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## OUR BUSINESS

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### OVERVIEW

We are a leading national automobile dealership group in China by revenue from 2006 to 2008, according to ACMR. Our 4S dealerships<sup>(1)</sup> are concentrated in cities with relatively affluent populations in the northeastern, eastern and southern coastal regions of China, as well as selected inland areas. We have grown rapidly from 15 4S dealerships at the beginning of 2006 to 47 4S dealerships as of 31 December 2009.

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus and Audi and mid-to-high end automobile brands including Toyota, Nissan, Honda and GM. Each of our 4S dealerships is designated to sell one brand of automobile and to operate at a single point of sales only.

We were the first company being granted dealership rights by Toyota, and one of the first authorized dealerships for Lexus and Audi in China. We are one of the largest automobile dealership groups in China, in terms of sales volume and number of 4S dealerships for Toyota and Lexus — Toyota and Lexus are our two largest automobile brands in terms of sales.

Through our “one-stop automobile shop” business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships to our customers. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services. Each of the new automobile sales business and after-sales businesses has its own features in terms of business model and revenue and profitability contributions to our Group.

Our revenue for the three years ended 31 December 2006, 2007 and 2008 was RMB6,472.0 million, RMB9,103.1 million and RMB10,548.6 million, respectively, representing a CAGR of approximately 27.7% during such periods. Our revenue for the nine months ended 30 September 2009 was RMB9,212.6 million. Revenue generated from the sales of our mid-to-high end automobile brands accounted for approximately 55.3%, 58.5%, 65.8% and 70.6% of our new automobile sales revenue for the three years ended 31 December 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, while revenue generated from the sales of our luxury automobile brands accounted for approximately 44.7%, 41.5%, 34.2% and 29.4% of our new automobile sales revenue for the same periods. The gross profit margin of our sales of mid-to-high end brand automobiles was 5.5%, 5.5%, 4.0% and 4.1%; the gross profit margin of our sales of luxury brand automobiles was 4.5%, 7.8%, 5.5% and 6.1%; and the gross profit margin of our after-sales businesses was 33.4%, 34.9%, 40.3% and 44.1% during the same periods, respectively. Revenue generated from our new automobile sales business accounted for approximately 95.9%, 94.7%, 91.9% and 90.4% and the revenue generated from our after-sales businesses accounted for approximately 4.1%, 5.3%, 8.1% and 9.6% of our revenue during the same periods. Our profit attributable to equity holders of the parent for the three years ended 31 December 2006, 2007 and 2008 was RMB147.6 million, RMB284.3 million and RMB218.7 million, respectively, representing a CAGR of approximately 21.7% during such periods. Our profit attributable to equity holders of the parent for the nine months ended 30 September 2009 was RMB287.4 million.

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*Note:*

(1) In this prospectus, the term “4S dealership” refers to a dealership authorized to sell the products of a single brand of automobiles. Such dealership integrates four standard automobile-related businesses: sales, spare parts, service and survey, among which survey refers to the function of collecting market information for the automakers.

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Based on the information provided by ACMR, we accounted for approximately 1.0%, 1.1% and 1.2% of the Chinese passenger car market's total revenue<sup>(1)</sup> in 2006, 2007 and 2008, respectively. Our Group was ranked sixth, fifth and fourth among the passenger car dealerships in terms of revenue in 2006, 2007 and 2008, respectively, in the PRC.

As a leading national automobile dealership group in the PRC, we believe that as a result of our strong portfolio of luxury and mid-to-high end automobile brands and strategic positioning as a “one-stop automobile shop”, we are well-placed to benefit from the growth of China's middle-class and the continued rise in the per capita disposable income of Chinese consumers, and further consolidate our market leadership position.

### OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth can be attributed to a combination of our competitive strengths.

**We are a leading national automobile dealership group in the PRC by revenue, with a strong presence of 4S dealerships in cities with relatively affluent populations in multiple regions**

We have a strong presence of 4S dealerships in cities with relatively affluent populations located in the northeastern, eastern and southern coastal regions of China, as well as selected inland areas.

#### *Liaoning Province*

We are the largest automobile dealership group in Dalian City. Dalian City is a major Chinese port, and a transportation hub for northeastern China. As of 31 December 2009, we operated 14 4S dealerships in Dalian City, offering automobile brands including Mercedes-Benz, Lexus, Audi, Toyota, Nissan and Honda.

Our Lexus 4S dealership in Dalian City was awarded the distinguished dealership by Lexus in term of sales, after-sales services, customer satisfaction and overall performance from 2007 to 2009. Our operations in Dalian City also include Toyota's top-ranking PRC dealership, measured by national customer and service satisfaction indices.

Apart from Dalian City, our 4S dealership network also covers other major cities in Liaoning Province. As of 31 December 2009, we operated one 4S dealership in Shenyang City, the provincial capital of Liaoning Province, and one 4S dealership in Yingkou City.

#### *Shandong Province*

We operated a total of eight 4S dealerships in Qingdao City and Yantai City as of 31 December 2009. We operate Audi, Toyota, Nissan and GM 4S dealerships in Shandong Province.

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#### *Note:*

(1) The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue referred therein includes VAT.

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### *Yunnan Province*

We are the largest dealership group offering Toyota and the only dealership group offering Lexus in Yunnan Province. In addition, we also operate Honda and Nissan 4S dealerships in Yunnan Province. As of 31 December 2009, we operated a total of six 4S dealerships in Yunnan Province.

### *Fujian Province*

We also have an established market position in Fujian Province, where we operated a total of three 4S dealerships in two of Fujian Province's most affluent cities, Xiamen City and Fuzhou City as of 31 December 2009. We operate Toyota and Lexus 4S dealerships in Fujian Province.

### *Guangdong Province*

We have an established market position in Guangdong Province operating a total of five 4S dealerships in Dongguan City, Shenzhen City and the provincial capital, Guangzhou City in Guangdong Province as of 31 December 2009. We operate Lexus and Toyota 4S dealerships in Guangdong Province.

