in use was 100,000 units and designed production capacity under construction was 200,000 units.

(2) It shares the land and buildings with the passenger vehicle production unit of the Zhuzhou Branch.

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In addition, we acquired the entire equity interest in Guangzhou Company from BAIC Group and this acquisition was completed in July 2014. We plan to manufacture Senova D60 and Senova X65 in Guangzhou Company's manufacturing facilities. Guangzhou Company does not have any substantial production history. The following table sets forth the information relating to its production facilities as of the Latest Practicable Date:

	Location	Production commencement date	Land area (square meters)	Gross floor area (square meters)	Product	Designed annual production capacity (units)
Guangzhou Company	Guangzhou	April 2014	831,642	207,105	Passenger vehicle	100,000

Passenger vehicle production

The following table sets forth the designed annual production capacity and the production volume of passenger vehicles and the average utilization rate of production lines of each of Beijing Motor and Beijing Benz during the Track Record Period:

	Year ended or as of December 31,									Six months ended or as of June 30,		
	2011			2012			2013			2014		
	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾
Beijing Motor												
Beijing Branch	—	—	—	—	—	—	150,000	11,957	9.6%	150,000	17,433	23.2%
Zhuzhou Branch	100,000	14,008	24.0%	100,000	66,124	66.1%	200,000	150,088	94.8%	200,000	75,703	75.7%
Total	<u>100,000</u>	<u>14,008</u>	<u>24.0%</u>	<u>100,000</u>	<u>66,124</u>	<u>66.1%</u>	<u>350,000</u>	<u>162,045</u>	<u>57.2%</u>	<u>350,000</u>	<u>93,136</u>	<u>53.2%</u>
Beijing Benz												
MRA Factory	<u>100,000</u>	<u>80,172</u>	<u>80.2%</u>	<u>100,000</u>	<u>96,839</u>	<u>96.8%</u>	<u>120,000</u>	<u>118,819</u>	<u>101.8%</u>	<u>120,000</u>	<u>56,257</u>	<u>93.8%</u>

(1) The average utilization rate is derived on the basis of the actual production volume divided by the weighted average designed production capacity for the period indicated. If the expansion of the production capacity occurs in a particular month (N) in the current year, the weighted average designed production capacity of the current year = (N-1) / 12 × annual designed production capacity immediately before the expansion + (13-N) / 12 × annual designed production capacity immediately after the expansion. If the expansion of the production capacity occurs in a particular month (N) during the six months ended June 30, 2014, the weighted average designed production capacity of the period = (N-1) / 6 × annual designed production capacity immediately before the expansion / 2 + (7-N) / 6 × annual designed production capacity immediately after the expansion / 2.

During the Track Record Period, the total utilization rate of the Zhuzhou Branch production facilities of Beijing Motor increased because we were in the process of ramping up our production of passenger vehicles and we launched new passenger vehicle models of the BJ E-Series (rebranded as Senova D20 in November 2014). Additional production capacity was added in the Zhuzhou Branch in June 2013, and the Beijing Branch facility commenced production in March 2013, which caused a decrease in the overall utilization rate of Beijing Motor's production facilities in 2013.

The total utilization rate of the production facilities of Beijing Benz increased from 80.2% in 2011 to 96.8% in 2012, and further to 101.8% in 2013, primarily because Beijing Benz increased the output of passenger vehicles due to an increased market demand for its products.

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All of our production facilities are equipped with flexible production lines, which enable a production line to produce different models of passenger vehicles. We believe this has not only allowed us to enjoy flexibility in production planning to quickly respond to changing market demands, but also reduced our capital expenditures and operating costs.

Engine production

We conduct our engine manufacturing business separately under Beijing Motor and Beijing Benz. The following table sets forth the designed annual production capacity and the production volume of engines and the average utilization rate of our production lines during the Track Record Period:

Engine	Year ended or as of December 31,									Six months ended or as of June 30,		
	2011			2012			2013			2014		
	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual production Volume	Utilization rate ⁽¹⁾
Beijing Motor												
Powertrain	—	—	—	100,000	856	10.3%	100,000	13,232	13.2%	100,000	6,944	13.9%
Zhuzhou Branch	—	—	—	—	—	—	100,000	11,801	20.2%	100,000	6,419	12.8%
Total	—	—	—	100,000	856	10.3%	200,000	25,033	15.8%	200,000	13,363	13.4%
Beijing Benz												
Engine workshop ⁽²⁾	101,500	87,601	89.5%	137,000	102,198	90.2%	170,000	128,577	79.5%	120,000	46,618	60.8%
Engine factory ⁽³⁾	—	—	—	—	—	—	300,000	986	2.0%	300,000	15,222	10.1%
Total	101,500	87,601	89.5%	137,000	102,198	90.2%	470,000	129,563	61.2%	420,000	61,840	27.3%

- (1) The average utilization rate is derived on the basis of the actual production volume divided by the weighted average designed production capacity for the period indicated. If the expansion of the production capacity occurs in a particular month (N) in the current year, the weighted average designed production capacity of the current year = (N-1) / 12 × annual designed production capacity immediately before the expansion + (13-N) / 12 × annual designed production capacity immediately after the expansion. If the expansion of the production capacity occurs in a particular month (N) during the six months ended June 30, 2014, the weighted average designed production capacity of the period = (N-1) / 6 × annual designed production capacity immediately before the expansion / 2 + (7-N) / 6 × annual designed production capacity immediately after the expansion / 2.
- (2) The engine workshop of Beijing Benz began to import key parts and components and assemble engines in April 2006. With the upgrading of vehicle models of Beijing Benz, the workshop is expected to cease its production in the second half of 2015.
- (3) The engine factory has a total annual designed production capacity of 500,000 units of engines, of which the annual designed production capacity of 200,000 units is under development. See “—Expansion plan.”

During the Track Record Period, the utilization rate of our Powertrain engine production line was relatively low because our Senova D70 sedan was launched in May 2013, and its limited sales volume during the ramp-up period justified a proportionate scale of production. However, as we expect the sales of our existing and new vehicle models (including Senova D70, D60 and X65) to grow, we expect the utilization rate of our Powertrain engine production line to increase. In order to accommodate increasing market demand for our Senova product series, such as Senova D50, we have also planned for the strategic expansion of our Powertrain engine production line, and we expect the expanded facilities to maintain sufficiently high utilization. As a result, we intend to gradually reduce engine procurement from third-party suppliers.

During the Track Record Period, the utilization rate of our Zhuzhou Branch engine production line was relatively low, because we started the manufacturing of the engine model A12 from the second quarter of 2013, and we have mainly relied on engines procured from an outside supplier for our CUV models during the Track Record Period. For more details of such procurement, see “—Supplies—Procurement of Raw Materials, Parts and Components.” Production volume at our Zhuzhou Branch

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engine production line has increased since the commencement of production, and notably since mid-2014. As we plan to equip more of our vehicle models with our own engines, we expect the utilization rate of our Zhuzhou Branch engine production line to continue to increase.

Expansion plan

Expansion of production capacity is crucial to our sustainable growth and long-term success. We will continue to expand our production capacity prudently in order to meet the increasing market demand for our products. See “—Business Strategies.”

The following table sets forth our production facilities under construction and to be constructed as of the Latest Practicable Date:

	Location	Expected operation commencement date	Gross floor area ⁽¹⁾ (sq.m.)	Products	Addition of designed annual production capacity (units)	Total investment (RMB in millions)	Capital expenditures incurred up to June 30, 2014 (RMB in millions)	Source of funds
Beijing Motor								
<i>Under construction</i>								
Powertrain								
Manufacturing Base Construction Project (Phase I)								
	Beijing	June 2016	133,780	Engine	200,000	4,020.0 ⁽¹⁾	2,157.1	Own funds, borrowings and net proceeds from the Global Offering
<i>To be constructed</i>								
Beijing Branch								
Phase II								
	Beijing	December 2015	To be determined	Passenger vehicle	150,000	2,585.0	—	Own funds and borrowings
Zhuzhou Branch								
Factory 2								
	Zhuzhou	December 2016	To be determined	Passenger vehicle	200,000	3,500.0	—	Own funds and borrowings
Beijing Benz								
<i>Under construction</i>								
Passenger vehicle production expansion project								
	Beijing	July 2014–October 2015 ⁽²⁾	516,458	Passenger vehicle	300,000	21,145.6	9,209.1	Capital injections from shareholders, borrowings and net proceeds from the Global Offering
Engine Factory								
	Beijing	June 2015	—	Engine	200,000	3,140.9	515.3	Capital injections from shareholders, borrowings and net proceeds from the Global Offering

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- (1) This figure corresponds to the total approved designed production capacity of 300,000 units of engines.
(2) We completed a designed annual production capacity of 130,000 units in July 2014, and expect to complete 120,000 units in March 2015 and 50,000 units in October 2015.

Beijing Motor

As of June 30, 2014, we expected to incur approximately RMB7.9 billion of additional capital expenditures for developing the manufacturing bases of Beijing Motor. Approximately 10% of the capital expenditures will be used for acquiring land use rights, 54% for the purchase of equipment and fittings, and the remaining 36% for construction and other expenses. For the three months ended September 30, 2014, we had incurred approximately RMB0.2 billion of capital expenditures for these projects, and we expect to incur an additional RMB7.7 billion for these projects.

Beijing Benz

As of June 30, 2014, we expected to incur approximately RMB14.6 billion of additional capital expenditures to develop the manufacturing bases of Beijing Benz. Approximately 8% will be used for construction and development, 49% for purchase of equipment, 34% for installation and other expenses, 5% for initial working capital and 4% for interest payment during the development. For the three months ended September 30, 2014, we had incurred approximately RMB2.3 billion of capital expenditure for these manufacturing bases, and we expect to incur an additional RMB12.3 billion for these projects.

If we are unable to increase our production capacity, we may lose orders and, as a result, our market share. For details, see “Risk Factors—Risks Relating to Our Business—Our future success depends, in part, on our ability to expand our production capacity, which is subject to risks and uncertainties.”

For 2011, 2012, 2013 and the six months ended June 30, 2014, the capital expenditures of our Group amounted to approximately RMB3,262.3 million, RMB4,427.0 million, RMB5,134.6 million and RMB3,187.5 million⁽¹⁾, respectively.

Production Planning

A production plan is formulated separately for each of Beijing Motor and Beijing Benz. Based on the sales performance for the current year and the market forecast for the next year, at the end of every year, the sales departments will set forth the annual demand plan for the following year. The board of directors of each of Beijing Motor and Beijing Benz needs to approve its respective annual sales targets. Based on such annual demand plan, the sales departments will prepare monthly production demand estimates, which cover the models, volumes, colors, engine displacements and specifications of the passenger vehicles to be sold. In accordance with such monthly production demand, the production departments will formulate the production plans.

The sales department and the production department meet every month to review the sales and production for the current month and finalize the monthly sales plan and production plan for the following month. The sales department sends the adjustment request for the monthly production plans to the production department from time to time by closely following the performance of the dealers and

(1) Inclusive of Beijing Benz’s capital expenditure for the period from November 18, 2013 to December 31, 2013 and the six months ended June 30, 2014.

the changing market conditions. Similarly, the production department may also adjust the production plans with a view to reducing production costs and improving our profitability.

Once the production plan is finalized, every month the production department will notify the procurement department of the production plan for the next month and the estimated production volumes for each of the two months following the next month. The procurement department will prepare for the procurement of raw materials, automobile parts and components accordingly. See “—Supplies.”

Manufacturing Process

We strive to adopt the most efficient methods and procedures at each step of the production process in order to continuously reduce waste and improve our efficiency. We believe that this allows us to reduce manufacturing costs, shorten production cycles, improve product quality and optimize the use of our resources.

Each of the production facilities of Beijing Motor and Beijing Benz is equipped with flexible production lines. Production processes vary among the different passenger vehicle categories. The diagram below illustrates the principal steps in the production of our passenger vehicles:



The production of passenger vehicles generally involves the following steps:

Preparation: At this stage, we process and assemble the parts and components into a complete chassis and powertrain. We also prepare upholstery components, including seats, interior sideboards and lights and air-conditioning equipment, and other components, such as meter boards, batteries and headlights, for final assembly.

Stamping: Steel plates are stamped onto body parts of vehicles. Most of the stamping operation is completed at our production facilities. Inspection facilities are installed at the end of the stamping lines. Parts with defects will be returned to the rework area for further handling. This step usually takes up to five minutes.

Welding: Welding is a process whereby the vehicle bodies are formed by welding together the relevant vehicle body parts produced by our stamping workshops and other stamped parts and components procured from our suppliers. This step usually takes up to ten hours.

