

INDUSTRY OVERVIEW

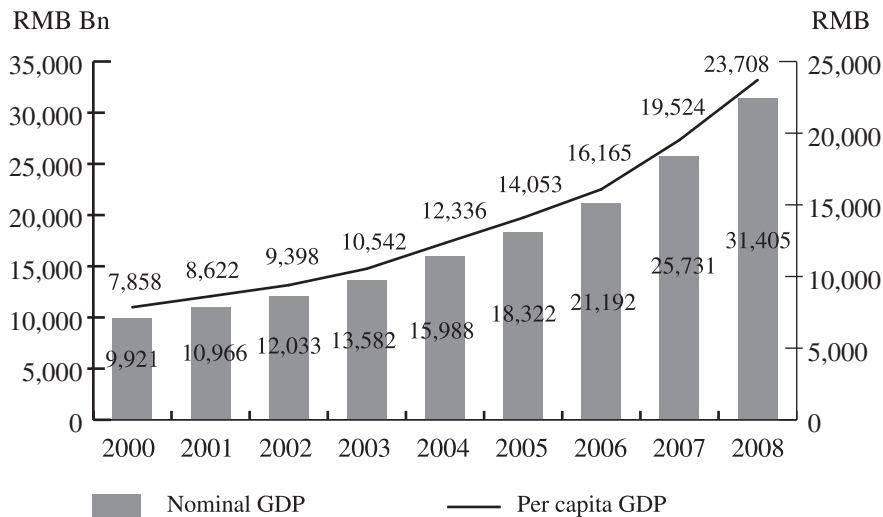
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RAPID ECONOMIC GROWTH IN THE PRC

Growth of the Chinese economy

The Chinese economy has expanded rapidly since the “reform and opening-up” policies initiated by the PRC Government in the late 1970s. Since then, the PRC Government has actively sought to become engaged in international trade. Economic growth was further promoted by the launch of special economic zones along coastal China in the early 1980s. According to the National Bureau of Statistics of China, the PRC’s nominal GDP grew at a CAGR of approximately 15.5% from 2000 to 2008, demonstrating rapid expansion of the PRC economy. The chart below sets out the nominal GDP and nominal GDP per capita in the PRC during the period from 2000 to 2008.

Nominal GDP and Nominal GDP per Capita in the PRC



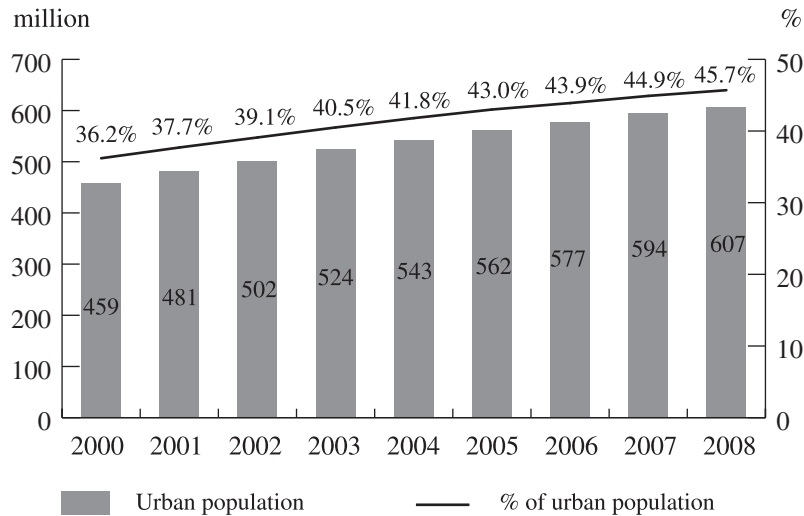
Source National Bureau of Statistics of China

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Accelerating urbanization and increasingly affluent urban residents

Urbanization has accelerated in the PRC as a result of rapid economic growth. Populations in urban areas have swelled with the influx of people from rural and less developed areas. Between 2000 and 2008, the total urban population in the PRC increased by approximately 148 million or approximately 32.2%. In 2008, the total urban population in China was approximately 607 million and accounted for approximately 45.7% of the total population. The table below shows the growth of the urban population in the PRC during the period from 2000 to 2008.

Growth of the Urban Population in the PRC

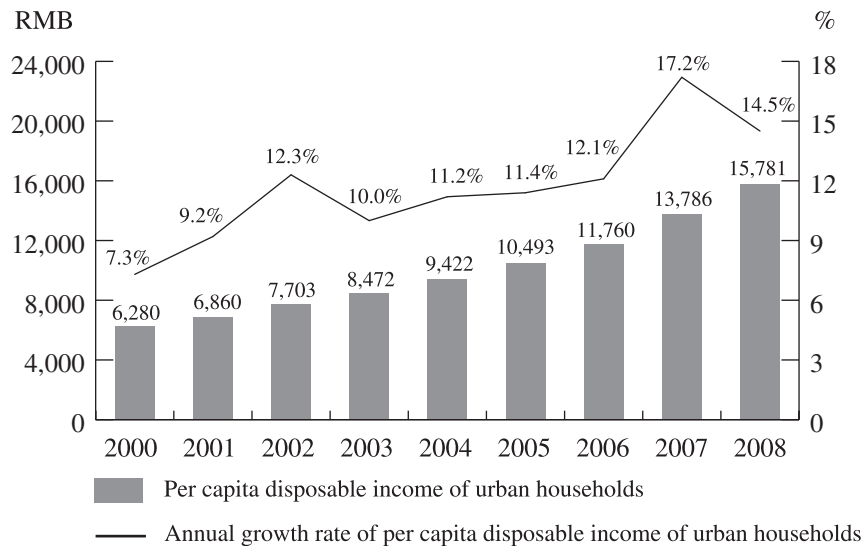


Source: National Bureau of Statistics of China

The growth in GDP and the rate of urbanization have led to an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban residents have increased substantially since 2000. During the period from 2000 to 2008, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 to RMB15,781, representing a CAGR of approximately 12.2%.