### *Other strategic markets*

We have also established 4S dealerships in other strategic markets which have large, affluent consumer bases and/or well-established road networks. These include: one 4S dealership in Shanghai, three 4S dealerships in Zhuji City and Shaoxing City, Zhejiang Province; two 4S dealerships in Nanjing City, Jiangsu Province; one 4S dealership in Chengdu City, Sichuan Province; one 4S dealership in Changchun City, Jilin Province; and one 4S dealership in Harbin City, Heilongjiang Province, as of 31 December 2009.

### **We have a diversified portfolio of luxury and mid-to-high end automobile brands**

We have a diversified portfolio of luxury and mid-to-high end automobile brands. We have dealership agreements with various leading global automakers and their PRC joint venture corporations, including luxury automobile brands such as Mercedes-Benz, Lexus and Audi and mid-to-high end automobile brands such as Toyota, Nissan, Honda and GM. We are one of the largest automobile dealers in China, both by sales volume and number of 4S dealerships for Toyota and Lexus.

We believe our automobile brands are popular among Chinese consumers and have experienced sustained sales growth in the PRC. According to a PRC market survey conducted by JD Power<sup>(1)</sup> in 2009, our luxury and mid-to-high end automobile brands, Mercedes-Benz, Lexus, Audi, Toyota, Nissan and Honda, are the most highly-rated automobile brands in terms of overall service satisfaction based on service initiation, service advisor, service facility, automobile pickup and service quality. According to ACMR, between 2003 and 2008, Mercedes-Benz, Lexus and Audi, recorded a CAGR for their total sales

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#### *Note:*

- (1) JD Power was not commissioned by either our Company or the Joint Sponsors. JD Power is a global marketing information services firm founded in 1968, which conducts surveys of customer satisfaction, product quality and buyer behaviour for industries, and is an Independent Third Party. All information from JD Power set out in the prospectus are public information. The All Power Circle Ratings generated by JD Power were based on the opinions of a sample of consumers who have used or owned the product or service being rated.

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in the Chinese market of approximately 34.7%, 63.4% and 12.1%, respectively, whereas Toyota, Nissan and Honda recorded a CAGR for their total sales in the Chinese market of approximately 62.5%, 30.9% and 23.9%, respectively.

### **Our customer-focused philosophy and store-level operational expertise have resulted in our highly-ranked 4S dealerships with consistent quality service and satisfactory customer experience**

As our business is retail in nature, we understand and place great emphasis on customer service. Our corporate motto is “Zhongsheng — Lifetime Partner”, which is central to our corporate culture. We believe that providing high-quality services to each of our customers is the key to building long-lasting customer relationships, and to attracting new customers for each of the businesses offered by our “one-stop automobile shop” business model. In line with this core principle, we provide systematic training courses to our customer-facing employees such as our sales personnel, and structure our employee compensation system with the aim of promoting high customer satisfaction.

In order to serve our customers better, we have developed a detailed customer database containing customer records from all of our 4S dealerships, which allows us to track our customers’ usage patterns and preferences for our products and services. This in turn allows us to understand and anticipate each of our customer’s needs and requirements.

As a result of our customer-focused philosophy, several of our 4S dealerships operating Toyota, Lexus and Nissan brands achieved high ranking in terms of customer satisfaction indices among 4S dealerships in their respective cities in 2008. Our Group was also rated by the China Automobile Dealers Association in 2008 as one of the ten most influential automobile dealership groups in the industry for the 30 years since China’s adoption of reform and opening-up policy. In addition, our individual 4S dealerships received various kinds of awards in recognition of their outstanding customer service. Recent awards we received in 2008 include:

- National Outstanding Sales Counseling Award for the sales personnel of one of our Lexus dealerships in Guangzhou awarded by Lexus.
- Best After-sales Service Coordination Award for one of our FAW-Toyota dealerships in Dalian awarded by FAW-Toyota.
- FTMS After-sales Service TL Model Shop Award and Encouraging Quality Improvements Award for two of our FAW-Toyota dealerships in Fujian awarded by FAW-Toyota.

### **We have strong and established working relationships with leading automakers**

We have strong and established working relationships with leading global automakers and their PRC joint venture corporations. We were the first PRC dealerships granted with dealership rights by Toyota, which was our largest new automobile supplier as of 31 December 2009. We were also one of the first authorized dealerships in the PRC for Audi and Lexus. We are now one of the largest automobile dealers for both Toyota and Lexus in China, both by sales volume and by number of 4S dealerships.

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Automakers in China have become increasingly selective in entering into new dealership arrangements, and tend to favor high performance dealerships. In particular, certain of the automakers are increasingly limiting new 4S dealership arrangements to top performing dealers in each region. In light of these developments, we believe our strong and established relationships with the automakers, strong sales, high customer satisfaction and track record, position us well to expand our network of 4S dealerships further in China.

### **Our large scale operations allow us to achieve economies of scale**

Our large scale operations allow us to achieve economies of scale from the human resources, business and financial perspectives.

#### *Human resources*

As a result of our large scale operations, we have been able to implement a systematic approach to foster capable and experienced managers. One of our corporate policies is to promote capable personnel within the Group's operations and provide a clear career path to those personnel, thus forming a large pool of motivated and experienced employees to support our business expansion plans.

By leveraging our strong operational expertise accumulated throughout our national store network, we frequently apprentice new recruits to our best performing 4S dealerships for training, before rotating them to 4S dealerships in other locations. We believe this ensures best practice sharing and the accumulated business expertise in our best-performing 4S dealerships can be replicated at all of our 4S dealerships.

In addition, as we are a leading national automobile dealership group in the PRC with a diversified portfolio of automobile brands, we are able to offer our employees with a clear career path encompassing a variety of opportunities to work with different automobile brands as well as work in other regions in China, and we believe this would increase our employee retention rates in the face of intense competition for human resources.