Painting: Painting involves mid-electrophoresis painting, layer painting and surface coating to protect against corrosion. We have adopted environmental protection treatment processes for our painting facilities. This step usually takes up to 16 hours.

Final assembly: At the final stage of the assembling process, the complete chassis, powertrain, principal auxiliary system, glazing, tires, and other parts and components are assembled together to form the complete vehicle. This step usually takes up to 11 hours.

Final inspection: Final inspection involves road tests and final product inspections, including the inspections of exhaust emissions, steering, braking, engine, transmission and electrical appliances. It will

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also involve an inspection of the vehicle's interior, its exterior, and its performance that includes the vehicle's emission level, the drive and the braking function. This step usually takes up to two hours.

It usually takes about 24 hours to 36 hours to produce one passenger vehicle. The quality control procedure is engaged in each stage of our manufacturing process, in order to ensure that our products shall comply with our strict quality control standards. For details, see “—Quality Control.”

We carry out regular maintenance of our production facilities. In addition, during periods of intensive production, additional maintenance work will be conducted to ensure the normal operation of our production facilities.

Provisional Arrangement with BAIC Limited

In an attempt to optimize our production capacity and further strengthen cost control, we entered into a provisional arrangement with BAIC Limited in June 2014, according to which we utilized BAIC Limited's production capacity to manufacture a limited number of Wevan 306, and procured the whole vehicles for re-sale through our own distribution network.

Under the provisional arrangement, as of the Latest Practicable Date, only approximately 800 units of Wevan 306 have been manufactured by BAIC Limited, while the majority of Wevan 306 continued to be manufactured by our Zhuzhou Branch. As of the date of this prospectus, we have reassessed our production capacity and found that our Zhuzhou Branch has sufficient capacity to manufacture Wevan 306, as a result of which, our Directors plan to discontinue the provisional arrangement with BAIC Limited after the Listing.

Arrangement with Yinxiang Motor

To expand the product portfolio of the Wevan product series, in 2013, we procured passenger vehicles, including Wevan M20, which is an MPV model, and the Wevan 205 and Wevan 206 models, which are CUVs, from Yinxiang Motor, and sold them through our distribution network.

In January 2013, Yinxiang Motor entered into an exclusive sales agency agreement with BAIC Sales, one of our subsidiaries, for the sale of passenger vehicles manufactured by Yinxiang Motor through BAIC Sales. The principal terms of this agreement are set forth below.

Duration and termination

The term of the agreement is three years commencing on January 1, 2013, expiring on December 31, 2015. Once the agreement expires, it will be automatically renewed for one year unless otherwise agreed between the relevant parties. If any party does not want to extend the agreement, such party should furnish the other party with a notice six months prior to the expiration of the agreement.

Upon the occurrence of any condition provided in the agreement (including the breach of the contract), any party is entitled to terminate the agreement with one month's prior notice.

Sales price and payment

The purchase price of the passenger vehicles between BAIC Sales and Yinxiang Motor is determined through arm's length negotiation between the parties. The parties will renegotiate the

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purchase prices before November 30 every year during the term of the agreement. BAIC Sales is entitled to determine the retail prices of the passenger vehicles solely at its own discretion.

The aggregate purchase price of the passenger vehicles will be determined on a monthly basis. Once both parties confirm the amount, BAIC Sales will be required to pay the full amount within ten days immediately following the confirmation.

Provision of passenger vehicles and sales volume

By the end of each year, both parties will negotiate the target annual sales volume of the passenger vehicles for the following year in the form of a supplemental agreement. The agreed sales volume is subject to adjustment pursuant to changing market conditions as agreed upon by the parties. Yinxiang Motor shall not reject any reasonable adjustment proposed by BAIC Sales. If the parties fail to agree on the sales volume for a certain year, they should follow the sales volume of the previous year until they reach a new arrangement.

After-sales services

BAIC Sales provides exclusive after-sales services to the end-user customers, and it is not allowed to subcontract the after-sales services to others. For in-warranty after-sales services, Yinxiang Motor will reimburse the costs incurred by BAIC Sales.

Recall and product liability

Yinxiang Motor is required to recall any defective passenger vehicles in accordance with applicable laws. BAIC Sales will formulate a recall plan with Yinxiang Motor, and BAIC Sales will carry out the recall with the cooperation of Yinxiang Motor. Yinxiang Motor will reimburse the costs and losses incurred by BAIC Sales in relation to the recall.

Yinxiang Motor shall be solely responsible for any product quality and liability claims against the passenger vehicles. BAIC Sales will take the lead in handling and settling these claims, and Yinxiang Motor is responsible for all relevant fees and expenses.

We purchased 45,210 units and 58,001 units of passenger vehicles from Yinxiang Motor in 2013 and the six months ended June 30, 2014, respectively. For more details, see “Relationship with BAIC Group—III. Delineation of the Businesses Between the Excluded Companies and Our Company—7. Yinxiang Motor.”

Wevan M20 has been well accepted by the market and, therefore, we have decided to increase its supply to the market. We started manufacturing M20 in our Zhuzhou Branch in August 2014. Meanwhile, we will continue to purchase some M20 units from Yinxiang Motor. We have entered into a technology licensing agreement with Yinxiang Motor. See “—Intellectual Properties.”

RESEARCH AND DEVELOPMENT

We believe our research and development capabilities are crucial to our future growth. Our research and development efforts stem from both our proprietary research and development efforts and alliances with our cooperative partners.

In 2011, 2012, 2013 and the six months ended June 30, 2014, the research and development expenditures of our continuing operations were RMB673.0 million, RMB1,028.7 million, RMB1,490.6

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million and RMB634.2 million, respectively, among which research and development expenses were RMB15.0 million, RMB43.8 million, RMB23.5 million and RMB14.4 million, respectively, and the addition of development costs recorded as intangible assets was RMB658.0 million, RMB984.9 million, RMB1,467.1 million and RMB619.8 million, respectively, during the same periods. The continued growth of research expenditures reflects our dedication to research and development. When certain conditions are met, research and development costs will be capitalized and recorded as development costs, which include costs of raw materials and services, as well as employee costs. The capitalized development costs will be amortized using the straight-line method over the estimated useful lives of the relevant assets. See “Financial Information.”

As of the Latest Practicable Date, we had over 2,000 research and development personnel under Beijing Motor and Beijing Benz.

Research and Development of Beijing Motor

We carry out research and development activities mainly through our passenger vehicle research institute. Our research and development activities mainly focus on the development of new products, quality control, manufacturing and development and procurement control. The research and development personnel for our proprietary brand include overseas professionals from South Korea, the United States, Australia and Japan. Over 30% of our research and development personnel possess a master’s degree or above, and many of them have an overseas education background and/or work experience.

As of June 30, 2014, we held 1,114 patents and have made 995 patent applications in the PRC. While developing new products, technologies and designs, we also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

The passenger vehicle research institute was established in 2007 and was merged into our Group in September 2010. Our passenger vehicle research institute is located in Shunyi District, Beijing, and includes product engineering center, product research center, new-energy vehicle research and development center, trial production center and modeling center. We lease office buildings and ancillary facilities (such as conference facilities, cafeterias and dormitories) from BAIC Group. In addition, our passenger vehicle research institute is equipped with advanced trial production and laboratory equipment for our research and development activities. This institute focuses on the development of new passenger vehicle models and key parts and components used in our passenger vehicles. We also have development platforms for simulation, processing techniques, trial production, laboratory and technical support, as well as management units covering operations management, human resources, finance management and overall management.

We have been actively seeking commercialization of advanced automobile manufacturing technologies and utilizing such technologies in our products, which we believe have helped us improve our product quality and customer experience. In particular, we focus on expediting the commercialization of technologies, such as energy conservation and emissions reduction, active and passive safety, intellectualization and light-weight technologies. We have developed an extensive and stringent research and development process management system for Beijing Motor. This system covers eight key aspects, including project initiation, program approval, design approval, new design announcement, product and process verification, experimental production, trial production and formal production. This system stipulates the details of the deliverables and standards at each key link, as well

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as the evaluation process and methods, which ensure the quality control and management of our research and development activities.

In 2009, the BAIC Group acquired Saab technology, including the architecture for three Saab models, two turbo engines, two transmissions and production tools and molds. By adapting and upgrading Saab's designs and technical standards, Beijing Motor has established its own proprietary passenger vehicle platform for the design and development of passenger vehicles, systems and parts. We also plan to use V212 platform, the basis for the Mercedes-Benz LWB version E-Class and the relevant key technology to develop mid- to large-size premium sedans under our proprietary brand. We launched new models of passenger vehicle throughout the Track Record Period. As of the Latest Practicable Date, Beijing Motor and Beijing Benz were in the process of developing at least 11 new and upgraded models to be launched by the end of 2015.

In addition, we developed three turbo engine models, B185, B205 and B235 based on the Saab turbo engine technologies. During this process, we developed capabilities related to the development of the engines, testing and verification.

We purchased transmission manufacturing facilities and technologies from the Weigl Group, in December 2010, through which we obtained a complete set of equipment and technology documents. We completed the testing of equipment and commenced trial production in September 2012. The transmissions will be used in the Senova D60.

We maintain long-term cooperative relationships with domestic and foreign research institutions, universities and enterprises to carry out technology sharing and cooperation, forming alliances for research, development, application and production. We have been developing a number of engines and other key parts and components with leading research and development institutions and manufacturers, such as MB-TECH, the Mahle Group, the FEV Group, the Southwest Research Institute, the Bosch Group and AVL LIST GmbH. Pursuant to our agreements with them, we usually bear the costs and expenses of these research and development activities, and if the cooperation partner is a research institute, we usually exclusively own the new technologies and products developed, and if the cooperation partner is our supplier, we usually share the new technologies and products with the supplier.

Research and Development through Beijing Benz

In addition, Beijing Benz opened its new research and development center in Beijing in July 2014. This new research and development center occupies a land parcel of approximately 150,000 square meters and buildings with a gross floor area of approximately 236,000 square meters. It is equipped with world-class research and development facilities, and responsible for localization of design, examination of automobiles, parts and components, trial assembly and localization of the production of parts and components. It is the largest joint-venture laboratory of Daimler AG outside of Germany.

QUALITY CONTROL

We believe that the quality of our products is crucial to our sustainable growth. We have established and implemented a stringent quality control system which conforms to national and international standards. We place a strong emphasis on maintaining consistent quality across our products and services at all levels of our management and staff for the entire production process. We

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have introduced various quality control measures at every stage of our operations, such as utilizing error prevention equipment, so as to avoid product defects. Parts, components and unfinished products that fail to meet our quality control requirements will not be processed at the next stage of production.

Beijing Motor has obtained the ISO9001 Quality Management System Certification, and Beijing Benz has obtained the ISO/TS16949 certification. As of the Latest Practicable Date, Beijing Motor and Beijing Benz in aggregate had over 800 dedicated quality control personnel. These quality control personnel are familiar with the relevant PRC national standards, applicable ISO standards, industry standards and the legal and regulatory requirements applicable to our products. They are also required to attend professional training before performing certain quality assurance tasks.

In addition, Daimler AG ensures the implementation of its global quality standards in the manufacturing process of each vehicle model of Beijing Benz through a number of measures, including the formulation of standardized quality control and assessment procedures, the hosting of regular professional training of quality control personnel, and the creation of an independent, specialized inspection team that visits Daimler's global production plants, including those of Beijing Benz, to conduct testing on key steps of the manufacturing process, meet with local quality control personnel, and share global best practices.

The following table sets forth the major qualifications obtained by us:

<u>Company</u>	<u>Qualification</u>	<u>Certification Number</u>	<u>Product</u>	<u>Year of Award</u>	<u>Expiration</u>	<u>Awarded by</u>
Our Company . . .	ISO 9001	01 100 116748	Passenger vehicle	2012	February 2, 2015	TÜV Rheinland Cert GmbH
Beijing Benz	ISO / TS 16949	01 111 1325624	Passenger vehicle	2013	December 5, 2016	TÜV Rheinland Cert GmbH

Quality Control Procedures

We have implemented stringent quality control systems and devoted significant resources to improve quality control. Our quality control starts at the design and planning of our products and production process, and covers each stage of our manufacturing process through close inter-departmental collaboration. We also devote significant resources to improve quality control management and the training programs provided to our employees with a view to ensuring the best quality of our products.

We have adopted product tracking systems, under which we record the identities of the people involved in each step of the manufacturing process of our products. Any issue discovered by us internally, or by end-user customers, will be directed to the quality control department for analysis, and then traced back to the responsible production personnel at the relevant production stage. This system not only helps ensure the quality of our products, but also helps us gather valuable information from end-user customers for the improvement and development of new products.