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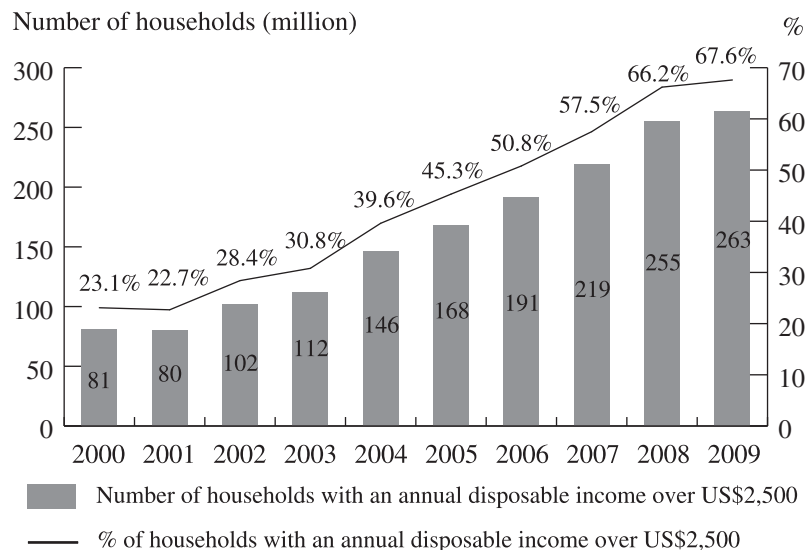
Per Capita Annual Disposable Income of Urban Households in the PRC



Source: National Bureau of Statistics of China

The PRC's market for consumer goods has expanded rapidly in the past few years led by the PRC's strong economy, growing middle class and increasing affluence. For example, the number of households with an annual disposable income of over US\$2,500 more than tripled, from approximately 81 million in 2000 to approximately 263 million in 2009. This income group accounted for 67.6% of total households in 2009, showing substantial increase from 23.1% in 2000.

Number of Households with Annual Disposable Income of Over US\$2,500 in the PRC and percentage-wise thereof



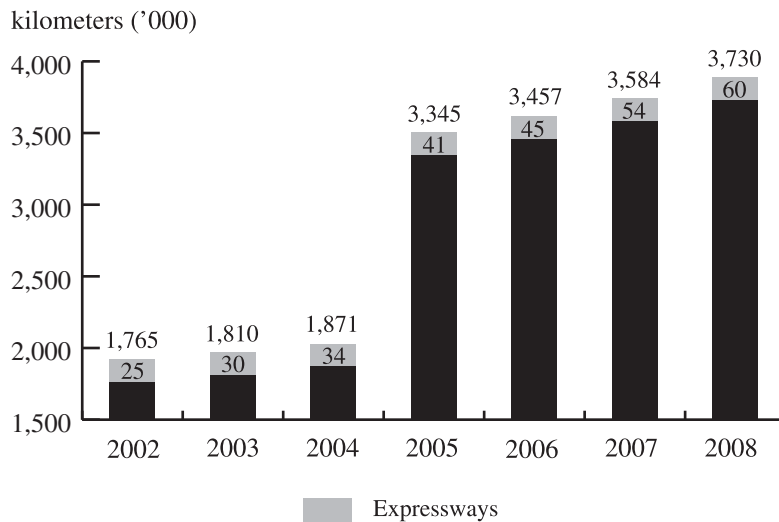
Source: Euromonitor International ("Euromonitor") was not commissioned by our Company or the Joint Sponsors. Euromonitor is an Independent Third Party. Founded in 1972, Euromonitor is a privately owned company with offices in London, Chicago, Singapore, Shanghai and Vilnius. All information relating to "Number of Households with Annual Disposable Income of Over US\$2,500 in the PRC and percentage-wise thereof" were derived from Euromonitor's database, which maintains a large number of internationally comparable country statistics.

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Increased investment in improving transportation and other infrastructure

The growth in GDP and the rate of urbanization are related to the substantial investments by the PRC Government in the construction of transportation infrastructure. The length of China's highway network has grown at a CAGR of 13.3% from approximately 1.77 million kilometers in 2002 to approximately 3.73 million kilometers in 2008. Further, between 2002 and 2008, the length of China's expressways grew from approximately 25,100 kilometers in 2002 to approximately 60,300 kilometers in 2008, representing a 140.2% increase or a CAGR of 15.7%.⁽¹⁾

Length of Highways in the PRC



Source National Bureau of Statistics of China

The increasing length of highways and expressways greatly facilitates inter-city travel. According to the PRC Government's Expressway Construction Plan (國家高速公路發展規劃), it is also projected that, by 2010, approximately 90% of the cities in the PRC with a population of more than 200,000 people will be linked by expressways. Improvement in transportation infrastructure is a key driver for the growth of automobile consumption in China.

Note:

- (1) A highway is defined as public main road, especially roads connecting towns and cities. An expressway is defined as a road designed for high-speed travel, having few or no intersections.

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THE PRC PASSENGER CAR MARKET⁽¹⁾

The PRC passenger car industry has experienced tremendous growth. China has become a major player in the global passenger car market both in terms of production and sales volumes. Driven by growing individual wealth, favorable government policies, aggressive entrances by global automakers, declining automobile prices and the emergence of automobile financing, the Chinese passenger car market has been augmenting quickly. In 2006, approximately 4.5 million new passenger cars were sold in China, ranking China third in the world behind the U.S. and Japan. In 2009, China has become the largest passenger car market with over approximately 8.8 million new passenger cars sold. In the past seven years, the passenger cars produced domestically increased from approximately 2.0 million units in 2003 to 8.4 million units in 2009, representing a CAGR of approximately 26.8%. During the same period, the volume of new passenger car sales increased from approximately 2.1 million units to approximately 8.8 million units, representing a CAGR of approximately 27.2%, and the value of new passenger car sales grew from approximately RMB320 billion to RMB1,084 billion, representing a CAGR of approximately 22.6%. Given the robust growth, it is expected that the total sales of new passenger cars will grow at a CAGR of approximately 10.0% from approximately RMB1,084 billion in 2009 to RMB1.4 trillion in 2012.