#### *Business*

With an extensive 4S dealership network across various regions, we are able to coordinate and aggregate orders for new automobiles, as well as spare parts, automobile accessories and other automobile-related products. This allows us to exercise better inventory control for automobiles, spare parts, automobile accessories and other automobile-related products, which in turn helps us to optimize the mix of automobiles and automobile-related products in each of our 4S dealerships.

In addition, the size of our 4S dealership network and our strong financial resources with large purchase amount yields us stronger bargaining power. We believe that as compared with our competitors, we are in a strong position to bargain for better commercial terms from suppliers of spare parts, automobile accessories and other automobile-related products.

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### *Financial*

Our financial resources provide each of our 4S dealerships ready access to funds, which enables us to order sufficient quantities of automobiles as well as spare parts, automobile accessories and other automobile-related products from our automakers and other suppliers to meet the demands of our large customer base. In addition, through a centralized budgeting and management process, we are able to allocate our financial resources more efficiently across our entire 4S dealership network. Furthermore, with our financial resources, we are in a stronger position in funding potential acquisitions in a timely manner without interrupting our existing 4S dealerships' businesses.

### **We are able to grow rapidly both organically and through acquisition**

#### *Organic growth*

As a leading national automobile dealership group in China, we have significant expertise in operating 4S dealerships and a deep bench of capable store managers and other personnel. We can set up and operate new 4S dealerships swiftly and successfully by leveraging our industry know-how, brand recognition, established working relationships with automakers, and our experienced personnel from existing 4S dealerships. As of 31 December 2009, 24 of our 47 4S dealerships were established by ourselves.

We also strive to improve the performance of our dealerships by rigorously executing our strict in-house requirements and standards, tracking store management indicators, training and motivating our staff, expanding into high value-added automobile-related businesses, while emphasizing our customer-focused philosophy. In addition, we have a team of experienced managers who regularly travel throughout our 4S dealerships network to provide on-site guidance and support.

#### *Acquisitions*

We believe that our aggregated group resources enable us to capitalize on acquisition opportunities in a timely manner. We have a well-established track record of acquiring 4S dealerships and successfully integrating the acquired 4S dealerships with a significant improvement in their performance. We utilize the benefits of our wide network of 4S dealerships and management expertise to improve the operation of newly acquired 4S dealerships, including the appointment of management team to the newly-acquired 4S dealerships to share best practices, conduct on-site training, and resolve any existing issues.

For example, according to the national ranking prepared by the automakers to evaluate the performance of their 4S dealerships in the PRC, based on various performance indicators, including the sales performance and customers satisfaction, the national ranking of the 4S dealership for FAW-Toyota we acquired in Chengdu City, Sichuan province in February 2007, rose from 139th in 2006 to 90th by end of 2008. According to the automakers, the national rankings of two dealerships for FAW-Toyota and Audi we acquired in Yantai City, Shandong Province in January 2008 and February 2009, rose from 234th and 102nd as of the time of their respective acquisitions, to 65th and 75th, respectively as of October 2009. The ranking of another dealership for DF-Nissan we acquired in Kunming City, Yunnan Province in March 2008, rose from last place among 24 dealerships in the Southwest region to one of the top five performing dealerships in the region. As of 31 December 2009, 23 of our 47 4S dealerships were acquired from third parties.

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### **We have an experienced senior management team, a deep bench of high-caliber store managers, and access to reliable source of skilled technical personnel**

Our senior management comprises industry veterans with extensive in-depth experience in the PRC automobile industry. Our founders, Mr. Huang Yi and Mr. Li Guoqiang, each has over 20 years' industry experience, and remain actively involved in our management and day-to-day operations. Our vice-president of our new automobile sales business, Mr. Wu Hailong, has over 17 years' relevant experience and has been with our Group since 1998. Mr. Zhang Zhicheng, our vice-president of brand automobile sales business, has over five years' relevant experience and in-depth expertise in the PRC automobile industry, and has held numerous key positions with our Group. Mr. Liu Geng, our vice-president of our after-sales and accessories businesses, has over 16 years' relevant experience, and has been with our Group since 2000. We consider the leadership of our experienced senior management is an edge and is a key factor in our success and achievements.

In addition, we have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers are internally trained and promoted, and have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager to different positions in a 4S dealership, including deputy-store manager, sales director, service director and finance director, to ensure that our store managers are familiar with all operational aspects of a 4S dealership.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For example, we believe our extensive relationship with Toyota provides us a significant advantage by enabling us to draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist in designing the curriculum for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, which has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

### **We have efficient information technology systems to support our business**

We have set up advanced information technology systems in our headquarters and across our 4S dealership network as a uniform platform which facilitate the expansion of our business. In late 2008, we completed the roll-out of our enterprise resource planning system which maintains in a single database the information needed for a variety of business functions such as quota, inventory, financial, human resources and customer relationship management.

We also use our information technology systems to identify fast and slow-selling automobile models or spare parts, accessories or other automobile-related products, analyze the sales trends of different products in different regions based on the historical data of purchase orders and sales data, and improve the mix of products and services offered at each of our 4S dealerships.

Our efficient information technology systems have significantly improved our ordering, inventory and logistics management as well as financial and cash management, and have helped us to minimize the costs of maintaining inventory and improve our overall sales performance.

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We will continue to upgrade our information technology systems on an ongoing basis as necessary. We believe that an upgraded information technology system will continue to facilitate the exchange of information between our headquarters and our 4S dealership network, and enable us to improve our data analysis to support the formation and execution of our business and operational strategies.

### OUR STRATEGIES

Our aim is to further strengthen our position as a leading national automobile dealership group in the PRC. To accomplish this, we intend to expand our business by strategically expanding our 4S dealership network, further increasing productivity and profitability, improving customer service quality at each of our 4S dealerships, continuing to strengthen our after-sales businesses, developing our used automobile sales business, and augmenting our employee talent pool.