We have formulated our evaluation standards and established an internal audit team to review and evaluate our product quality and production processes. We conduct regular internal audits and management evaluations to ensure that our quality control system is proper, effective and adequate.

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Our quality control departments hold meetings from time to time with the various production departments and suppliers in order to identify and rectify any product quality issues on a timely basis.

According to the 2013 China Initial Quality Studysm (IQS) issued by J.D. Power Asia Pacific, Mercedes-Benz passenger vehicles ranked the highest among all the passenger vehicle brands in China. Meanwhile, E-Class vehicles ranked first in the quality report of premium mid- to large-size passenger vehicles. During the Track Record Period, we have not had any material quality problems or material product defects, or received any material quality complaints from our end-user customers. We usually require complaints from end-user customers to be resolved within two to three days.

Recall

Like all other passenger vehicle manufacturers in China, we are subject to the Administrative Provisions on Recall of Defective Automotive Products (缺陷汽車產品召回管理規定) promulgated by State Administration of Quality Supervision, Inspection and Quarantine, the NDRC, the MOFCOM, and the General Administration of Customs on March 12, 2004, and the Administrative Regulations on Defective Automotive Product Recalls (缺陷汽車產品召回管理條例) promulgated by the State Council in October 2012.

During the Track Record Period, Beijing Motor did not recall any passenger vehicles under the Senova, BJ or Wevan product series.

The following table sets forth the recall of Beijing Benz during the Track Record Period and up to the Latest Practicable Date:

<u>Recall period</u>	<u>Affected components/reason for recall</u>	<u>Affected models</u>	<u>Volume (units)</u>
Sept. 2014–Sept. 2015	Tail light malfunction	C-Class	59,489

Our Directors confirm that Beijing Benz has not incurred any material losses from recalls during the Track Record Period.

Our Directors confirm that our Group has not suffered material losses from product liability claims during the Track Record Period.

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AWARDS AND RECOGNITION

Our passenger vehicles have received recognition and numerous awards in recent years, including the following:

Brand	Year	Model	Award	By
Senova	2014	D60	Performance Car of the Year	Auto Weekly (汽車週刊) and ifeng.com (鳳凰網)
	2013	D70	Most Expected New Elite Vehicle	21 st Century Business Herald (21世紀經濟報道)
		D70 D70	Design and Performance Award Business Car of the Year	Auto Style (時尚座駕雜誌) Beijing Wan Bao (北京晚報)
BJ	2014	E-Series	Highest Ranked in the Compact Sedan Segment	J.D. Power Asia Pacific 2014 China Initial Quality Study SM (IQS)
	2012	E-Series	Most Popular New Model	Hua Shang Bao (華商報)
		E-Series E-Series	Best Potential Model of the Year (Proprietary Brand) Small-size Sedan of the Year	China Auto News (中國汽車報) 163.com (網易)
Wevan	2012	Wevan 306	Mini Car of the Year	China Major Auto Media Alliance (中國主流汽車媒體聯盟)
		Wevan 306 Wevan 306	Car of the Year for Livelihood Most Popular Mini Car	Beijing Times (京華時報) China Auto News (中國汽車報)
	2011	Wevan 306	Best Model for Livelihood	Beijing Times (京華時報)
		Wevan 306	Model of China Best Mini CUV	West China City Daily (華西都市報)
Mercedes-Benz .	2014	LWB version E-Class	Best Executive-Class Elite Car of 2013	21 st Century Business Herald
		2013	GLK	2012 CCTV China Utility Vehicle of the Year
	LWB version E-Class		The Best Elite Car of the Year	China Business News (第一財經日報)
	LWB version E-Class		2013 Eco-Friendly Premium Sedan	China Youth Daily (中國青年報)
	2012	C-Class	2011 CCTV China Annual Premium Vehicle	CCTV (中央電視台)
		LWB version E-Class	2012 “Golden engine” Top10 of the Year	Moneyweek (理財週報)
		GLK	2013 Utility Vehicle of the Year	Motor Trend (汽車族雜誌)
GLK		2012 SUV of the Year	163.com (網易)	

SUPPLIES

Suppliers

We have developed long-term business relationships with our suppliers and negotiated supply agreements with favorable terms and stable pricing policies. We have established long-term relationships with a number of renowned automobile parts suppliers in the world, including ThyssenKrupp, Johnson Controls and Lear, which has ensured our products are of a high quality. In 2011, 2012 and 2013, our purchases from Lear, ThyssenKrupp and Johnson Controls amounted to approximately 1.00%, 0.47% and 0.39% of our total purchases (as measured by “raw materials used” in our cost of sales), respectively. We have had business relationships with our key suppliers for a period of over three years.

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We believe that by leveraging the global procurement system of our joint venture partners, we are able to monitor the fluctuations in the prices of raw materials, parts and components in the global market, and adjust our procurement strategies accordingly.

In 2011, 2012, 2013 and the six months ended June 30, 2014, purchases from our five largest suppliers in aggregate accounted for approximately 17.5%, 22.8%, 38.0% and 48.6% of our total purchases (raw materials used in cost of sales), respectively, and purchases from our largest supplier accounted for approximately 5.4%, 9.2%, 12.7% and 28.3% of our total purchases (raw materials used in cost of sales) during the same periods, respectively.

During the Track Record Period, certain of our five largest suppliers were our related parties. In 2011, our largest supplier Beijing Beiqi Changsheng Automobile Accessories Co., Ltd. and our fifth largest supplier Beijing Pride Power Battery Technology Co., Ltd. were our related parties, accounting for 7.6% of our total procurement in that year. In 2012, our third largest supplier Beijing Penglong Material Trading Co., Ltd. and our fourth largest supplier Beijing Beiqi Changsheng Automobile Accessories Co., Ltd. were our related parties, accounting for 6.0% of our total procurement in that year. In 2013, our largest supplier Daimler AG, our second largest supplier Yinxiang Motor and our fourth largest supplier Beijing Hainachuan Johnson Automotive Parts Co., Ltd. were our related parties, accounting for 27.8% of our total procurement in that year. In the six months ended June 30, 2014, our largest supplier Daimler AG, our second largest supplier Yinxiang Motor and our fourth largest supplier Beijing Hainachuan Johnson Automotive Parts Co., Ltd. were our related parties, accounting for 41.2% of our total procurement (raw material used in cost of sales) in that period. See “Risk Factors—Risks Relating to Our Business—We rely on a limited number of suppliers to supply a large portion of raw materials, parts and components.”

Other than disclosed otherwise in this prospectus, none of our Directors or their associates or, to the knowledge of our Directors, any Shareholder with over 5% of the share capital of our Company has any interest in any of our five largest suppliers in 2011, 2012, 2013 and the six months ended June 30, 2014.

Procurement of Raw Materials, Parts and Components

We purchase a wide variety of raw materials, parts and components from suppliers. The key raw materials, parts and components used in the manufacturing of our products include steel, tires and a variety of fabricated or manufactured parts and components, such as engines and axles. During the Track Record Period, we procured engines from Liuzhou Wuling Liuji Powertrain Co., Ltd. for our CUV models and from Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. for our BJ vehicle models. In addition, we also purchase manufacturing equipment, molds, spare parts, supporting materials and information technologies and services. During the Track Record Period, our procurement costs (raw materials used in cost of sales, exclusive of the procurement costs of vehicles from Yinxiang Motor in 2013) accounted for 88.1%, 95.1%, 87.2% and 89.5%, respectively, of our total cost of sales during the same periods.

Auto parts and components, such as engines, vehicle bodies and transmissions, constituted substantially all of our raw material costs during the Track Record Period, and we normally purchase a small amount (approximately 1% to 5% of our raw material costs) of raw materials, primarily steel plate, directly from raw material suppliers. Historically, our operations have not been subject to any material price fluctuations of raw materials. We usually enter into separate agreements with our

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suppliers to provide for the prices and payment terms of the raw materials, parts and components, which typically have a term of one year. To avoid any price fluctuation risk, we usually fix the prices of raw materials, parts and components procured by us during the term of such agreement.

We have taken various initiatives to reduce or control our procurement cost without compromising on the quality of our products. We believe that, as a result of our increasing production scale and procurement volume, our increasing bargaining power has helped us to reduce the prices of raw materials, parts and components through negotiation with our suppliers. In addition, we have continuously optimized the design of our passenger vehicle products to achieve higher cost effectiveness. We have also initiated the standardization and modularization of the parts and components to be used in our passenger vehicles, which has not only improved our production efficiency, but also improved the cost structure of our products.

During the Track Record Period, we have not experienced any material shortage of supply or delay of automobile parts or raw materials from our suppliers.

Selection and management of suppliers

Automobile parts, raw materials and other consumables are procured separately and purchased from pre-selected suppliers under each of Beijing Motor and Beijing Benz. We have established a system to identify and manage qualified suppliers, and we require all procurement to be made through qualified suppliers.

We have implemented stringent controls over our supplier selection process to ensure that the quality of the raw materials and automobile parts meet our standards. The supplier management department of each of Beijing Motor and Beijing Benz is in charge of the selection and management of suppliers. Before we commence the procurement of new automobile parts or raw materials, the supplier management department will collect information regarding potential suppliers and prepare a list of candidates. The research and development department, the supplier management department and the quality control development will conduct on-site inspections of these supplier candidates. The selection of suppliers is generally determined by taking into account, among other things, research and development capabilities, quality control systems and product certification systems, production capacity, after-sales services, and procurement, warehousing, logistics management and cost-control capabilities.

Procurement procedures

With respect to raw material, parts and components, we usually require bidding among our qualified suppliers. For procurement of small amounts, we may invite bids from several qualified suppliers.

We have introduced a quality-control system to ensure that all raw materials and automobile parts and components delivered to our operating entities conform to our specific quality control requirements. Our procurement system requires sampling and small-scale trial installations before we launch the mass production of new products.

For the procurement of equipment, we usually publicly invite equipment suppliers to bid for the project in accordance with our specifications.

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Based on the notice of production plans from the production departments, each month, we notify the suppliers of our demand for the next month and our estimated needs for the two months following the next month, in order to secure sufficient supply. The suppliers must report to us in advance if they cannot satisfy any of our requirements.

We have stringent quality control requirements for the manufacturing facilities and raw materials, parts and components used by our suppliers. We stipulate such requirements in the supply agreements. Our quality control personnel also conduct onsite inspections to ensure the quality of our supplies.

We review our suppliers' production capacities and technical capabilities on an annual basis. Each year, we evaluate the performance of our qualified suppliers. Outperforming suppliers will have an increased chance of working on our new products in the future. On the other hand, we may cease future cooperation with underperforming suppliers for our new products.

Supply agreements

Once a supplier wins a bid, we typically enter into a legally binding framework agreement without a specified term with that supplier.

The framework agreement requires that our suppliers must possess necessary quality control certification, such as ISO9000, ISO/TS16949, QS9000 and VDA6.1. In addition, our suppliers are required to conduct full-scale production evaluation at least once every year, and they are required to submit the evaluation reports to us promptly.

Our suppliers are not allowed to change any specification stipulated in the framework agreement, such as raw materials, processing technologies and quality inspection, without our prior approval. Any necessary change must undergo our internal review and approval procedures. In addition, our suppliers are not allowed to outsource their work to third parties without our prior approval. For the sub-suppliers to our suppliers, we retain the rights to appoint the sub-suppliers of key products or services, carry out quality evaluation of the sub-suppliers, participate in the negotiation of the sub-supply agreements, and conduct quality inspection of the sub-suppliers and their products.

We usually require our suppliers to provide a warranty for a certain period, which should be no less than the warranty of the passenger vehicles sold by us to our end-user customers. All raw materials, parts and components are subject to guarantee of free repair, replacement and return in accordance with PRC laws and regulations. Our suppliers are solely responsible for any defects not caused by us and any subsequent damages incurred by us or third parties, including our end-user customers. For defective raw materials, parts and components, we may request replacements and return by the relevant supplier.

We usually enter into separate agreements with our suppliers to provide for the prices and payment terms of the raw materials, parts and components, which typically have a term of one year. To avoid price fluctuation risk, we usually fix the prices of raw materials, parts and components procured by us during the term of such agreement. We usually negotiate the prices of raw materials, parts and components with our suppliers on an annual basis. We have been able to enjoy continuous price decreases through such negotiation, which we believe was due to our increased bargaining power as a result of our business expansion. The prices are usually inclusive of all expenses, such as packing and logistics costs.

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In certain cases, to ensure the quality of the parts and components provided by our suppliers and leverage our extensive procurement network, we designate the sources of raw materials to be used by such suppliers, which also helps reduce our procurement costs.