Top 10 Passenger Car Markets⁽²⁾

Rank	Country	2006	2007	2008	2009	CAGR (06–09)
Number of new passenger cars sold/registered (million)						
1	China	4.45	5.58	6.06	8.75	25.3%
2	USA	7.79	7.60	6.81	5.46	-11.2%
3	Japan	4.64	4.40	4.23	3.92	-5.4%
4	Germany	3.47	3.15	3.09	3.81	3.2%
5	Brazil	1.56	1.98	2.67	3.01	24.6%
6	France	2.00	2.06	2.05	2.27	4.3%
7	Italy	2.33	2.49	2.16	2.16	-2.5%
8	UK	2.34	2.40	2.13	1.99	-5.2%
9	Korea	1.20	1.27	0.96	1.17	-0.8%
10	Spain	1.63	1.61	1.16	0.95	-16.5%

Source ACMR Survey

Assuming that the macroeconomic environment continues to develop in a steady manner, consumer market growth, including the market for private transportation, is expected to continue through 2020. The penetration rate of passenger cars in China was only approximately 2.0 per 100 people in 2008, far lower than the developed countries approximately 61.6 in Germany, 53.4 in France, 50.1 in UK, 47.8 in US and 47.5 in Japan. The low penetration rate indicates that China's passenger car market has great potential for growth.

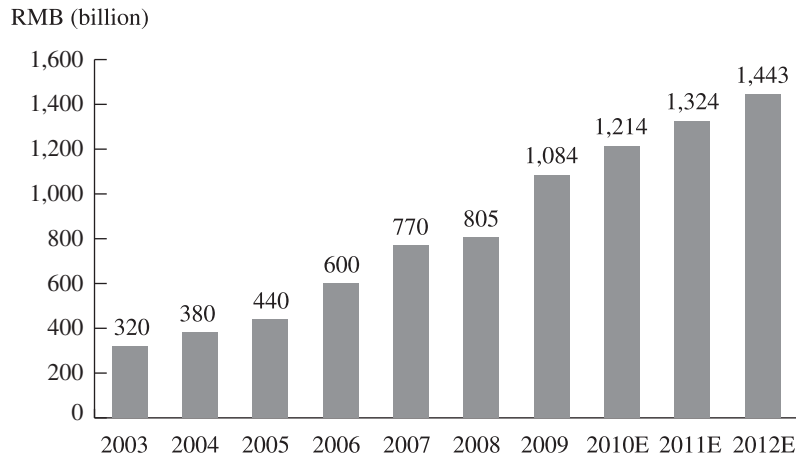
Notes:

(1) Passenger car in this prospectus is defined to include basic passenger car, multi-purpose vehicle (MPV), and sport utility vehicle (SUV). All revenue in ACMR Survey includes VAT.

(2) Ranked by new car sales/registration volume in 2009

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Sales and Sales Forecast of New Passenger Cars in China



Source ACMR Survey

ACMR was established in 1992 as a specialized company engaged in providing commercial information and market research. Since its incorporation, ACMR has been affiliated with the State Statistical Bureau of China (“SSB”). ACMR is authorized by SSB to mine and commercialise statistical data. The forecasts and projections from the ACMR Survey were based on ACMR’s analysis of historical data and trends. This information was obtained by ACMR from various sources, including relevant PRC Government departments and established PRC industry organizations such as SSB, the China Association of Automobile Manufacturers (“CAAM”) and the China Automobile Dealers Association (“CADA”). In the course of preparing the forecast and projection, ACMR has also consulted the PRC State Development and Reform Commission and CADA. Certain assumptions, for instance, the continuous growth of the PRC economy and the price of automobiles will remain stable are based on consultation with various industry organizations.

The following tables list the top ten PRC passenger vehicle manufacturers in 2009 and 2008 by sales volume respectively.

Top Ten Passenger Vehicle Manufacturers in the PRC (2009)

Manufacturer	Total Sales Volume (Units: thousand)
Shanghai Volkswagen Motors Co., Ltd.	728
Shanghai General Motors Co., Ltd.	708
FAW-Volkswagen Automotive Co., Ltd	669
Beijing Hyundai Motor Co., Ltd	570
Dongfeng Nissan Passenger Vehicle Co., Ltd	519
Chery Automobile Co., Ltd.	484
BYD Co., Ltd.	448
FAW Toyota Motor Sales Co., Ltd	417
Guangzhou Honda Motors Co., Ltd	366
Geely Holding Group.	329

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Top 10 Passenger Vehicle Manufacturers in the PRC (2008)

Manufacturer	Total Sales Volume (Units: thousand)
FAW-Volkswagen Automotive Co., Ltd	499
Shanghai Volkswagen Motors Co., Ltd.	490
Shanghai General Motors Co., Ltd.	445
FAW Toyota Motor Sales Co., Ltd	366
Chery Automobile Co., Ltd.	356
Dongfeng Nissan Passenger Vehicle Co., Ltd	351
Guangzhou Honda Motors Co., Ltd	306
Beijing Hyundai Motor Co., Ltd	295
Geely Holding Group.	222
Changan Ford Mazda Automobile Co. Ltd	205

Source ACMR Survey

Taken collectively, the automobile manufacturing industry in the PRC recorded aggregate revenues of approximately RMB1,188 billion in 2008, with a pre-tax profit of approximately RMB86.6 billion and an overall pre-tax profit margin of approximately 7.3%.