#### **Increasing the size of our 4S dealership network through both organic growth and acquisitions**

We believe that by increasing the size of our 4S dealership network through both organic growth and acquisitions, we can further improve the mix of automobile brands in our portfolio and the products and services we offer and maximize profitability. We intend to capitalize on our strong cash flow and aggregated financial resources to increase the size of our 4S dealership network.

##### *Organic growth*

Our 4S dealerships are strategically concentrated in cities with affluent populations in the northeastern, eastern and southern coastal regions of China, including Dalian City, Qingdao City, Yantai City, Shanghai, Nanjing City, Shenzhen City, Dongguan City, Xiamen City, Fuzhou City and Guangzhou City, as well as selected cities in inland China, including Chengdu City and Kunming City. We believe these cities and regions have significant market potential, and demand for automobiles, spare parts, automobile accessories and other automobile-related products, and repair, maintenance, and detailing services, will increase in these cities and regions because of expected rises in per capita disposable income and/or the nature of the local transportation requirements and networks.

We intend to capitalize on our local know-how, relationships and positive brand image built up by our existing 4S dealerships, as well as our in-depth industry expertise, to establish successful new 4S dealerships rapidly in the same regions or adjacent regions. We believe that our strong and established working relationships with leading global automakers and their PRC joint venture corporations will also enable us to acquire additional 4S dealership licenses to further expand our distribution network of 4S dealerships in the PRC.

##### *Acquisitions*

We expect the increasingly competitive nature of the PRC automobile dealership industry and automakers' tendency to consolidate the PRC automobile dealership industry by entering new dealership arrangements only with their top performing dealers to present acquisition opportunities for our Group. We believe we are well-positioned to take advantage of such opportunities to further expand our business and consolidate our market leadership position.



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We continue to look for and hold constant dialogue with potential acquisition targets that are strategically important to our automobile brand and geographical coverage. While our Board and senior management team will set the overall strategy, our business development team will conduct market research and due diligence on the identified targets. Other departments serve as an integral team to provide support both during the pre-acquisition phase such as conducting financial and legal due diligence, and during post-acquisition integration such as appointing management team to each newly-acquired 4S dealership to share best practice, conduct on-site training, and improve operational efficiency. We intend to utilize our wide network of 4S dealerships, automakers' support and significant operational expertise to quickly integrate and achieve significant improvements in the acquired 4S dealerships.

### **Further increasing productivity and profitability as well as promoting customer service quality of each of our 4S dealerships**

Even though our 4S dealerships have outstanding business performance during the Track Record Period, we still aim to further increase productivity and profitability of each of our 4S dealerships, and to further promote service quality of each of our 4S dealerships. We believe by better utilizing our group resources and more efficient management, there is still growth potential for even the most profitable 4S dealership in our network.

#### *Measures taken at the Group level*

At the Group level, we will continue to utilize our economies of scale as a group, to formulate overall growth strategy and detailed execution plan and organize implementation in each store, to allocate our Group's resources efficiently, and to promote healthy competition and successful experience sharing among our 4S dealerships. These measures are aimed to promote profitability of individual 4S dealership through collective strength of our Group. For example, we will continue utilizing our aggregate ordering and procuring power to obtain better commercial terms from the suppliers of spare parts, automobile accessories and other automobile-related products. Please refer to the section entitled "Our Business — Our Competitive Strengths — Our large scale of operations allow us to achieve economies of scale". Through our Group's general budget plan and resources allocation, we are able to adjust the automobile quotas to our 4S dealerships to some extent to achieve a better mix of automobile and automobile-related inventory for our 4S dealerships. In addition, through internal auditing and incentive scheme mechanism at the Group level, we can increase our management efficiency and strengthen our Group's management of 4S dealerships.

#### *Measures taken at 4S dealerships level*

At the 4S dealerships level, we will continue improving key performance indicators ("KPI") for our 4S dealerships. Through tracking and reviewing the KPI, we can promote management efficiency and customers satisfaction, thus improve the profitability of each 4S dealership. For example, general managers at 4S dealership level will closely monitor market trend and sales performance of each type of automobiles for sale, and make corresponding adjustments to the types of automobiles to procure and types of services to provide. In addition, based on the customers requirements for different services and taking into account the level of profitability of different services, our 4S dealership will undertake decoration, renovation, and upgrades of the physical site. Some of our 4S dealerships have modified the

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interior design of exhibition rooms, including, for example, opening a designated area of retailing automobile accessories to promote the sales of types of automobile accessories which are popular among customers and with higher profitability.

We will also continue improving and implementing policy to rotate our 4S store managers among different 4S dealerships, to ensure successful experience sharing and enhance service quality. This policy is part of an effort to accelerate the growth of our newly built 4S dealerships, and to help them quickly reach the same level of operation efficiency and profitability as our well-established 4S dealerships. Our newly acquired 4S dealerships will receive the same support to improve performance in a short period of time. We will also reinforce training program for ground sales personnel, client service staff, and after-sales services engineers and technicians to promote the quality and efficiency of service provided and to enhance our customers' satisfaction.

In addition, we will continue adopting new measures to expand our high value-added automobile-related business to promote the profitability of our 4S dealerships. While our new automobile sales, repair and maintenance services are steadily growing, we will expand the scope of our automobile decoration and accessories businesses to explore the potential value in automobile-related business chain. We will also expand other revenue streams by facilitating automobile insurance, automobile finance related and automobile licensing services.

All the measures we have taken at 4S dealerships level aim to increase our sales, promote our customers satisfaction and increase the efficiency of services provided, which we believe will help us attract more customers and reduce costs at our existing 4S dealerships, thus further enhance each of our 4S dealership's revenue and profitability.

### **Utilizing our existing resources and customer base in new automobile sales to promote our after-sales businesses, including retailing spare parts, providing repair, maintenance and detailing services, and retailing automobile accessories**

Our customer-focused philosophy has historically resulted in high customer satisfaction with our new automobile sales, which we believe will drive more sales and increased patronage of our after-sales businesses. Our after-sales businesses offer our customers a wide range of automobile-related products and services at several locations across the PRC, including spare parts, automobile accessories and other automobile-related products and repair, maintenance, detailing and other automobile-related services through our extensive network of 4S dealerships and our "one-stop automobile shop" business model.