We are entitled to terminate the framework agreement for cause, including the bankruptcy or liquidation of the supplier, force majeure, material breach of the framework agreement by the supplier and material difficulty in developing the goods to be procured by us. Both we and our suppliers are entitled to terminate the framework agreements by a written notice for a certain period without cause.

Payment

For important parts and components, such as engines, transmissions and axles, Beijing Motor usually enjoys a credit term from 30 days to 90 days. For other parts and components, Beijing Motor usually enjoys a credit term from 60 days to 90 days following the month of procurement. We believe this helps us maintain a good relationship with our key suppliers, while allowing us to improve our liquidity position. Beijing Benz usually settles payment within 75 days to 105 days for domestic supplies and knock-down kits following the months when the purchases occur.

For the purchase of equipment, we usually pay 30% of the total purchase price within one month after we enter into the purchase agreement, 30% when the equipment is ready for installation and 30% upon the final quality inspection. This settlement process may last as long as two years. Upon the final quality inspection, we usually keep 10% of the total purchase price for two years as a quality deposit.

Localization

Substantially all of the procurement of Beijing Motor is carried out in China. We import certain raw materials, parts and components from countries such as Germany and Japan. The following table sets out the percentages of the raw materials and automobile parts procured domestically and overseas by Beijing Benz for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Domestic procurement	47.7%	44.0%	45.1%	45.5%
Overseas procurement	52.3%	56.0%	54.9%	54.5%

Without compromising the quality of our products, we endeavor to be more cost-effective by encouraging further localization of the supply of automobile parts, raw materials and other supplies.

Daimler AG maintains a global procurement and supply system that benefits the procurement of raw materials, parts and components of Beijing Benz, which has built a network of suppliers from all over China and intends to further enhance its localization rate. Meanwhile, in mid-2014, we started exporting core engine components (cylinder heads, cylinder blocks and crankshafts) manufactured by Beijing Benz to Germany for engine production, and we are committed to a process that would integrate our products into the global procurement and supply system of Daimler AG.

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CUSTOMERS

During the Track Record Period, we sold most of our passenger vehicles through dealers in the PRC. We also sell automobile parts and components to other automobile manufacturers. During the Track Record Period, approximately 100.0%, 100.0%, 97.1% and 99.7%, respectively, of revenue was derived from our dealers. In addition, we have carried out direct sales of Senova D70 to end-user customers, which include governmental entities. We sold 2,502 units of Senova D70 directly to our end-user customers and generated revenue of approximately RMB369.8 million in 2013; and we sold 695 units of Senova D70, Senova D50 and E-Series vehicles directly to our end-user customers and generated revenue of approximately RMB75.4 million in the six months ended June 30, 2014. Revenue from direct sales contributed nil, nil, 2.9% and 0.3% of our total revenue, respectively, during the Track Record Period.

In 2011, 2012, 2013 and the six months ended June 30, 2014, sales to our five largest customers accounted for approximately 26.2%, 17.7%, 9.2% and 4.9% of our revenue, respectively, and our largest customer accounted for approximately 10.9%, 4.8%, 2.6% and 1.1% of our revenue during those same years, respectively.

During the Track Record Period, certain of our five largest customers were our related parties. In 2011, our second largest customer, Beijing Hyundai was our related party, accounting for 8.1% of our total revenue in that year. In 2012, our largest customer Beijing Hyundai, our fourth largest customer Beijing Pengyuan Automobile Sales Service Co., Ltd. and our fifth largest customer Zhongnongtong (Beijing) Automobile Sales Co., Ltd. were our related parties, accounting for 10.4% of our total revenue in that year. In 2013, our largest customer Beijing Pengyuan Automobile Sales Service Co., Ltd. and our second largest customer Beijing Hyundai were our related parties, accounting for 4.8% of our total revenue in that year. In the six months ended June 30, 2014, none of our five largest customers was our related party.

In 2011 and 2012, in terms of revenue, we exported approximately 10.0% and 6.0% of our products, respectively, mainly including passenger vehicles to overseas customers. Our products were exported mainly to Russia, Chile and Peru. We did not export any passenger vehicles in 2013 and the six months ended June 30, 2014.

Our Directors have confirmed that we do not have any reliance on our top customers, and we do not expect any material difficulties to find replacement dealers in the market. We have at least one to three years of relationships with our dealer customers.

Save as otherwise disclosed in this prospectus, none of our Directors or their associates or, to the knowledge of our Directors, any Shareholder with over 5% of the share capital of our Company had any interest in any of our five largest customers in 2011, 2012, 2013 and the six months ended June 30, 2014. During the Track Record Period, none of our major customers was our major supplier.

DEALERS, SALES AND MARKETING

As an industry norm, we primarily distribute our products through our dealers. We believe this has helped us grow our sales quickly. We have established extensive distribution networks in China. We have a seller-buyer relationship with our dealers. We retain no ownership control over the passenger vehicles sold to our dealers. Sales and marketing activities are carried out separately under Beijing Motor and Beijing Benz. We enter into a dealership agreement with each of our dealers, which

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stipulates the products sold by the dealers and annual sales targets. We provide the base sales prices of our products sold to our distributors every year, and the actual sales prices may be adjusted pursuant to the market conditions during the year.

Our Dealership Network

The following table sets forth the number of dealers, and dealership outlets operated by these dealers, for each of the Beijing Motor and Beijing Benz distribution networks as of the dates indicated:

	As of December 31,			As of June 30,	As of the Latest Practicable Date
	2011	2012	2013	2014	
Beijing Motor					
Dealers	73	253	413	468	527
Dealership outlets	73	253	413	468	527
Beijing Benz					
Dealers	143	173	238	274	303
Dealership outlets	212	262	341	380	406

Beijing Motor

As of the Latest Practicable Date, Beijing Motor had 527 dealers and 527 dealership outlets.

The following table sets forth the change in the number of Beijing Motor's dealers and dealership outlets operated by these dealers for the periods or as of the dates indicated:

	For the year ended or as of December 31,										For the six months ended or as of June 30,			
	2010		2011			2012			2013			2014		
	Total	New	Terminated	Total	New	Terminated	Total	New	Terminated	Total	New	Terminated	Total	
Dealers	—	73	—	73	182	2	253	179	19	413	89	34	468	
Dealership outlets ..	—	73	—	73	182	2	253	179	19	413	89	34	468	

Beijing Benz

As of the Latest Practicable Date, Beijing Benz had 303 dealers and 406 dealership outlets.

Beijing Benz and Daimler AG used to manage their own distribution networks separately in the PRC. In December 2012, Beijing Motor and Daimler Greater China (a wholly-owned subsidiary of Daimler AG) established Benz Sales Service, a joint venture that functions as an integrated sales and distribution platform for imported and domestically manufactured Mercedes-Benz passenger vehicles. The passenger vehicle models imported from Daimler AG for sale in China differ from those that Beijing Benz manufacture and sell in China. We and Daimler AG work together to determine what models of Mercedes-Benz passenger vehicles would be domestically manufactured in China and at what time and pace, on the basis of our joint assessment of expected market demand for specific models and other business considerations. As a result, we have been focusing on regular models of the C-Class, the E-Class and the GLK-Class that target family and business users and have large market demand. Once a particular model under the Mercedes-Benz brand becomes domestically manufactured in China, it is no longer imported from abroad for sale in China. No passenger vehicles under the C-Class, the E-Class and the GLK-Class are imported into China except for certain special models, such as the estate, coupe and AMG high performance models for the C-Class and coupe and cabriolet

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models for the E-Class, which target a small group of customers in China and have lower sales volume and higher selling prices compared to the regular models manufactured by us. For the foregoing reasons, our Directors believe that the competition between the domestically manufactured and imported Mercedes-Benz passenger vehicles is limited.

Benz Sales Service is mainly responsible for the marketing and sales of both imported and domestically manufactured passenger vehicles of Mercedes-Benz, after-sale services, development of dealership networks, used vehicles and enterprise customer services and training of dealers. Beijing Benz entered into a service agreement with Benz Sales Service in February 2013. Pursuant to this agreement, Benz Sales Service will provide sales services to Beijing Benz, including:

- discussing with Beijing Benz's management and preparing the annual product sales budget and proposals;
- implementing the annual product sales budget and proposals;
- negotiating contracts on behalf of Beijing Benz;
- providing Beijing Benz with all information relating to the services provided by Benz Sales Service, including but not limited to the information of the customers and after-sales services; and
- providing Beijing Benz with other reasonable and necessary assistance.

Beijing Benz enters into contracts that are negotiated by Benz Sales Service with dealers in its own name. Beijing Benz is responsible for the logistics and settlement arrangements with its dealers. Through Benz Sales Services, our Group and Daimler AG develop the dealership network for Mercedes-Benz passenger vehicles in a joint effort. As of the Latest Practicable Date and to our best knowledge after due and careful enquiries, Daimler AG does not operate dealerships that compete with those of the Group.

Benz Sales Service charges service fees from Beijing Benz. Based on the service agreement entered into between Beijing Benz and Benz Sales Service by arm's length negotiation, the amount of the service fees is determined on an annual basis and the payment terms vary each year. For example, in 2014, the amount of service fees charged by Benz Sales Service is calculated based on projected annual sales volume and projected net income. For 2015 and thereafter, the service fee and payment terms are subject to further negotiation between Beijing Benz and Benz Sales Service and will be reflected in the supplemental agreements.

In 2013 and the six months ended June 30, 2014, the service fees charged to Beijing Benz were approximately RMB132.1 million and RMB172.1 million, respectively.

This agreement has a term of ten years, which can be automatically extended upon expiry. Both parties can terminate this agreement through a written agreement.

The following table sets forth the change in the number of Beijing Benz's dealers and dealership outlets operated by these dealers for the periods or as of the dates indicated:

	For the year ended or as of December 31,									For the six months ended or as of June 30,					
	2010			2011			2012			2013			2014		
	Total	New	Terminated	Total	New	Terminated	Total	New	Terminated	Total	New	Terminated	Total		
Dealers	122	21	—	143	30	—	173	65	—	238	36	—	274		
Dealership outlets . .	166	46	—	212	52	2	262	83	4	341	41	2	380		

Domestically manufactured and imported Mercedes-Benz passenger vehicles are distributed through the same group of dealers and dealership outlets as shown in the table above. During the Track Record Period, the number of our dealers and dealership outlets increased in line with our business expansion. We terminated certain dealers and dealership outlets due to unsatisfactory performance. In addition, Beijing Benz terminated certain dealership outlets due to the reorganization of its distribution network. Our Directors have confirmed that we have not had any material dispute with our dealers during the Track Record Period.

Expansion plan

We plan to further improve the dealership network of Beijing Motor by opening more dealership outlets in first-tier and second-tier cities in coastal regions in China, such as Guangdong Province, Fujian Province, Guangxi Province, Zhejiang Province and Jiangsu Province, and increasing Beijing Motor's penetration in third-tier and fourth-tier cities in the PRC.

With the cooperation arrangement with Benz Sales Service and a more integrated structure, Beijing Benz will accelerate new dealership outlet openings and at the same time shift the expansion focus of its distribution network to third- and fourth-tier cities in an effort to establish an early foothold in more quickly developing regions.

Selecting dealers and opening new dealership outlets

We formulate our dealership network expansion plan annually. Before entering into new markets, we consider a number of factors, such as the penetration rate of passenger vehicles, our sales plan, the local economic conditions and growth potential. In addition, we take into account the profitability of our dealers to ensure the sustainable growth of our business.

An open application process is carried out to allow all candidates to apply for new dealerships and dealership outlets. We select our dealers based on their operating size, location, status of land occupied by them, credit record, financial condition, service capabilities, transportation conditions around the proposed dealership outlet, IT facilities and management team. To grant a license, we require a candidate to submit a proposal setting forth its own market analysis and business plan, together with the evidence of the ownership of or the right to use the land and/or buildings where the planned dealership outlet is to be located. After we review and compare proposals from various candidates, we identify the ones to whom a new dealership authorization may be granted. We then visit the venue of the potential dealership outlet to conduct an on-site inspection, and interview the management team candidates of the new outlet. After the interviews, we make the final decision for the new outlet. It usually takes us up to ten months to approve an application for a new dealership.

Once a new dealer is selected, we enter into a letter of intent with the dealer, which typically sets forth the detailed time frame to establish the new outlet, the minimum capital expenditures and the qualification of the management team members of the new outlet. We also provide detailed guidelines for the establishment of the new outlet, including standard internal and external decoration, display of our logos and vehicles, and the time frame for the construction and launch of the new outlet. The dealer is required to develop the dealership outlet in accordance with our requirements. In addition, we will provide the candidate with our proprietary information technology system, which is to be installed in the outlet to track the sales and inventories of the outlet and collect relevant information. We also engage third-party supervision companies to monitor the work onsite. A new outlet must strictly follow our instructions, pass our inspection and obtain our formal authorization before it can commence operations.