Features of the Chinese passenger car market

The Chinese passenger car market has been rapidly expanding, with a sales increase of approximately 6.7 million units from 2003 to 2009, and has the following features:

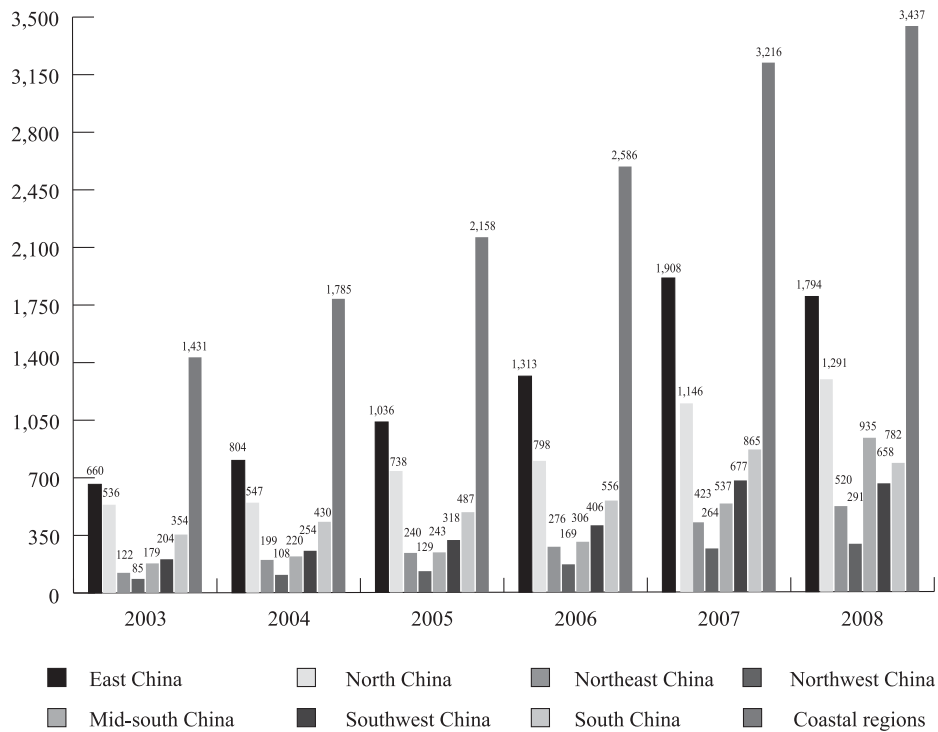
First, coastal regions, which include provinces in Northeast China, East China and South China, are the largest and fastest growing passenger car markets in China. In terms of geographical distribution, the Chinese passenger car market shows obvious geographical differentiation. The passenger car market in coastal regions in general is larger than that of the other parts of the country. Sales of passenger cars in coastal regions grew steadily from 2003 to 2008, accounting for about one-third of total passenger car sales in China. Rapid and steady economic growth, higher disposable income and more developed road infrastructures in coastal regions are the main drivers for higher passenger car consumption. High volumes of new passenger car sales in coastal regions indicate a large passenger car consumer base and strong growth potential for after-sales businesses, used passenger car sales and other passenger-car related businesses. According to ACMR, Dalian, the headquarter city of the Group, represented approximately 0.8% of the total China's passenger car licensing volume in 2008.

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Geographical Division	Provinces Included
East China	Shanghai, Jiangsu, Shandong, Jiangxi, Zhejiang, Anhui
North China	Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia
Northeast China	Heilongjiang, Jilin, Liaoning
Northwest China	Xinjiang, Ningxia, Gansu, Shaanxi, Qinghai
Mid-south China	Henan, Hubei, Hunan
Southwest China	Guangxi, Sichuan, Guizhou, Yunnan, Tibet, Chongqing
South China	Fujian, Hainan, Guangdong
Coastal regions	Liaoning, Shandong, Jiangsu, Zhejiang, Guangdong, Fujian, Shanghai, Tianjin, Hebei

Comparison of Geographical Passenger Car Licensing Data

Number of passenger cars ('000)

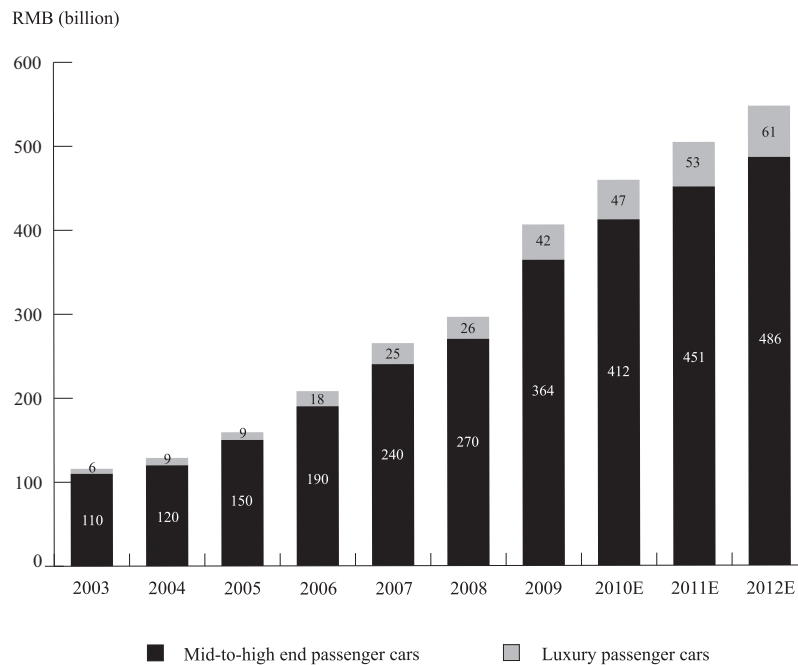


Source Automobile Output & Sales Express, ACMR Survey

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Second, mid-to-high end passenger cars typically priced above RMB200,000 and luxury passenger cars typically priced above RMB500,000 have shown higher growth than the industry average. In 2003, 511,275 units of mid-to-high end and luxury new passenger cars (domestic and imported) were sold in China. In 2009 the figure was 1,762,924 units, representing a CAGR of approximately 22.9%. From 2003 to 2009, sales of domestic mid-to-high end and luxury new passenger cars grew from approximately RMB116 billion to RMB406 billion, representing a CAGR of approximately 23.2%. It is expected that sales in this segment will grow at a CAGR of approximately 10.5% from approximately RMB406 billion in 2009 to RMB547 billion in 2012. Imported mid-to-high end and luxury brand passenger cars also witnessed strong sales growth, rising from approximately RMB22 billion in 2003 to RMB90 billion in 2009, representing a CAGR of approximately 26.5%. Sales in this segment are projected to grow at a CAGR of approximately 12.6% from approximately RMB90 billion in 2009 to RMB129 billion in 2012. As both the Chinese economy and its middle class are growing steadily, the demand for mid-to-high end and luxury passenger cars is expected to continue to rise.