We intend to expand our business operations by utilizing our existing resources and customer base to continue to strengthen our after-sales businesses. According to the ACMR, China's automobile market is dominated by first-time buyers, evidencing rapid growth in the number of new automobile consumers. We expect that this increase in new automobile consumers in the PRC will lead to greater demand for our after-sales businesses.

We believe that through the expansion of the after-sales businesses at our existing 4S dealerships, we will increase the overall profitability of each 4S dealership, as our after-sales businesses yield higher profit margins when compared to our new automobile sales business. Our after-sales businesses are a stable source of revenue for our 4S dealerships.

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### *Repair, maintenance and detailing services*

We intend to expand our repair, maintenance and detailing services through our existing 4S dealerships and by developing alternative service platforms such as quick service shops.

- Existing 4S dealerships

We intend to increase the efficiency of our repair, maintenance and detailing businesses at our existing 4S dealerships. To this end, we aim to increase the number of customers in these businesses so that our repair, maintenance and detailing businesses can operate closer to full capacity. We plan to retain existing customers and attract new customers and retain existing or acquired customers through effective marketing and promotional activities tailored to our repair, maintenance and detailing businesses. Additionally, we will continuously train our technical personnel and review and reconfigure our service operations and processes to improve the quality and efficiency of the services we provide.

- Quick service shops

We plan to enhance our market position in automobile after-sales services market and to expand our existing services network through establishing quick service shops in the vicinity of each of our 4S dealerships to provide fast and efficient repair, maintenance and detailing service, in addition to the repair, maintenance and detailing services which we already provide at each of our 4S dealerships. Our quick service shops will provide fast and efficient repair, maintenance and detailing services as an extension to our existing 4S dealership network, and to complement the more complicated repair, maintenance and detailing services provided at our 4S dealerships.

We believe that we will be able to leverage our in-depth business and operational know-how and our strong brand image and reputation to quickly build a comprehensive network of quick service shops. We will seek to ensure effective expertise transfer by bringing experienced general managers and automotive engineers and technicians from our 4S dealerships to supervise the operations of our quick service shops.

### *Automobile accessories*

We have accumulated significant experience in the retailing automobile accessories business through our operational expertise, highly-trained service teams and extensive market knowledge. The automobile accessories we retail can be broadly categorized into automobile electronics (including GPS systems, audio and video equipment), automobile styling products (including decals, seat covers and floor mats) and automobile care products (including care products for engine, handling and braking products, tires, waxes and polishes). We believe that the increasing demand for automobile styling and automobile care products, together with our large customer base derived from our new automobile sales business, provide significant growth potential for our automobile accessories business.

Currently, most of our automobile accessories are obtained from independent suppliers. We intend to maintain and strengthen our relationships with these suppliers to ensure that we retail a wide range of high-quality automobile accessories, the latest and most advanced products at attractive prices. We also aim to become the sole distributor of certain automobile accessories.

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We intend to continue to offer and expand the range of our own line of high-quality automobile accessories, drawing from our extensive experience and in-depth knowledge of the PRC automobile market.

- Existing 4S dealerships

An automobile accessories division has been established in each of our 4S dealerships, comprising dedicated sales personnel and automotive engineers and technicians. Our automobile accessories will be displayed both in dedicated showrooms in the 4S dealerships, as well as within the new automobiles exhibited in our 4S dealerships.

- Automobile accessories exhibition centers

In addition to expanding our automobile accessories business through our existing 4S dealerships, we also intend to build automobile accessories exhibition centers to increase our sales of automobile accessories and market exposure. We have constructed our first automobile accessories exhibition center in Kunming City (“**Kunming Exhibition Center**”), strategically located in an area with high concentration of 4S dealerships.

We believe that our automobile accessories business will strongly benefit from our reputation for quality customer service and automotive technical excellence, and that we will be able to leverage on our large customer base, deep bench of high-caliber personnel, extensive distribution network, and in-depth knowledge and understanding of the PRC automobile market to expand our automobile accessories business quickly.

### **Expanding our business operations by developing used automobile sales business to complement our existing businesses**

We believe that the current PRC used automobile market will mature and expand in line with the large increase in automobile purchases in China. According to ACMR, between 2003 and 2008, the used passenger car market in the PRC recorded a CAGR of approximately 34.8% in terms of sales value, and is expected to further grow at a CAGR of approximately 14.1% from 2009 to 2012. We believe that we will be able to secure supplies of used automobiles from our large existing customer base, and that we will be able to grow our used automobile sales business rapidly with our extensive 4S dealership network, strong reputation, deep bench of experienced and highly-skilled automotive engineers and technicians, and in-depth knowledge and understanding of the PRC automobile market.

In order to address the common concerns of PRC consumers in relation to used automobiles, we intend to adopt a number of strategies, including applying strict procurement standards, leveraging our reputation for quality customer service and automotive technical excellence in relation to the restoration and/or repair work carried out on our used automobiles, and partnering with the automakers to provide official certification and manufacturer warranties for our used automobiles. We also plan to source our used automobiles primarily and directly from private sellers. These include individuals seeking to trade in their existing automobiles for new automobiles. We believe that we can capture market share quickly through our existing dealership network.

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### Enlarging our employee talent pool to support our continued growth

Our employees are critical to our success. We have invested, and intend to continue to invest substantially in our employees in order to recruit, integrate and retain the best personnel for our business. We have a systematic approach to recruit talents to suit our business development needs. For example, we have formed and will maintain and enhance our strategic relationship with local education institutes to ensure our continued access to highly-skilled automotive engineers and technicians. We will also continue to regularly review and improve our training programs for multiple levels of our employees, from senior management team to our trainee managers and newly recruited sales and service personnel, to improve our employees' productivity and service quality. Furthermore, we have established and will continue to promote our KPI-driven corporate culture with a clear career and promotion system to motivate our employees. Our employees are provided with rotation opportunities both cross-stores and cross-functions to develop their skills and their own career path with us.