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We plan the overall geographical distribution of our dealership network with a view to minimizing intra-network competition and promoting the organic and steady growth of our dealership network. There is no material competition among the dealers in the same area or targeting the same market.

Our Directors confirm that the increase in sales during the Track Record Period did not result in the accumulation of inventory at the dealers, because (i) we formulate the sales targets of our dealers based on their historical performance as well as market conditions, and adjustments may be made if the dealers fail to meet such sale targets; (ii) orders placed by our dealers are demand-driven and we have maintained communication with our dealers to understand the actual demand for our passenger vehicles so that we are able to manage our production levels accordingly; (iii) we keep track of our dealers' inventory information, which helps us to better monitor and manage the inventory level in the sales channel; (iv) we have a seller-buyer relationship with our dealers and we retain no ownership over the passenger vehicles sold to our dealers while our dealers do not have the right to return any unsold passenger vehicles to us except for defects; and (v) our dealership network does not adopt a multi-level structure, and our dealers are also retailers that sell directly to end-user customers, which lessens the risk of inventory accumulation at the dealers. There is nothing that leads the Joint Sponsors to disagree with our Directors' view.

Dealership agreements

We generally enter into legally binding dealership agreements with the dealers for each of the outlets. The dealership agreement governs the operations of each outlet. Under these agreements, we specify the locations of the outlets. Our personnel will conduct on-site visits, including unscheduled visits, to check for the compliance of the dealers with these requirements. We will set sales targets for the dealers, regularly evaluate their performance and end-user customer satisfaction, and conduct regular inspection. Our existing dealership agreements typically require the dealership outlets to:

- sell only our brands of passenger vehicles and other products at a particular outlet;
- make full payment for the passenger vehicles purchased prior to shipment and take ownership and assume risk for the passenger vehicles either upon shipment or upon delivery;
- provide designated services, such as passenger vehicle maintenance and repair, as well as provision of spare parts;
- carry out marketing and advertising activities for our products;
- adhere to our layout and design guidelines for the outlets; and
- observe our sales policies.

Our dealers do not have the right to return any unsold passenger vehicles, except for defects. Our Directors have confirmed that, during the Track Record Period, we have not experienced any material product return from our dealers.

The dealership agreements usually have terms between one and five years. Pursuant to these dealership agreements, we can terminate the agreements with written notice for a variety of reasons, including the dealer's failure to abide by the agreements, and unapproved changes to the dealer's ownership or management structure that would affect its ability to meet its contractual obligations.

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

Control and evaluation

We have established an extensive dealership management system to actively manage our dealership network. We have dedicated personnel to manage our dealers. We require the dealers to provide us promptly with their sales information, which helps us to monitor their sales activities closely. In addition, to ensure that our dealers provide us with sales information in a timely manner, our sales personnel conduct on-site visits and spot-checks from time to time and carry out analysis of the sales information on our information technology system. Our sales personnel and sales regions are responsible for submitting regular reports to the sales departments. We believe these measures allow us to gather end-user customer feedback so that we can understand our end-user customers' preferences and changing demand to improve the design, production and planning of our products promptly and efficiently.

We provide a number of training programs to our dealers. Prior to the launch of a new outlet, we require all of the outlet's key personnel to attend our mandatory training programs. In addition, we also require our dealers to attend other mandatory training programs at times such as prior to launching a new model to enable our dealers to obtain first-hand knowledge of our new products and ensure the quality of the services provided to end-user customers.

During the Track Record Period, we were not aware of any of our dealers committing any material breach of any of the dealership agreements.

Sales targets

Based on our production plan and after discussion with our dealers, we set forth the annual sales targets for each of the outlets at the beginning of each year. These sales targets specify the sales volume of each model of passenger vehicle on a monthly basis. We decide the sales volume and models available to the outlets based on the analysis of their historical performance, including whether the sales targets in the previous year or period were met. We visit our dealers regularly to discuss with them their performance and market conditions. Based on such discussions, we may adjust our monthly sales targets accordingly. We may enter into supplemental agreements with the dealerships to adjust the sales targets as necessary.

If a dealer fails to meet the sales target, we will provide marketing and sales assistance, such as on-site tutoring, to help the dealer improve its performance. We may reduce the number of passenger vehicles allocated to a dealer if the dealer fails to comply with our policies or is unable to meet the sales target. If a dealership outlet's performance exceeds the sales targets, we may allocate more passenger vehicles of more popular models to the dealership outlet, which will in turn improve its results of operations.

Rebate

Following market practice in China, we incentivize our dealers through a rebate system. The rebate is typically determined with reference to the sales volume of new automobiles which our dealers purchase or sell, together with additional rebates based on the dealers' performance relative to their respective sales targets set by us.

We may grant our dealers additional rebates based on the evaluation of their overall performance, such as customer satisfaction, sales performance and marketing efforts. From time to

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time, we also offer special rebates for particular models of automobiles. Our rebates are usually settled by deducting the aggregate purchase price payable by the dealers for subsequent automobile purchase orders. The aggregate amount of rebates paid to dealers by us (excluding BAIC Limited) in 2011, 2012, 2013 and the six months ended June 30, 2014 was RMB10.5 million, RMB129.9 million, RMB889.8 million and RMB2,859.9 million, respectively.

Sales process

Our dealers place orders for our passenger vehicles through our information technology system in accordance with the schedules set forth in the monthly sales targets for the dealers.

We closely track the sales of, and demand for, our products in order to manage our production process and our supply, with a view to minimizing our inventory while allowing us to meet the market demands for our products on a timely basis. We adjust our production plans in accordance with our inventory level. We maintain communication with our dealers to ensure that if actual demand differs from our projection, we will be able to adjust our production levels. In addition, we require all of our dealers to purchase spare parts and components from us or suppliers designated by us in order to ensure the quality of spare parts and components provided to our customers.

Pricing Strategy

The price of each model of passenger vehicle is determined separately by Beijing Motor and Beijing Benz. Pricing is primarily determined by the cost of the product, the prices of competitive products and market demands. We review our pricing model at the very beginning of the development of a new model, and we review the pricing when the development is complete, as well as before the formal launch of the model. In addition, we will review and adjust the prices of our passenger vehicles in a timely manner and in accordance with prevailing market conditions.

We set forth manufacturer's suggested retail prices. Our dealers are allowed to adjust the retail prices based on market conditions.

Delivery and Payment

Our dealers place orders directly with us. The monthly purchase volume and models of new passenger vehicles sold by a dealership outlet are based on the sales targets and are adjusted by taking into account the outlet's current inventories, anticipated customer demand, expected sales trends and the delivery schedule of various passenger vehicle models.

Title of passenger vehicles is passed to dealers and revenue of passenger vehicle sales is recognized upon the delivery of the documents of the passenger vehicles, including the vehicle certificates, to the dealers or the banks that provide funding to the dealers, and the delivery of the passenger vehicles to the dealers, which usually happens when we deliver the passenger vehicles to third-party logistics service providers, or when the dealers pick up the passenger vehicles from our warehouse by themselves, except for the situation disclosed under "—Tripartite Financing Arrangements." Also see "Financial Information—Critical Accounting Policies, Judgments and Estimates—Revenue Recognition."

Beijing Motor typically requires its dealers to pay for the procurement of new passenger vehicles in full, by either cash or bank acceptance notes with terms between three and six months

before the delivery. Beijing Motor does not provide any credit term or financing to dealers. Beijing Benz provides a credit term between three and six months to its dealers with strong credit histories and long-term relationships with Beijing Benz. During the Track Record Period, we have not experienced any material default by our dealers.

Tripartite Financing Arrangements

We have entered into tripartite financing agreements with PRC commercial banks, pursuant to which certain dealers, which are qualified under the requirements of the commercial banks, can pledge the passenger vehicles they purchase from us to these commercial banks to secure bank borrowings. In a tripartite financing arrangement, a dealer pledges the vehicles it purchased from us to the bank to obtain financing, and in case of default by the dealer, we are obligated to repurchase the pledged vehicles and use the purchase price to repay the bank borrowing. We do not record revenue from these sales until our repurchase obligation lapses, which occurs when the dealer repays the bank borrowing and the dealer obtains the certificates of the pledged vehicles from the banks.

It is an industry practice for car dealers in China to obtain financing through tripartite financing arrangements. It is difficult and time-consuming for car dealers to obtain financing directly from banks and other financial institutions without any forms of guarantee or credit enhancement. The availability of tripartite financing arrangements provides a more accessible financing solution to car dealers, enabling them to grow their sales network and business scale more quickly and be less vulnerable to fluctuations of economic and credit conditions. This could also reduce our credit risks associated with our dealers and help us build a long-term relationship with them.

We select qualified dealers for tripartite financing arrangements based on a review and inspection of their dealership and network licenses, financing needs, track records with banks, inventory balance and compliance with PRC regulations. During the term of a tripartite financing agreement, we regularly meet with the bank and the dealer to compare our books and conduct data-based and physical checks to monitor a dealer's sales log, inventory balance and financial exposure in order to assess and control our credit risk under the tripartite financing agreement. These procedures allow us to identify any early warning signs and take precautionary measures in advance. We also create credit profiles for our dealers who participate in the tripartite financing agreements and have the right to reduce or terminate our business with a dealer whose credit standing has deteriorated. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the cost of pledged vehicles under the tripartite financing agreements amounted to RMB0, RMB111.8 million, RMB938.3 million and RMB1,110.1 million, respectively.

Our Directors have confirmed that we have not experienced any incidents that would require us to repurchase the passenger vehicles from our dealers during the Track Record Period. Our PRC legal advisers have confirmed that the tripartite financing agreements we have entered into are legal, valid and enforceable under PRC laws.

Warranty and After-sales Services

We are committed to providing excellent after-sales service to our end-user customers. We comply strictly with the repair, replacement and return policies as required by relevant PRC laws and regulations. Beijing Motor offers similar services to our end-user customers one year earlier than required under the PRC government regulations on liabilities of manufacturers for repair, replacement

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and return of faulty automobiles. We believe our commitment to after-sales service has contributed to our brand recognition, business growth, improved performance and enlarged end-user customer base.

Our end-user customers may seek free repair and maintenance services, including replacement of parts and components due to quality defects, during the warranty period. End-user customers are entitled to services from any of our dealership outlets, regardless of their purchase location. We generally offer limited warranty coverage for certain types of repairs for new passenger vehicles. Beijing Motor offers a warranty covering repairs caused by defects in spare parts or workmanship within a period ranging from three to five years or within a mileage from 60,000 to 100,000 kilometers following sales, whichever is earlier. Beijing Benz offers a warranty covering a period of three years following sales. We generally do not conduct warranty repair services. Instead, we provide in-warranty repair services through dealership outlets, and reimburse the dealers for in-warranty repairs conducted.

Out-of-warranty repair services are provided by our dealers on a fee-basis, which includes replacement of parts due to wear and tear or repair of damage resulting from collisions or other accidents. Other than quality issues, and in compliance with the applicable PRC laws, we do not accept any return of products. During the Track Record Period, we have not experienced any material return of automobiles under our proprietary brand (including Senova, BJ and Wevan) or Mercedes-Benz from the end-user customers.

We require our dealers' sales personnel to contact end-user customers within the time periods stipulated by us after the sales of the passenger vehicle for any feedback end-user customers may have. For any quality complaint received by us, we require our dealers to contact end-user customers within the time limit stipulated by us. Whether our dealers can successfully repair passenger vehicles in the first round of services is taken into account as an important indicator during the performance evaluation of our dealers.

In 2011, 2012, 2013 and the six months ended June 30, 2014, we recorded warranty expenses on repair and maintenance in the amount of approximately RMB16.9 million, RMB53.5 million, RMB101.3 million and RMB168.6 million, respectively, and we had product warranty provisions in the amount of approximately RMB8.3 million, RMB52.5 million, RMB1,028.7 million and RMB1,161.7 million, respectively, as of December 31, 2011 and 2012 and 2013 and June 30, 2014.⁽¹⁾ The increase in provision as of December 31, 2013 and June 30, 2014 was mainly due to (i) the significant increase in sales of passenger vehicles of Beijing Motor; and (ii) the addition due to the consolidation of Beijing Benz's results from November 18, 2013. Our Directors have confirmed that the provision for warranty is adequate.