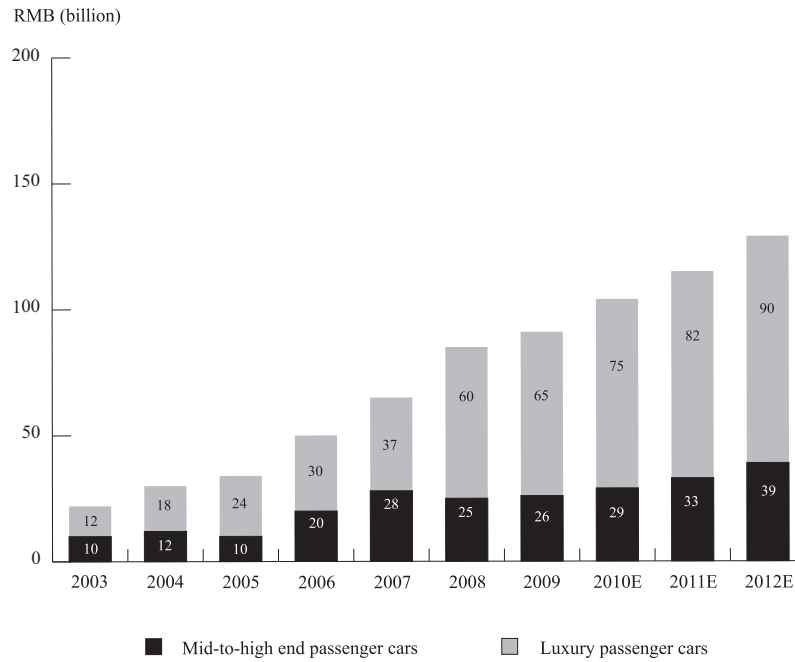
Sales and Sales Forecast of Domestic Mid-to-high End and Luxury New Passenger Cars



Source ACMR Survey

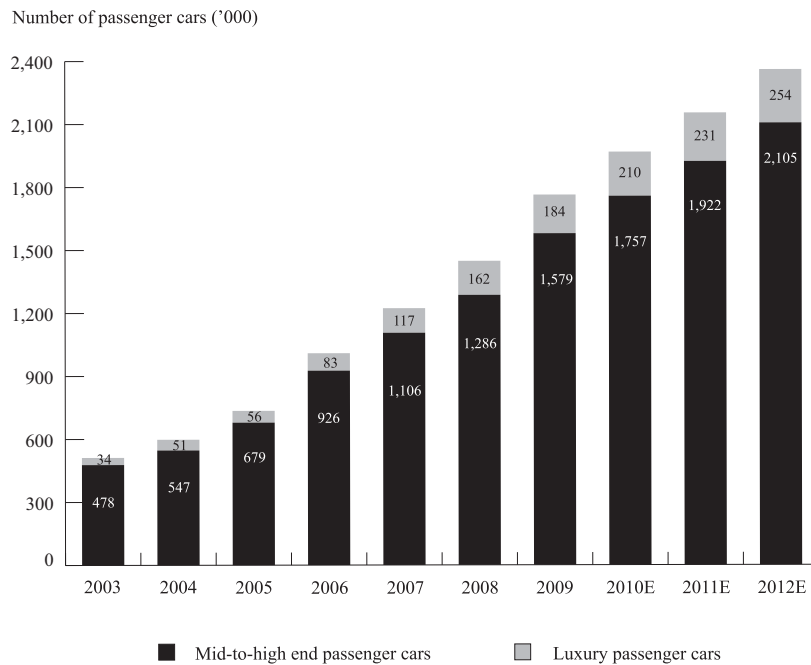
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Sales and Sales Forecast of Imported Mid-to-high End and Luxury New Passenger Cars



Source ACMR Survey

Sales and Sales Forecast of Domestic and Imported Mid-to-high End and Luxury New Passenger Cars



Source ACMR Survey

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Third, Japanese automobile brands, especially Toyota, being one of the market leaders and the largest automobile brands in terms of sales, has been steadily gaining market share in China in mid-to-high end automobile brand segment in recent years. According to ACMR, between 2003 and 2008, Toyota, Honda and Nissan's PRC market shares within the mid-to-high end passenger car brand segment increased from approximately 4.9% to 20.8%, 21.4% to 23.2% and 3.7% to 5.2% respectively, and Lexus' PRC market share within the luxury passenger car brand segment increased from approximately 8.1% to 19.8%.

Fourth, with living standards improving in China, the percentage of passenger car ownership has been growing rapidly year-on-year and the consumption structure of the Chinese automobile market has changed greatly. In the "Tenth Five Year" period (2001–2005), the Chinese automobile consumption structure has changed fundamentally, markedly shifting from government consumption to private consumption, with private consumers becoming the major consumers of passenger cars in China. Approximately 48% of automobiles sold in 2001 were purchased by private consumers, whereas approximately 77% of automobiles sold in 2008 were purchased by private consumers, who are now the primary driving force in the Chinese automobile industry.