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### Our 4S Dealership Network

We are a leading national automobile dealership group in the PRC. We have a strong presence of 4S dealerships in cities with relatively affluent populations in the northeastern, eastern and southern coastal regions of China, as well as selected inland areas.

The following table sets out certain information with respect to our 4S dealership network as at the date indicated:

	December 31,				
	2005	2006	2007	2008	2009
Number of 4S dealerships <sup>(1)</sup> . . . . .	15	21	27	30	47

#### *Liaoning Province*

We are the largest automobile dealership in Dalian City. Dalian City is a major Chinese port, and a transportation hub for northeastern China and has the highest average per capita income in Liaoning Province. As of 31 December 2009, we operated 14 4S dealerships in Dalian City, offering a variety of automobile brands, including Mercedes-Benz, Lexus, Audi, Toyota, DF-Nissan and DF-Honda. We enjoy majority market share in Lexus, Audi and Toyota in Dalian City, and are the only authorized dealers in Dalian City for Lexus and Audi.

Our Lexus 4S dealership in Dalian City was awarded the distinguished dealership by Lexus in terms of sales, after-sales services, customer satisfaction and overall performance from 2007 to 2009. Our Dalian City operations also include Toyota's top-ranking PRC dealership, measured by national customer and service satisfaction indices.

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#### *Note:*

(1) The number of 4S dealerships operated by us in the table includes one 4S dealership, Xiamen Zhongsheng Toyota Automobile Sales and Services Co., Ltd, which is jointly controlled by us.

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Apart from Dalian City, our dealership network also covers other major cities in Liaoning Province. We operated one 4S dealership in Shenyang City, the provincial capital of Liaoning Province, and one 4S dealership in Yingkou City as of 31 December 2009.

### *Shandong Province*

We operated a total of eight 4S dealerships in Qingdao City and Yantai City as of 31 December 2009. We operate Audi, Toyota, Nissan and GM 4S dealerships in Shandong Province, which is located on China's affluent and developed east coast.

### *Yunnan Province*

We are the largest dealership group offering Toyota and the only dealership group offering Lexus in Yunnan Province. We also operate Honda and Nissan 4S dealerships in Yunnan Province. Yunnan Province, despite lower average per capita incomes than the fast-growing northeastern, eastern and southern coastal regions of China, has an extensive and well-established road network and high reliance on automobile transportation. As of 31 December 2009, we operated six 4S dealerships in Yunnan Province.

### *Fujian Province*

We also have an established market position in Fujian Province, a southern coastal province and one of the most affluent provinces in China. Fujian Province has both a developed and increasingly wealthy automobile consumer market and extensive existing road infrastructure. As of 31 December 2009, we operated a total of three 4S dealerships in two of most affluent cities of Fujian Province, Xiamen City and Fuzhou City.

### *Guangdong Province*

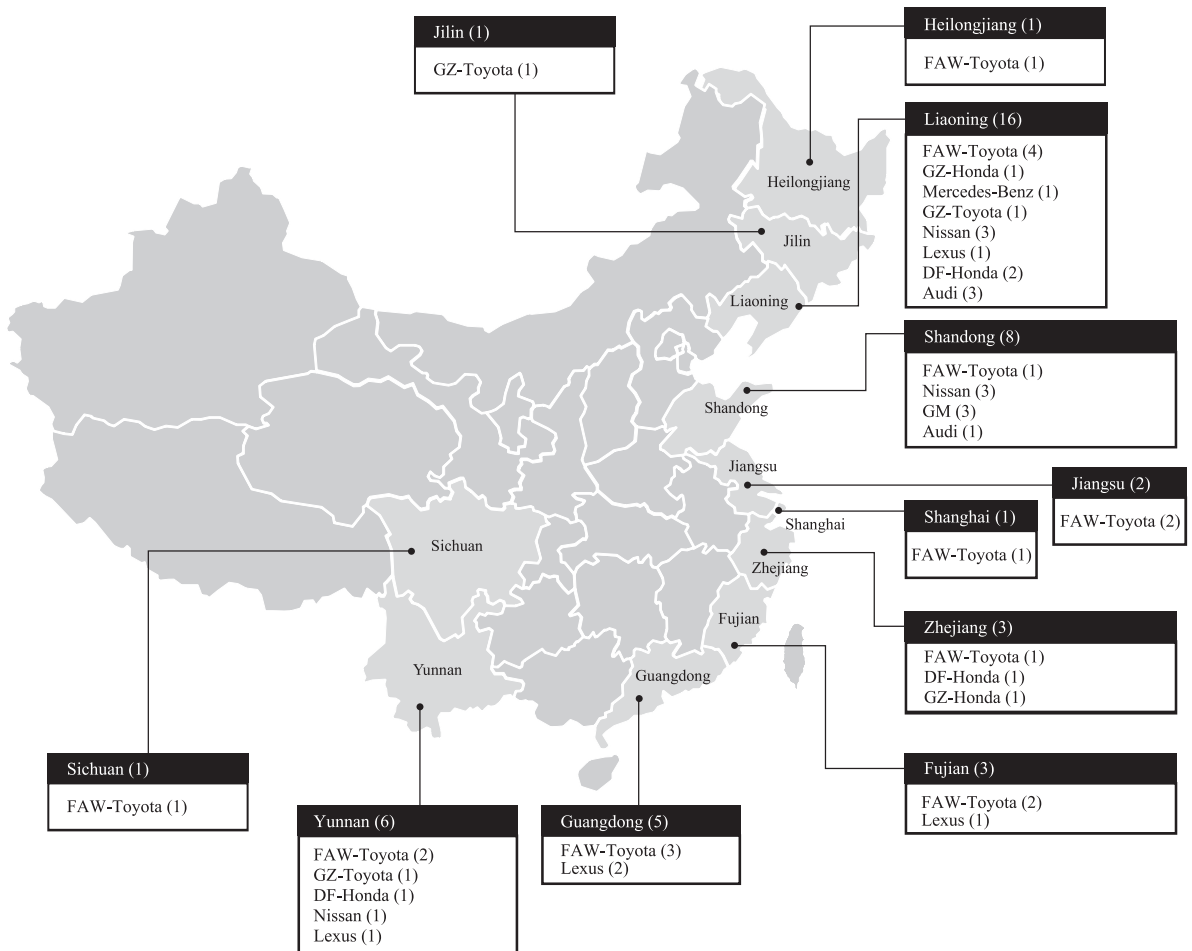
We operated a total of five 4S dealerships in Dongguan City, Shenzhen City and the provincial capital, Guangzhou City in Guangdong Province as of 31 December 2009. We operate Lexus and Toyota 4S dealerships in Guangdong Province.