Marketing

We have placed great emphasis on promoting and marketing our brands and products to our end-user customers. As of the Latest Practicable Date, we had over 800 dedicated sales and marketing personnel. We intend to strengthen our marketing and promotion efforts continuously.

Marketing campaigns

Our marketing and brand-building activities include advertisements on television, print media and the internet, participating in and organizing new model launch events, seminars, trade shows and exhibitions to showcase and seek end-user feedback for our products. We organized the driving shows

(1) Inclusive of Beijing Benz's warranty expenses on repair and maintenance for the period from November 18, 2013 to December 31, 2013 and the six months ended June 30, 2014 and Beijing Benz's provision as of December 31, 2013 and June 30, 2014.

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with the world-famous original “Saab Pilots” in Hong Kong and the PRC in 2013, which helped us promote customers’ awareness of our Senova product series and its Saab heritage. We have continued to organize these shows in the PRC in 2014.

Beijing Motor markets its products over the Internet. It has an established marketing platform on social networks, such as Weibo and WeChat, to promote its products and closely communicate with its existing and potential end-user customers.

We rely on our dealers to carry out regional marketing campaigns. We require our dealers to submit their annual marketing budgets and plans at the beginning of every year. We will review and provide our comments on these plans, and our dealers are required to obtain our approval before they can carry out the marketing campaigns. We also invite our dealers to participate in our own marketing campaigns, including new model launches, sponsorships, owner club activities and other events.

End-user customer relations management

We strive to improve our end-user customer satisfaction and loyalty and maintain good relationships with our end-user customers. We have established and maintained a database of information regarding our customers, from which we analyze market trends and customer demand. Based on this database, we carry out personalized marketing initiatives. In addition, we also rely on our existing customers’ referral for new business opportunities.

We have established vehicle owners’ clubs for end-user customers of the passenger vehicles under our Beijing brand, and organize regular events, such as seminars, test-drives of new models and other promotional events. We provide toll-free hotlines to provide advice and guidance to help our end-user customers find the passenger vehicle that suits their needs.

Beijing Motor is in the process of developing a customer relations management system, which will provide us with an integrated customer relations management platform, enable us to improve our end-user customer service quality and enhance our end-user customers’ loyalty to our passenger vehicles.

INVENTORY MANAGEMENT

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had inventories of approximately RMB441.4 million, RMB835.1 million, RMB7,479.1 million and RMB6,133.2 million, respectively.⁽¹⁾ Provision for impairment is recognized for the amount by which the carrying amount of the inventories exceeds its recoverable amount. See “Financial Information—Inventory” for further details.

Beijing Motor and Beijing Benz have established their respective inventory control systems to monitor the stock level of raw materials, parts and components, work-in-progress and finished goods. We use an enterprise resource planning, or ERP, system to ensure the efficient and effective management of our inventories. This ERP system keeps a record of our inventories so that we have ready access to inventory levels and movement. We have management procedures that monitor the planning and allocation of warehouse space and inventory of raw materials and finished products to meet the delivery requirements and schedules. We also carry out inventory counts on a regular basis to ensure that our records are up-to-date.

(1) Inclusive of Beijing Benz’s inventories as of December 31, 2013 and the six months ended June 30, 2014.

Raw Materials, Automobile Parts and Components and Work-in-Progress

We implement just-in-time inventory policy to minimize our inventory costs and improve our operational efficiency. Under the just-in-time inventory system, raw materials and automobile parts and components procured are delivered directly to the production lines or delivered to a centralized temporary storage area for further delivery to the relevant production lines. Generally, the raw materials and automobile parts and components are placed into the production process only when they are used. The volume of semi-manufactured products are minimized and kept at an appropriate level to facilitate the production process. Detailed data of inventory levels is timely updated into a central database and can be checked and monitored at all times. In addition to the just-in-time inventory policy, we issue detailed guidelines in order to conduct proper reviews of inventory levels.



Finished Products

In order to shorten the lead time for delivery of our products, we adjust our planned inventory levels according to our current inventory level and the estimates of demand for the coming month. We closely monitor our finished passenger vehicles' inventory level. We also implement detailed guidelines on the recording of finished products.

In addition, the dealers of Beijing Motor and Beijing Benz are equipped with their respective proprietary information technology systems, which are installed in the dealership outlets to track the sales and inventory level of our dealers. Through this system, we are able to closely monitor the sales of, and demand for, our products in order to manage our production process and our supply, with a view to minimizing our inventory, while allowing us to meet the market demands for our products on a timely basis. Based on such information, we may adjust our production and inventory plans accordingly.

INTELLECTUAL PROPERTY RIGHTS

We believe that our intellectual property rights have been, and will continue to be, critical to our success. As of June 30, 2014, we had registered 117 trademarks. As of June 30, 2014, we have also applied for registration of 16 trademarks, including Senova (**SENOVA**), which are still pending approval by the relevant governmental department. We are entitled to use all of the trademarks required for our operations.

In March 2011, our Company entered into four non-exclusive trademark license agreements with BAIC Group, pursuant to which BAIC Group agreed to grant to our Company non-exclusive licenses to use four trademarks and related logos and designs registered in the name of BAIC Group in China, namely 北京, 北京汽车,  and , from March 2011 to February 2016, which are used for our BJ and Wevan passenger vehicles. The registration of the trademarks licensed to Beijing Motor under such agreements are due to expire between 2016 and 2023, and BAIC Group can apply for a successive ten-year extension before the expiration of the registration of the relevant trademarks. No license fee will be payable by us under these trademark license agreements. See “Connected Transactions.”

In May 2014, we entered into a non-exclusive technology licensing agreement with Yinxiang Motor for the production of M20. Pursuant to this agreement, Yinxiang Motor licenses the production technology of M20 to us and allows us to manufacture and sell M20 in China. We are not required to pay license fees. This agreement will expire in 2024, which can be extended by mutual agreement

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between the parties. If any party wishes not to extend this agreement, a six-month notice before the expiration date is required.

In April 2005, June 2011 and October 2011, Beijing Benz entered into two exclusive technology license agreements and a non-exclusive trademark license agreement, respectively, with Daimler AG, which allow Beijing Benz to use the technologies and trademarks as set out in the relevant license agreements for the manufacture and sale of Mercedes-Benz passenger vehicles, as well as automobile parts and components in the PRC. These agreements will expire on the expiry date of Beijing Benz's joint venture agreement. Beijing Benz is required to pay a royalty fee to Daimler AG under each of these license agreements, which is calculated based on the sales of Beijing Benz.

The development and protection of our intellectual property portfolio is crucial to our business growth. As of June 30, 2014, we held 1,114 patents and have made 995 patent applications in the PRC. We expect that we will continue to apply for additional patents in the future as we develop new products, technology and designs. We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

We rely on trade secret protection and confidentiality and non-competition agreements to safeguard proprietary know-how that is not patentable or for which patents are difficult to enforce. All of our personnel who have access to sensitive and confidential information have entered into confidentiality and non-competition agreements with us. In addition, whenever sensitive information is being handled, there is a strict series of procedures and rules in place to protect such sensitive information, including restricted access to such sensitive information to qualified individuals who have passed the necessary background checks.

See "Appendix VI—Statutory and General Information—2. Further information about our Business—B. Our intellectual property rights" of this prospectus for additional information.

COMPETITION

The PRC passenger vehicle industry is highly competitive. According to ACMR, as of December 31, 2013, there were 113 automobile manufacturers in the PRC. We face increasing competition from international automobile manufacturers, Sino-foreign joint-ventures and other domestic automobile manufacturers. Mercedes-Benz-brand passenger vehicles mainly face competition from brands such as BMW and Audi, which are all international premium brands and are either imported into China or manufactured by Sino-foreign joint-ventures of these brands. Hyundai-brand passenger vehicles mainly face competition from international brands, such as Volkswagen, Nissan, Buick, Toyota and Honda, the majority of which include those manufactured in China by Sino-foreign joint-ventures of these brands and a few of which are imported into China. For our proprietary brand business under Beijing Motor, Senova mainly faces competition from Roewe and MG, the E-Series mainly faces competition from BYD, Chery and Geely, and Wevan mainly faces competition from Wuling and Chang'an, all of which are manufactured by domestic automobile manufacturers.

Competition among automobile manufacturers depends on the ability to develop and launch new models accepted by the market, production capacity, distribution network, brand and services. See "Industry Overview" for a more detailed discussion of the PRC passenger vehicle industry.

ENVIRONMENTAL MATTERS

Our operations are subject to extensive national and local environmental laws and regulations relating to noise control, air and water emissions, water and ground protection, hazardous substances, waste management and the remediation of environmental pollution relating to our properties and operations. Our products must comply with the applicable safety, exhaust and performance standards adopted by the respective jurisdictions into which we sell our products. For details, see “Regulatory Environment.” In 2011, 2012, 2013 and the six months ended June 30, 2014, our cost of compliance with environmental protection rules and regulations was approximately RMB15.8 million, RMB28.5 million, RMB35.2 million and RMB16.4 million, respectively. We expect our environmental compliance expenses to be approximately RMB38.8 million for 2014.

We are committed to clean production, reducing the emission of carbon dioxide and volatile organic compounds, the discharge of wastes and the consumption of energy and resources, and strengthening our sense of social responsibility. We have adopted advanced technologies and equipment to prevent and minimize pollution and we have not experienced any major accident causing environmental pollution. Both of Beijing Motor and Beijing Benz have obtained the ISO14001 Environmental Management Certification.

Our PRC legal advisers have confirmed that we have obtained all material environmental permits to conduct our production activities and we have complied with the applicable environmental laws and regulations in all material aspects in the PRC during the Track Record Period. We have not received any notifications or warnings, nor have we ever been subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations which would have materially and adversely affected our financial condition or business operations during the Track Record Period.

INSURANCE

We carry occupational injury, medical and unemployment insurance and other state-mandated insurance for our employees in compliance with applicable PRC laws and regulations. We have also maintained commercial insurance for our assets, as well as business interruption insurance, public liability insurance and machinery damage insurance.

Based on an assessment of the risk exposure of our operations, we believe that our insurance is adequate and is customary for passenger vehicle manufacturers in the PRC. We continually review and assess the risk exposure of our Group and our employees, and will make necessary and appropriate adjustments to our insurance coverage in line with our needs and industry practice and in compliance with regulatory requirements. However, we may still be subject to losses resulting from risks that are not covered by the insurance we currently carry, such as losses caused by weather, disease, civil strife, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes. For details, see “Risk Factors—Risks Relating to Our Business—We have limited insurance coverage.”

During the Track Record Period and up to the Latest Practicable Date, we had not received any material product liability or third-party liability claims from our end-user customers or any other third parties and have not experienced any material business interruptions.

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OCCUPATIONAL HEALTH AND SAFETY

We are subject to relevant rules and regulations on occupational health and safety. For further details, see “Regulatory Environment.” We have established a dedicated safety management department, which is responsible for handling production safety accidents and keeping records.

We have established comprehensive work safety policies and procedures to ensure that our operations are in compliance with applicable laws and regulations. In addition, in order to increase workplace safety awareness, we provide regular safety-related training to our employees. We also prepare a monthly production safety briefing to promote the awareness of safety among our employees. We have placed a number of warning signs at our work places. Work safety is also an important factor in our annual performance evaluation, and an employee who fails to pass the work safety review will fail his or her annual performance review.

During the Track Record Period, we have not had any material incidents of work-related injuries or casualties. Our PRC legal advisers have advised us that we have been in compliance with applicable health and safety laws and regulations in all material aspects in the PRC during the Track Record Period.

DISCONTINUED OPERATIONS

We produced commercial vehicles under our proprietary brand through BAIC Limited during the Track Record Period. In November 2012, we disposed of BAIC Limited to BAIC Group, because BAIC Limited has a different business focus from ours, and it had been incurring losses during the Track Record Period. For more details of such disposal, see “Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—4. BAIC Limited—Particular reasons for exclusion.” We sold 25,739 units and 15,717 units of commercial vehicles and off-road vehicles for 2011 and the period from January to November 2012, respectively. In addition, we also provided logistics and other services during the Track Record Period. The net losses from these discontinued operations were approximately RMB196.2 million and RMB80.7 million, in 2011 and 2012, respectively. For more details, see “History, Reorganization and Corporate Structure” and “Financial Information.”

PROPERTIES

Our headquarters are located at No. 99 Shuanghe Street, Shunyi District, Beijing. As of June 30, 2014, in the PRC, we owned the land use rights of 24 parcels of land with an aggregate site area of approximately 6,576,974 square meters and 86 properties with an aggregate gross floor area of approximately 970,238 square meters, and we leased nine properties with an aggregate gross floor area of approximately 157,526 square meters.