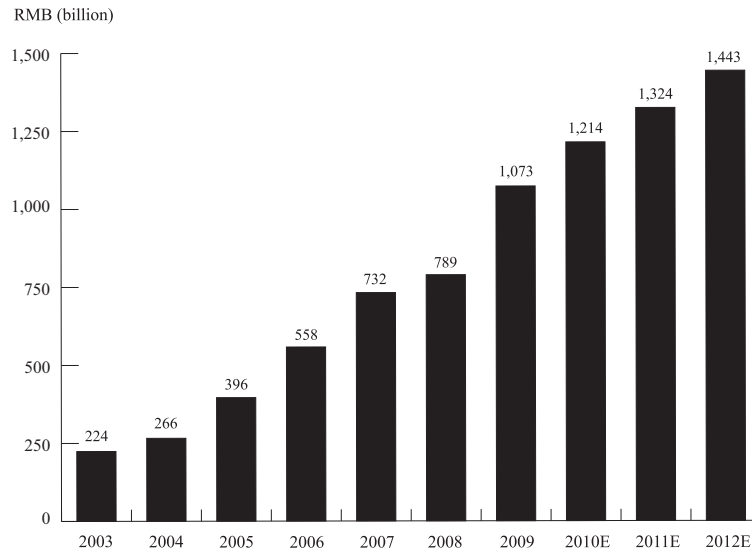
Retail platforms for the Chinese passenger car market

The dominant retail platform in the Chinese passenger car market is the specialized automobile dealerships, known as the "4S dealership" where 4S refers to sales, spare parts, service and survey. Automakers generally enter agreements with the dealers who run 4S dealerships, authorizing them to conduct marketing activities for specified automobile brands within a specified territory. Such agreements generally set forth the requirements with regard to sales and publicity formats, service standards, sales processes, and corporate identities.

The dominance of the 4S dealership as the established retail platform was strengthened by the Measures for the Implementation of the Administration of Branded Automobile Sales 《汽車品牌銷售管理實施辦法》("Measures") promulgated by MOFCOM in February 2005. The Measures stipulate that all automobile dealers must obtain permission from automakers before retailing their brands. As a result of the introduction of the Measures, other types of automobile sales platforms including automobile trading markets and automobile supermarkets, began to diminish in importance. From 2003 to 2009, total sales of passenger car through 4S dealerships grew from approximately RMB224 billion to RMB1,073 billion, representing a CAGR of approximately 29.8%. Given this growth, it is expected that total sales of automobiles through 4S dealerships will grow at a CAGR of approximately 10.4% from approximately RMB1,073 billion in 2009 to RMB1.4 trillion in 2012.

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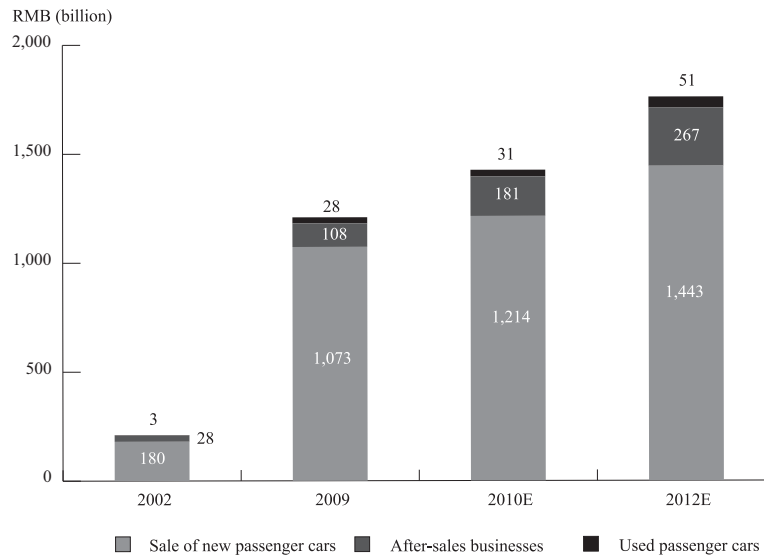
Sales and Sales Forecast of New Passenger Cars Sold through 4S Dealerships



Source ACMR Survey

The 4S dealership retail platform was introduced to China in the mid-1990s. Most passenger car brands have at least 100 4S dealerships across China, among which FAW-Volkswagen, Shanghai Volkswagen and Beijing Hyundai have over 800 4S dealerships. Since 2008, the sales income of 4S dealerships have largely corresponded to total sales of new automobiles in China. For the same period, the after-sales income of 4S dealerships (primarily from the provision of maintenance, repair and detailing services) accounted for approximately 55% of the after-sales income of the passenger car market in China.

Sources of Income for 4S Dealerships

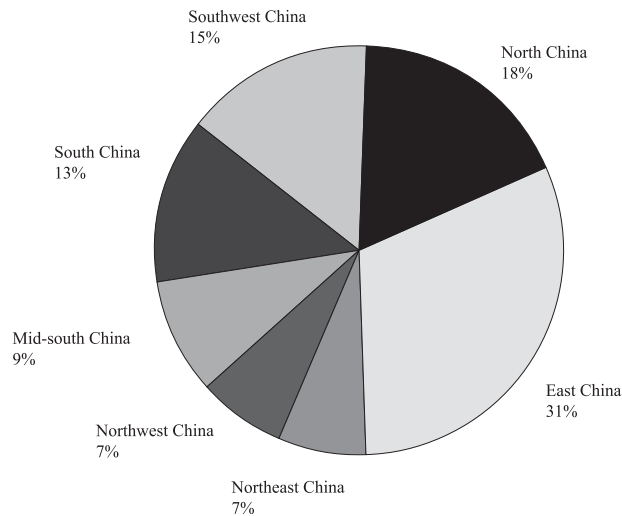


Source ACMR Survey

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As at 31 December 2008, the total number of 4S dealerships in the PRC was approximately 15,000, mostly distributed in East China. Approximately 7,650 4S dealerships were located in coastal regions, accounting for approximately 51% of all 4S dealerships in PRC as at 31 December 2008.