### *Other strategic markets*

We have also established 4S dealerships in other strategic markets which have large, affluent consumer bases and/or well-established road networks. These include: one 4S dealership located in Shanghai, three 4S dealerships in Zhuji City and Shaoxing City, Zhejiang Province; two 4S dealerships in Nanjing City, Jiangsu Province; one 4S dealership in Chengdu City, Sichuan Province; one 4S dealerships in Changchun City, Jilin Province; and one 4S dealership in Harbin City, Heilongjiang Province as of 31 December 2009.

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The following map illustrates the geographic coverage of our 4S dealership network as of 31 December 2009.



*Notes:*

- (1) Number in parenthesis indicates number of 4S dealerships.
- (2) Our Toyota 4S dealership in Xiamen City is jointly controlled by our Group.

As of 31 December 2009, our 4S dealership network included 47 4S dealerships in operation across 11 provinces and municipalities and 20 cities in China.

In term of geographical coverage, our 4S dealership network are located in the northeastern coastal region, including Liaoning Province, Jilin Province and Heilongjiang Province, the eastern coastal region, including Shandong Province, Jiangsu Province, Zhejiang Province, and Shanghai Municipality, the southern coastal region, including Fujian Province and Guangdong Province, and selected inland areas, including Yunnan Province and Sichuan Province.

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For luxury brands, we had a total of one Mercedes-Benz dealership, one Lexus dealership and three Audi dealerships; for mid-to-high end brands, we had a total of seven Toyota dealerships, three Nissan dealerships and three Honda dealerships in the northeastern coastal region as of 31 December 2009. Lexus and Toyota are the two brands which we derived most of our revenue and profits for luxury brand sales and mid-to-high end brand sales respectively in the northeastern coastal region during the Track Record Period.

For luxury brand, we had a total of one Audi dealership; for mid-to-high end brands, we had a total of five Toyota dealerships, three Nissan dealerships, two Honda dealerships and three GM dealerships in the eastern coastal region as of 31 December 2009. Audi and Toyota are the two brands which we derived most of our revenue and profits for luxury brand sales and mid-to-high end brand sales respectively in the eastern coastal region during the Track Record Period.

For luxury brand, we had a total of three Lexus dealerships; for mid-to-high end brand, we had a total of five Toyota dealerships in the southern coastal region as of 31 December 2009. Lexus and Toyota are the two brands which we derived most of our revenue and profits for luxury brand sales and mid-to-high end brand sales respectively in the southern coastal region during the Track Record Period.

For luxury brand, we also had a total of one Lexus dealership; for mid-to-high end brands, we had a total of four Toyota dealerships, one Nissan dealership and one Honda dealership in selected inland areas as of 31 December 2009. Lexus and Toyota are the two brands which we derived most of our revenue and profits for luxury brand sales and mid-to-high end brand sales respectively in selected inland areas during the Track Record Period.



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The following table sets forth the percentages of revenue and gross profit attributed to each of the regions for the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, respectively.

	Year ended 31 December			Nine months ended
	2006	2007	2008	30 September 2009
<b>Revenue (%)</b>				
Northeastern coastal region . . . . .	70	53	45	43
Eastern coastal region . . . . .	10	8	10	17
Southern coastal region . . . . .	7	18	21	18
Selected inland areas . . . . .	13	21	24	22
Total . . . . .	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>Gross profit (%)</b>				
Northeastern coastal region . . . . .	68	58	48	43
Eastern coastal region . . . . .	7	5	6	13
Southern coastal region . . . . .	8	14	19	20
Selected inland areas . . . . .	17	23	27	24
Total . . . . .	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Our headquarters is located in Dalian City and we are the largest automobile dealership group in Dalian City. 18 of our 47 dealerships are located in the northeastern coastal region. Therefore, the revenue contributed by the northeastern coastal region generated a substantial portion of our revenue, accounting for approximately 70%, 53%, 45% and 43% of our revenue for the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, respectively. The decrease in the proportion of our revenue from the northeastern coastal region was primarily due to the continuing increase in the proportion of revenue from the southern coastal and the selected inland areas as a result of our strategy to expand our 4S dealership network in these regions during the Track Record Period. Our Group's operations have grown rapidly from 15 4S dealerships at the beginning of 2006 to 47 4S dealerships as at the end of 2009. The proportion of revenue contributed by the southern coastal region and the selected inland areas increased continuously in the three years ended 31 December 2006, 2007 and 2008. As we opened seven new 4S dealerships in Shangdong province in early 2009, the proportion of revenue contributed by the eastern coastal region increased from approximately 10% in 2008 to 17% for the nine months ended 30 September 2009, which in turn, resulted in the decrease in the proportion of revenue contributed by other regions.