As of June 30, 2014, our property interests (property, plant and equipment, and land use right) represented approximately 14.0% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Hong Kong Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Hong Kong Listing Rules, a prospectus is exempt from this requirement if the carrying amounts of a listing applicant’s property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under Section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and

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Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Properties We Own

Land use rights

As of June 30, 2014, we owned the land use rights of 23 parcels of land in the PRC with an aggregate site area of approximately 6,570,821 square meters, for which we had obtained the relevant land use right certificates. These 23 parcels of land are primarily used for industrial purposes and are located in Beijing and Hunan Province.

As of June 30, 2014, we were in the process of obtaining the land use right certificate for one parcel of land located in Zhuzhou, Hunan Province with an aggregate site area of approximately 6,153 square meters, which is primarily used for residential purposes and accounted for approximately 0.09% of the aggregate site areas of land used by us. We purchased the land use right from Zhuzhou Hi-Tech Construction Project Co., Ltd. (an Independent Third Party), which is contractually responsible for obtaining the land use right certificate on our behalf. Our Directors are of the view that failure to obtain this land use right certificate will not have a material and adverse effect on our business because (i) we have fully paid the purchase price for this parcel of land and our PRC legal advisers confirm that there is no material legal impediment for us to obtain the title certificate of such parcel of land if necessary conditions and procedures provided in PRC laws and regulations are met; (ii) our business operations do not rely on this parcel of land as it is merely for residential purposes; and (iii) our Controlling Shareholder has agreed to indemnify us against any costs, expenses and losses to our operations or business as well as penalties and/or fines imposed by the relevant PRC authorities arising from the relocation of business or assets from any property with defects in title. As the building ownership certificates of the buildings located on this parcel of land were obtained and the application of the land use right certificates of such land were submitted to the relevant government land authorities, as well as based on the communications with the relevant government land authorities, it is expected that we will be able to obtain such land use right certificate within one year from the Listing Date. In addition, our PRC legal advisers believe that, although the existence of an outstanding land use right certificate on this acquired land will prevent this land from being bought, sold or being accepted by banks as security for mortgage, no ownership controversy or dispute which will have a material effect on our business regarding this parcel of land has been found, and given that this parcel of land without title certificate accounts for only a small proportion of the total area of land we use, this title defect will not individually or collectively have a material and adverse effect on our business and the Global Offering. The commitment of Zhuzhou Hi-Tech Construction Project Co., Ltd. to apply for the land use right certificate on our behalf in our land purchase agreement is legal, valid and legally binding.

Buildings

As of June 30, 2014, we owned 14 properties in the PRC with an aggregate gross floor area of approximately 755,090 square meters, for which we had obtained relevant building ownership certificates. These 14 properties are primarily used for residential, industrial, storage and other purposes and are located in Beijing and Hunan Province.

As of June 30, 2014, we were in the process of obtaining the building ownership certificates of 72 properties with an aggregate gross floor area of approximately 215,148 square meters, which are

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primarily used for residential, industrial, training and other purposes and accounted for approximately 19.08% of the aggregate gross floor areas of properties used by us. Of these 72 properties, 39 properties are located in Beijing and Hunan Province. As advised by our PRC legal advisers, after completing registration for final inspection of completed construction projects pursuant to the requirements of laws and regulations and submitting the required application materials, there is no substantive legal impediment for us to apply and obtain the building ownership certificates. The other 33 properties, with an aggregate gross floor area of approximately 3,993 square meters, are located in Guangdong Province and were purchased by the Guangzhou Company, one of our wholly-owned subsidiaries, to be used as employee dormitories. As advised by our PRC legal advisers, under its purchase agreement with us, the seller is responsible for, and is currently in the process of obtaining, the building ownership certificates of these properties on our behalf, and there is no legal impediment for the seller or us to obtain the building ownership certificates. Our Directors are of the view that, although we were in the process of obtaining these building ownership certificates, this will not have a material and adverse effect on our business because (i) our PRC legal advisers confirm that there is no substantive legal impediment for us to apply and obtain the building ownership certificates; (ii) our business operations do not materially rely on these properties as they are for general operational and residential purposes; and (iii) our Controlling Shareholder has agreed to indemnify us against any costs, expenses and losses to our operations or business as well as penalties and fines imposed by the relevant PRC authorities arising from the relocation of business or assets from any property with defects in title. As the land use right certificates of the lands where such buildings are located were obtained, specific approvals, environmental evaluation approvals, planning permits on land for construction use, construction project planning permits, and construction permits were obtained during the construction of such buildings and the inspection and acceptance of completed construction projects are in progress, it is expected that we will be able to obtain building ownership certificates for such buildings within one year from the Listing Date. In addition, our PRC legal advisers have confirmed that although the existence of outstanding building ownership certificates on our buildings will prevent these buildings from being bought, sold or being accepted by banks as securities for mortgage, no ownership controversy or dispute which will have a material effect on our business regarding the building ownership certificates of these buildings has been found, and given that these buildings with defective title only account for a small proportion of the aggregate gross floor areas of properties used by us, the defective titles will not individually or collectively have a material and adverse effect on our business and the Global Offering.

Properties We Lease

As of June 30, 2014, we leased nine properties in Beijing with an aggregate gross floor area of approximately 157,526 square meters.

For four properties with an aggregate gross floor area of approximately 48,809 square meters, accounting for approximately 3.62% of the aggregate gross floor areas of properties used by us, which are primarily used for production, storage, logistics services, dormitories, canteen and offices, the landlords have not obtained the relevant building ownership certificates.

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As of June 30, 2014, in respect of the four leased properties with defective titles set out above, three were used by us as dormitories, canteen and offices and we did not generate any revenue to our operations from such leased properties. During the Track Record Period, revenue derived from Beijing Beinei Engine Parts and Components Co., Ltd., which uses the remaining leased property with defective title is set out as follows:

	Year ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Revenue (RMB'000)	245,781.5	278,114.6	379,927.5	195,530.6
Percentage of our total revenue (%)	12.8	7.9	3.0	0.8

As advised by our PRC legal advisers, as these four buildings only account for a small proportion of the buildings used by us, and there is no ownership controversy or dispute which will have a material effect on our business, it will not have a material and adverse effect on the Offering and Listing and our business. Our Directors are of the view that such properties are not individually or collectively crucial to our operations since: (i) we have the contractual rights to use these leased properties and we are not subject to potential legal liabilities because of the defective titles that our landlords hold; (ii) the risk that we may be required to relocate our business on these leased properties are remote; (iii) even if required to be relocated, we will be able to have sufficient notice period in accordance with the contracts and we can readily find comparable properties to relocate our business; and (iv) our Controlling Shareholder has agreed to indemnify us against any costs, expenses and losses to our operations or business as well as penalties and fines imposed by the relevant PRC authorities arising from the relocation of business or assets from any property with defective title. For more details of the deeds of indemnity, see “Statutory and General Information—4. Other Information—A. Indemnity” in Appendix VI to this prospectus.

To the best knowledge of our Directors, no notice (including penalty, confiscation or demolition notice) has been received from the relevant regulatory authority as of the Latest Practicable Date in respect of properties with defective title.

Based on information currently available to the Company, and taking into account the time required for relocating the business located on properties with defective titles, resulting operating and business losses and relocation costs, we estimate that the total cost and expenses for relocating our businesses which are located on the leased properties with defective titles should not exceed RMB101 million. We do not expect any such relocation process and the related costs to have a material and adverse effect on our business. In addition, our Directors believe that the rental costs for these properties with defective title would not be materially different should the landlords obtain relevant building ownership certificates.

LEGAL PROCEEDINGS AND COMPLIANCE

Our PRC legal advisers have confirmed that we have been in compliance with all of the relevant regulatory requirements in all material aspects and have obtained all qualifications and permits necessary for our operations within our business scope in the PRC during the Track Record Period and up to the Latest Practicable Date.

There are no legal proceedings pending or, to the best knowledge of our Directors, threatened against us or any of our Directors which could have a material adverse effect on our financial condition

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or results of operations. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business which may not be sufficiently covered by our insurance policies. See “Risk Factors—Risks Relating to Our Business—We have limited insurance coverage.”

RISK MANAGEMENT

We are exposed to various risks during our operations. For more details, see “Risk Factors.” We have implemented various policies and procedures to ensure effective risk management.

Under our risk management policy, our key risk management objectives include: developing a comprehensive risk management strategy for our Company; identifying different types of risks and developing appropriate risk management strategies for each type of risk; identifying, monitoring and managing risk and our risk tolerance level; and achieving a proper balance between the growth strategy of our Company and risk management.

Our Board oversees and manages the overall risk in our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. The audit committee consists of three members, namely Mr. Wong Lung Tak Patrick, who serves as chairman of the committee, Mr. Ma Chuanqi and Mr. Liu Kaixiang. For the qualifications and experience of these committee members, see “Directors, Supervisors, Senior Management and Employees.” We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 14 to the Listing Rules.

We regularly monitor our sales performance and take active measures to manage our production and inventory levels. Before entering into new markets or opening new dealership outlets, we typically conduct market research and prepare budget plans.

To manage our foreign currency exposure, we use forward foreign currency contracts to manage the potential impact of fluctuations in foreign currency exchange rates on our business over time. We enter into interest rate swaps to mitigate floating interest rate exposure from long-term borrowings. As of December 31, 2011, 2012, 2013 and June 30, 2014, the total notional principal amount of outstanding contracts was approximately RMB0, RMB1,444.7 million, RMB1,414.3 million and RMB1,433.8 million, respectively. These derivative instruments were stated at fair value and amounted to RMB0, RMB8.4 million, RMB11.5 million and RMB10.6 million, respectively, at the same dates. Our Management team is responsible for supervising the hedging activities.

BEIJING HYUNDAI

Beijing Hyundai is a joint-venture between us and Hyundai Motor. Each of BAIC Investment, one of our subsidiaries, and Hyundai Motor holds 50.0% of the equity interest in Beijing Hyundai.

Beijing Hyundai commenced the production and sales of Hyundai-branded passenger vehicles in 2002. Hyundai is a major global mid- to high-end automobile brand. According to ACMR, in terms of sales volume as a single brand, Hyundai’s automobiles ranked fifth in the world in 2013 and, among all joint-venture mid- to high-end passenger vehicle brands, Beijing Hyundai’s passenger vehicles ranked second in China in 2013. Beijing Hyundai focuses on the development and manufacture of mid- to high-end sedans and SUVs, and targets young middle-class customers in China.

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In 2011, 2012, 2013 and the six months ended June 30, 2014, Beijing Hyundai sold 739,800 units, 859,595 units, 1,030,808 units and 552,970 units, respectively, of passenger vehicles, and generated revenue of RMB68,711.0 million, RMB77,311.5 million, RMB103,167.3 million and RMB54,393.0 million, respectively, during the same periods. During the same periods, Beijing Hyundai's net profit was RMB6,832.4 million, RMB7,470.0 million and RMB10,799.2 million and RMB5,537.5 million, respectively.

In 2011, 2012, 2013 and the six months ended June 30, 2014, in terms of sales volume, Beijing Hyundai accounted for 9.8%, 10.5%, 10.6% and 10.2%, respectively, of the market share of joint venture mid- to high-end passenger vehicles in China, according to ACMR.

Beijing Hyundai will be subject to the continuing obligations governing the subsidiaries of listed issuers as defined under the Listing Rules, including those contained in Chapters 13, 14, 15, 17 and Practice Note 15 of the Listing Rules subject to the modifications as set out in the Stock Exchange listing decision HKEx-LD106-1.