Regional Distribution of 4S Dealerships by Number of Stores as at 31 December 2008



Source ACMR Survey

The market for new passenger cars in China is fragmented. However, passenger car dealers are gradually becoming group-oriented, whereby one dealer sets up multiple dealerships to acquire dealership agreements with multiple automobile brands. With competition intensifying, regional leadership and economies of scale have emerged to be among the most important success factors for dealers engaged in new automobile sales. Large dealership groups are able to gain operational strengths in personnel training, brand recognition, capital investment and the integration of regional market resources, which present strong competitive advantages against smaller dealers. In addition, large automobile dealership groups also enjoy strong advantage in penetrating second and third-tier markets as well as with respect to the developing used automobile market in China, which is expected to be a new growth area. Stronger cooperative relationships with automakers provide large automobile dealership groups strategic advantages in developing new market channels, retail strategies, and in capitalising on business opportunities. Accordingly, the development of large-scale, trans-regional operations is a main growth trend for automobile dealership groups operating in China.

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For 2008, the top ten automobile dealership groups in the PRC accounted for only approximately 11.4% of the passenger car market's total revenue⁽¹⁾. Of these ten, eight possessed 4S dealerships located across a number of provinces in the PRC as at year end of 2008, in aggregate accounting for approximately 9.8% market shares in 2008. Our Group was ranked sixth, fifth and fourth among the top ten automobile dealership groups in terms of revenue in 2006, 2007 and 2008 respectively.

<u>Trans-regional dealership groups⁽²⁾</u>	<u>2008</u> <u>Market share</u>	<u>2007</u> <u>Market share</u>	<u>2006</u> <u>Market share</u>
Dealership group 1	2.3%	2.0%	1.6%
Dealership group 2 ⁽³⁾	1.7%	1.6%	1.6%
Dealership group 3	1.5%	1.4%	1.3%
Our Group	1.2%	1.1%	1.0%
Dealership group 4	0.9%	0.9%	1.0%
Dealership group 5	0.8%	1.2%	1.0%
Dealership group 6 ⁽⁴⁾	0.7%	n.a	n.a
Dealership group 7	0.7%	0.6%	0.6%

Chinese passenger car after-sales market

The Chinese passenger car after-sales market is generally divided into the market for repair, maintenance, and detailing services, and the market for automobile accessories and spare parts.

Driven by the increase in private automobile ownership, the Chinese passenger car after-sales market is facing new opportunities for development. By the end of 2008, China had approximately 26.3 million passenger car owners, approximately 19.5 million of which were private owners. Private owners are now the primary consumers of passenger cars in China, and they have their own requirements for automobile brands, performance and individualism which are essentially different from those of government consumers. Private owners, particularly owners of mid-to-high end and luxury automobiles, tend to give high priority to service quality. Approximately 80% of this consumer group choose to have their automobiles serviced in 4S dealerships, which provide luxury fittings and have high credibility and service standards. It is expected that the number of private passenger car owners in the PRC will increase from approximately 19.5 million in 2008 to 49.6 million by 2012. The rapid expansion of private passenger car ownership has become a major driver for the PRC passenger car after-sales market.

The gradual ageing of passenger cars also offers the Chinese passenger car after-sales market new opportunities for development. The demand for after-sales services is expected to be largest when passenger cars are in the fourth to ninth years of their service lives. It is expected that the percentage of passenger cars that have been in use for more than three years in the PRC will rise from approximately 50% in 2008 to 66% by 2012, indicating that the number of passenger cars in need of maintenance and repair should grow significantly. The size of the Chinese passenger cars after-sales market in 2002 was

Notes:

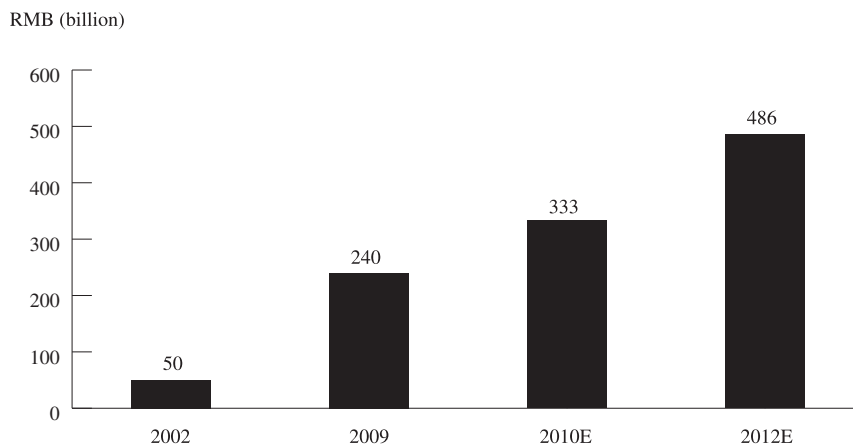
- (1) The revenue includes revenue from new car sales, after-sales businesses and used car business.
- (2) Trans-regional dealership groups as at year end of 2008 and ranked by 2008 revenue.
- (3) This dealership group was not a trans-regional dealership group in 2006 and 2007.
- (4) This dealership group was not ranked among top ten in 2006 and 2007.

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approximately RMB50 billion, more than double the figure of approximately RMB23 billion in 1997. By 2009, the market had grown to approximately RMB240 billion, and it is expected to further grow to approximately RMB486 billion by 2012.

In addition to services provided through existing 4S dealerships, new service platforms such as quick service shops and accessory retailers are emerging. Quick service shops are aimed at providing fast and efficient repair, maintenance and detailing services, while accessory retailers are especially designed to provide a variety of automobile accessories to customers at a centralized location. Such alternative after-sales services platforms benefit extensively when established in conjunction with an existing 4S dealership network, providing opportunities to leverage the customer base, operational expertise, human resources and financial resources.

Size of the Chinese Passenger Car After-sales Market⁽¹⁾



Source: ACMR Survey

Chinese used passenger car market

In line with the production and sales levels of new passenger cars in China, the Chinese used passenger car market is growing rapidly and also has significant growth potential. According to ACMR, the used passenger car market trading volume will reach a new peak in the near future. In 2008, approximately 1.6 million used passenger cars were sold, showing a year-on-year increase of approximately 16.5% compared with 2007. By way of comparison, new passenger car sales rose about approximately 8.6% in 2008. The used passenger car market in China is expected to maintain steady growth from 2009 to 2012, and there is great potential for further development in this market. It is expected that the volume of used passenger car sales will reach approximately 2.0 million units in 2009 and 2.9 million units in 2012, with total sales of approximately RMB105 billion in 2009 and RMB156 billion in 2012, representing a CAGR of approximately 14.1%.

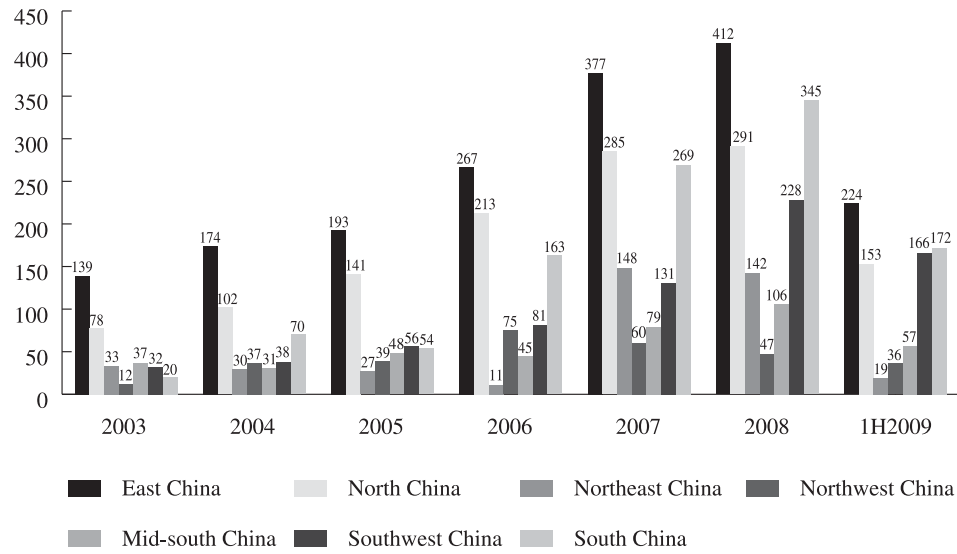
Note:

(1) Including the sales of automobile accessories and spare parts as well as repair, maintenance and detailing services.

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Trading Volume of Used Passenger Cars

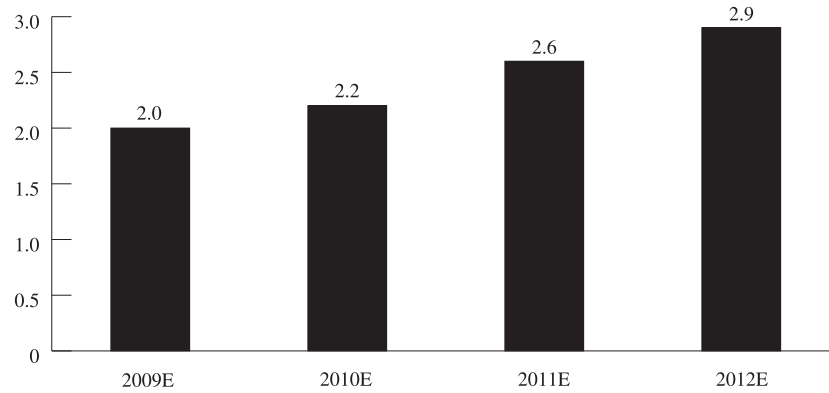
Number of passenger cars ('000)



Source ACMR Survey

Forecast of Trading Volume of Used Passenger Cars

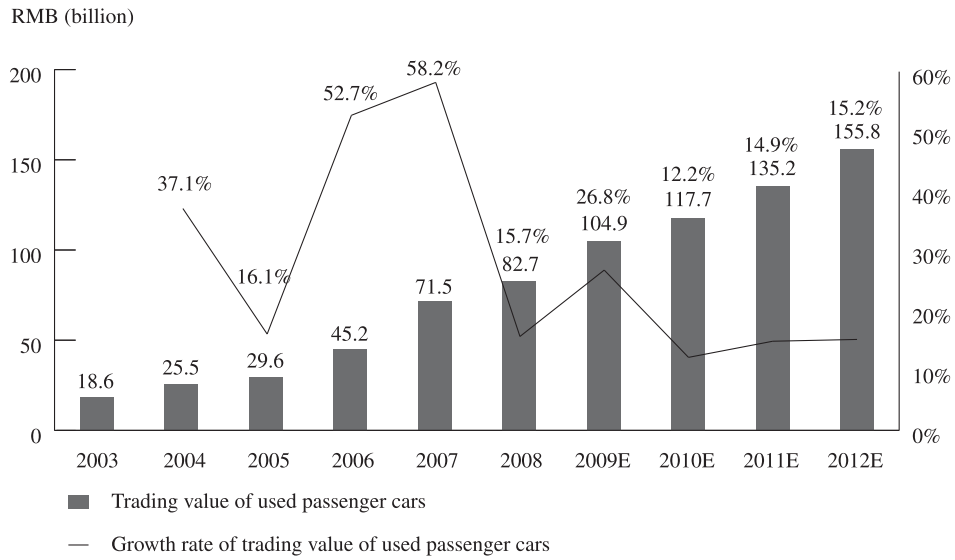
Number of passenger cars (million)



Source ACMR Survey

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Trading Value of Used Passenger Cars



Source ACMR Survey

At present, the trading ratio of new passenger cars to used passenger cars in developed countries is approximately 1:1. The ratio in China has been changing in recent years, from approximately 5.9:1 in 2003 to 3.9:1 in 2008. The decreasing ratio of new passenger cars to used passenger cars indicates that the PRC used passenger cars market has great potential and room for growth.