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Passenger Vehicles

The following table sets forth details of Beijing Hyundai's passenger vehicles by model for the periods indicated:

	Market positioning	Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)	Year ended December 31,			Six months ended June 30,
			2011	2012	2013	2014
			Sales volume ⁽⁴⁾ (units)	Sales volume ⁽⁴⁾ (units)	Sales volume ⁽⁴⁾ (units)	Sales volume ⁽⁴⁾ (units)
Sonata 8th Generation (第八代索納塔)	Mid- to high-end mid-size sedan	181.9 - 225.9	72,065	100,477	104,670	32,906
Sonata Moinca (名馭)	Mid- to high-end mid-size sedan	116.8 - 139.8	29,546	16,903	13,954	4,905
Mistra (名圖)	Mid- to high-end mid-size sedan	129.8 - 189.8	—	—	16,762	63,322
Elantra (伊蘭特)	Mid- to high-end compact sedan	89.8 - 98.8	113,368	64,368	34,454	20,241
Elantra Yuedong (新悅動)	Mid- to high-end compact sedan	99.8 - 146.8	190,995	214,753	171,547	76,967
Elantra Langdong (朗動)	Mid- to high-end compact sedan	105.8 - 149.8	—	81,827	206,348	114,085
Verna (瑞納)	Mid- to high-end small-size sedan	73.9 - 106.9	138,525	204,963	198,667	114,327
New ix35 (新 ix35)	Mid- to high-end SUV	169.8 - 242.8	103,023	108,241	156,876	71,167
New Santa Fe (全新勝達)	Mid- to high-end SUV	219.8 - 311.8	—	7,033	74,437	37,717
New Tucson (新途勝)	Mid- to high-end SUV	165.8 - 203.8	51,188	56,184	52,692	17,333
Accent (雅紳特) ⁽¹⁾	Mid- to high-end small-size sedan	71.8 - 97.8	19,557	3,200	398	—
i30 ⁽²⁾	Mid- to high-end compact sedan	99.8 - 141.8	9,792	1,645	3	—
Sonata Ling Xiang (索納塔領翔) ⁽³⁾	Mid- to high-end mid-size sedan	155.0 - 228.0	11,741	1	—	—
Total			<u>739,800</u>	<u>859,595</u>	<u>1,030,808</u>	<u>552,970</u>

(1) The production of Accent was discontinued in 2013.

(2) The production of i30 was discontinued in 2013.

(3) The production of Sonata Ling Xiang was discontinued in 2012.

(4) Source: ACRM

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The pictures of Hyundai passenger vehicles offered by Beijing Hyundai as of the Latest Practicable Date are set forth as follows:



Sonata 8th Generation (第八代索納塔)



Sonata Moinca (名馭)



Mistra (名圖)



Elantra (伊蘭特)



Elantra Yuedong (新悅動)



Elantra Langdong (朗動)



Verna (瑞納)



New ix35 (新 ix35)



New Santa Fe (全新勝達)



New Tucson (新途勝)



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The following are the details of these models:

Sonata 8th Generation (第八代索納塔)

The Sonata 8th Generation model produced by Beijing Hyundai was commercially launched in April 2011. It is a mid- to high-end mid-size sedan model. The current model is the eighth generation of Sonata manufactured and sold globally. The Sonata 8th Generation is available with 2.0L and 2.4L engine options. It is available with manual transmission.

According to ACMR, the Sonata 8th Generation model is a popular mid- to high-end sedan model in China. It ranked fifth and accounted for approximately 6.5% in the mid- to high-end mid-size joint-venture sedan market in China in terms of sales volume for 2013.

Sonata Moinca (名馭)

The Sonata Moinca model produced by Beijing Hyundai was commercially launched in August 2009. It is a mid- to high-end mid-size sedan model. This model is developed based on the Sonata

model by the technology center of Beijing Hyundai in China. The Sonata Moinca is available with a 2.0L engine option. The Sonata Moinca is available with manual or automatic transmission.

Mistra (名圖)

The Mistra model produced by Beijing Hyundai was commercially launched in November 2013. It is a mid- to high-end mid-size sedan model. The current model is the upgraded generation of Moinca, which is specially designed for the PRC market and only available in the PRC. Mistra is available with 1.8L and 2.0L engine options. Mistra is available with manual or manumatic transmission.

Elantra (伊蘭特)

The Elantra model produced by Beijing Hyundai was commercially launched in December 2003. It is a mid- to high-end compact sedan model. This is the first compact model manufactured by Beijing Hyundai. Elantra has an engine displacement of 1.6L. Elantra is available with manual or automatic transmission.

According to ACMR, in terms of sales volume, Elantra ranked first among mid- to high-end compact sedans under joint-venture brands from 2009 to 2013.

Elantra Yuedong (新悅動)

The Elantra Yuedong model produced by Beijing Hyundai was commercially launched in April 2008. It is a mid- to high-end compact sedan model. The current model is the upgraded generation of Elantra. Elantra Yuedong is available with 1.6L and 1.8L engine options. Elantra Yuedong is available with manual or automatic transmission.

Elantra Langdong (朗動)

The Elantra Langdong model produced by Beijing Hyundai was commercially launched in July 2012. It is a mid- to high-end compact sedan model. The current model is the upgraded generation of Elantra Yuedong. Elantra Langdong is available with 1.6L and 1.8L engine options. Elantra Langdong is available with manual or manumatic transmission.

Verna (瑞納)

The Verna model produced by Beijing Hyundai was commercially launched in August 2010. It is a mid- to high-end compact sedan model. It is an upgraded model of Accent and targets the PRC passenger vehicle market. Beijing Hyundai currently has two models under Verna, namely Verna sedan (three-box) and Verna hatchback (two-box). Both Verna sedan and Verna hatchback are available with 1.4L and 1.6L engine options. Verna is available with manual or automatic transmission.

According to ACMR, the Verna model is a popular mid- to high-end sedan model in China. It ranked second and accounted for approximately 16.2% in the mid- to high-end small-size joint-venture sedan market in China in terms of sales volume for 2013.

New ix35 (新 ix35)

The ix35 model produced by Beijing Hyundai was commercially launched in April 2010. It is a mid- to high-end SUV model. The current model is the second generation of ix35 manufactured and sold globally. The ix35 model is available with 2.0L and 2.4L engine options. ix35 is available with manual or manumatic transmission.

According to ACMR, ix35 is one of the best-selling SUV models in China. It ranked third and accounted for approximately 10.1% in the mid- to high-end joint-venture SUV market in China in terms of sales volume for 2013.

New Santa Fe (全新勝達)

The New Santa Fe model produced by Beijing Hyundai was commercially launched in December 2012. It is a mid- to high-end SUV model. The current model is the third generation of Santa Fe manufactured and sold globally. The New Santa Fe model is available with 2.0L and 2.4L engine options. The New Santa Fe is available with manual or manumatic transmission.

New Tucson (新途勝)

The Tucson model produced by Beijing Hyundai was commercially launched in June 2005. It is a mid- to high-end SUV model. The current model is the third generation of Tucson manufactured and sold globally. The Tucson model has an engine displacement of 2.0L. Tucson is available with manual or manumatic transmission.

ix25

Beijing Hyundai commercially launched the ix25 in October 2014. The ix25 is a mid- to high-end SUV model. The ix25 is available with 1.6L and 2.0L naturally aspirated engine options, and with manual or automatic transmission. It is available in two-wheel drive and four-wheel drive versions.

The following sets forth the details of Beijing Hyundai's planned models under the brand of Hyundai:

New Sonata

Beijing Hyundai expects to commercially launch the next generation of Sonata in the first half of 2015. The New Sonata will feature a new vehicle body design, as well as new internal and external decoration design, which Beijing Hyundai expects to further enhance the competitiveness of New Sonata in China's passenger vehicle market. Beijing Hyundai expects the New Sonata to have two engine options of 2.0L and 2.4L, and be available with automatic transmission.

Engines

Beijing Hyundai commenced the manufacture of engines in 2004. It currently produces four series of engine, namely the Alpha series, the Beta series, the Gamma series and the Theta series. The manufacturing base is located in Beijing. Certain of the engines manufactured by Beijing Hyundai have been exported.

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Manufacturing Facilities

The following table sets forth certain information relating to Beijing Hyundai's facilities as of the Latest Practicable Date:

	<u>Location</u>	<u>Production commencement dates</u>
Passenger vehicles		
Passenger Vehicle Factory 1	Beijing	December 2002
Passenger Vehicle Factory 2	Beijing	April 2008
Passenger Vehicle Factory 3	Beijing	June 2012
Engines		
Engine Factory 1	Beijing	April 2004
Engine Factory 2	Beijing	August 2007
Engine Factory 3	Beijing	May 2012

As of December 31, 2011, 2012, 2013 and June 30, 2014, Beijing Hyundai's designed annual production capacity of passenger vehicles was 600,000 units, 900,000 units, 900,000 units and 1,050,000 units, respectively.

The following table sets forth the aggregate designed annual production capacity and the production volume of passenger vehicles and the average utilization rate of Beijing Hyundai's production lines during the Track Record Period:

	For the year ended December 31,									For the six months ended June 30,		
	2011			2012			2013			2014		
	Designed production capacity	Actual Production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual Production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual Production Volume	Utilization rate ⁽¹⁾	Designed production capacity	Actual Production Volume	Utilization rate ⁽¹⁾
Passenger vehicles	600,000	743,888	124.0%	900,000	855,307	95.0%	900,000	1,040,018	115.6%	1,050,000	545,020	103.8%

(1) The average utilization rate is derived on the basis of the actual production volume divided by the production capacity as of the date indicated. The actual production volume was larger than the production capacities, which was primarily due to the fact that the actual working hours of the production facilities exceeded the working hours being used as a presumption to calculate the production capacity.

The utilization rate of the production facilities of Beijing Hyundai decreased from 124.0% in 2011 to 95.0% in 2012, primarily because Beijing Hyundai increased its designed annual production capacity by 300,000 units by opening Factory 3 in July 2012. The utilization rate increased to 115.6% in 2013, primarily because Beijing Hyundai ramped up the production of Factory 3 in 2013. The utilization rate further decreased to 103.8% in the six months ended June 30, 2014, primarily because Beijing Hyundai increased its designed annual production capacity by 150,000 in that period.

Given the substantial market demand for Beijing Hyundai's passenger vehicles and the high utilization level of its production facilities, Beijing Hyundai plans to increase its manufacturing capacity, including upgrading its existing production facilities and constructing new facilities. Beijing Hyundai's capacity expansion plans will be funded primarily by its internal capital resources and bank borrowings. As of June 30, 2014, Beijing Hyundai had cash and cash equivalents of RMB4,602.5 million. See "Financial Information—Summarized Financial Information of Beijing Hyundai" for more details. We currently do not plan to contribute our own funds or use the proceeds from the Global Offering to finance Beijing Hyundai's expansions.

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Awards

Beijing Hyundai's passenger vehicles have received recognition and numerous awards in recent years, including the following:

Year	Model	Award	By
2014	Elantra Langdong	Highest Ranked in the Mid-size Sedan Segment	J.D. Power Asia Pacific 2014 China Initial Quality Study SM (IQS)
2013	New Santa Fe	Utility Vehicle of the Year	Motor Trend (汽車族)
	Mistra	Most Popular New Model of the Year	Auto Alliance of China Mainstream Media (中國主流媒體汽車聯盟)
2012	Elantra Langdong	Model of the Year with Most Market Potential	CCTV
	Elantra Langdong	Most Popular New Model of the Year	Auto Alliance of China Mainstream Media (中國主流媒體汽車聯盟)
2011	Sonata 8 th Generation	China's Vehicle Model of the Year	Motor Trend (汽車族)
	Sonata 8 th Generation	Grand Award for China's Vehicle of the Year	CCTV

Recall

The following table sets forth the voluntary recalls of Beijing Hyundai during the Track Record Period and up to the Latest Practicable Date:

Recall period	Affected components/reason for recall	Affected models	Volume (units)
Oct. 2013–Apr. 2014	Loose contact in the brake system	Sonata Ling Xiang and Sonata Yuxiang ⁽¹⁾	41,123
Sept. 2013–Dec. 2013	Crack in jack shaft	New Santa Fe	10,310
May 2013–Nov. 2013	Sporadic malfunction in stoplights	ix35	121,835
July 2012–Jan. 2013	Oversensitivity of the software governing airbag control modules	Elantra Yuedong	97,452
June 2011–Dec. 2011	Malfunction in water temperature indicator	Sonata Moinca	9,280
Apr. 2011–Oct. 2011	Tire	Elantra, Accent, Tucson, Sonata Moinca, Sonata Yuxiang, Elantra Yuedong, Verna and i30	63,588

(1) This is a model produced and sold before the beginning of the Track Record Period.

Our Directors confirm that Beijing Hyundai has not incurred any material losses from recalls during the Track Record Period.

Dealership Network

Beijing Hyundai distributes its products through its own dealers. It has established an extensive distribution network in China. During the Track Record Period, Beijing Hyundai sold all of its passenger vehicles through dealers in the PRC. As of December 31, 2011, 2012 and 2013, Beijing Hyundai had approximately 720, 800 and 860 dealership outlets, respectively.

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Beijing Hyundai plans to expand its distribution network by penetrating into third- and fourth-tier cities, enhancing its coverage in cities with strong economic growth in central China and entering into the new markets in central and southern parts of China.

Beijing Hyundai does not provide any credit terms to its dealers.

Legal Proceedings

Our Directors have confirmed that, to their best knowledge, they are not aware of any legal proceedings pending or threatened against Beijing Hyundai, which could have a material adverse effect on our financial condition or results of operations.