Similarly, while the northeastern coastal region contributed a substantial portion of our total gross profit, the proportion of gross profit contributed by the northeastern coastal region decreased during the Track Record Period as a result of the continuing increase in the proportion of gross profit contributed by the other regions due to our business network expansion. The proportion of gross profit contributed

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from the southern coastal region and the selected inland areas increased continuously in the three years ended 31 December 2006, 2007 and 2008. The proportion of gross profit contributed by the eastern coastal region increased significantly from 6% for the year ended 31 December 2008 to 13% for the nine months ended 30 September 2009, primarily attributable to the seven newly opened 4S dealerships in Shandong province. The proportion of gross profit contributed by the southern coastal region, where three of our five Lexus dealerships of luxury brand are located, continued its increasing trend in the nine months ended 30 September 2009 due to our business expansion in this region and the fact that dealerships of luxury brand generally have higher gross profit margins compared with mid-to-high brand dealerships. The increase in the proportion of gross profit contributed by the eastern coastal region and the southern coastal region in turn resulted in the decrease in the proportion of gross profit contributed by other regions for the nine months ended 30 September 2009.

### **Our 4S Dealerships**

A 4S dealership refers to a dealership authorized to sell the products of a single automobile brand. 4S dealerships integrate four standard automobile-related businesses: sales, spare parts, service and survey. In China, the majority of automobiles are retailed through 4S dealerships.

The operations of each of our 4S dealerships are governed by a dealership agreement with the relevant automaker. Each of our 4S dealerships is operated by a member or members of our Group, with each 4S dealership selling only one brand of automobile and typically only permitted to operate at a single point of sale. These agreements are non-exclusive, must generally be renewed periodically and typically have a term of one year. The automakers have the right to terminate our dealership agreements with prior written notice for a variety of reasons, including failure to rectify performance deficiencies and unapproved changes in ownership or management structure that affect our ability to meet our contractual obligations. As at the Latest Practicable Date, all of our dealership agreements had been renewed or are in the process of being renewed with the relevant automakers. During the Track Record Period, none of our dealership agreements was terminated by the automakers, nor did any automaker refuse to renew dealership agreements governing our 4S dealerships.

The time required for our newly established or acquired 4S dealerships to reach a steady level of revenue and profit comparable with those of our existing dealership network depends on many factors, including but not limited to, the popularity of brand it offers among the local customers, the level of competitiveness in the local market, the affluence level in the region, and the experience of management team of the dealership. In general, such required time span ranges from two to three years.

### **Salient terms of our automobile dealership agreements**

The following terms are typical in most of our existing dealership agreements. These terms set out our general rights and obligations under the dealership arrangements.

- We are generally required to meet the layout and design standards required by each automaker, and we agree to permit the relevant automaker to conduct on-site performance assessments periodically.
- We are generally required to follow annual sales plans that are set by the automakers, however, our dealership agreements typically do not provide any minimum purchase or sales requirements.

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- We are typically entitled to use the trade names, trademarks and other branding matters in a manner consistent with the standards set by the relevant automaker to promote the brand awareness of automobiles we sell through our 4S dealerships.
- The automakers may specify the geographical limitation within which our 4S dealership must operate, as well as recommend price guidelines for new automobiles. Our dealership agreements typically allow the relevant automakers to adjust the geographical limitation within which a particular 4S dealership may operate. We also have flexibility in adjusting the selling price notwithstanding the price guidelines from the automakers.
- We are generally prohibited from knowingly selling automobiles to any customers whose intention is to resell or export automobiles outside the PRC.
- We are prohibited from retailing more than one brand of new automobile in any of our 4S dealerships. We are not required to register our dealership agreements with any relevant authorities.
- We take ownership of the automobiles from the automakers upon delivery of the automobiles.
- The automakers usually engage logistic companies to deliver automobiles to designated locations. The automakers usually bear all the transportation costs and insurance fees incurred during such process.
- Dealership agreements usually specify the business model of a particular 4S dealership. The business model of each of our 4S dealership is to provide one-stop services for a particular brand of automobile by combining the sales of new automobiles, sales of spare parts and after-sale services with an aim to provide efficient and standardized service to the end customers.
- The automakers have rights to conduct inspection of and site-visits to our 4S dealerships to appraise the performance of our 4S dealerships and their compliance with the dealership agreements, and provide various advices to our 4S dealerships. The automakers conduct such inspections and site-visits on irregular basis and may take the review results into account when considering the renewal of the dealership agreements with us.
- Dealership agreements usually have a term of one year. The automakers have the right to terminate our dealership agreements with prior written notice for a variety of reasons, including failure to rectify performance deficiencies and changes in ownership or management structure that affect our ability to meet our contractual obligations without their prior consent. One of our dealership agreements for Mercedes-Benz provided a term from 13 July 2009 to 31 December 2012, and can be extended for another two years unless each party can terminate with six month's written notice.

Our dealership arrangements governing our Toyota and Lexus 4S dealerships are all entered into with members or affiliates of the same corporate group, Toyota Motor Corporation. Our dealership arrangements for Mercedes-Benz, Audi, Nissan, Honda and GM are generally entered into with

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Mercedes-Benz division of Daimler AG, Audi AG, Nissan Motor Co., Ltd, Honda Motor Co., Ltd, General Motor Corporation, or their respective joint-ventures in the PRC, or members or affiliates of the same corporate group.

In addition, our 4S dealerships are also required to satisfy certain procedural requirements and obtain certain permits, licenses and approvals from relevant PRC Government authorities. Depending on the location of each 4S dealership, these could include archival filing with MOFCOM for new automobile sales, archival filing with SAIC for new automobile sales, project initiation approvals from the Ministry of Transport, road transport licenses from the relevant provincial counterpart of the Ministry of Transport for repair and maintenance, environment certificates or licenses for concurrent insurance agency. All of the permits, licenses and approvals required by our Group are subject to different renewal and validity conditions depending on the location of particular 4S dealerships and the businesses engaged in by that 4S dealership.

### Our “One-stop Automobile Shop”

Through our “one-stop automobile shop” business model, we offer our customers new automobiles and after-sales services. Our new automobile sales business retails luxury and mid-to-high end brands automobiles. Our after-sales businesses offer spare parts, provide repair, maintenance and detailing services, and retail automobile accessories.

The table below provides revenue information for each of our new automobile sales business and our after-sales businesses for the periods indicated.

	Year ended 31 December						Nine months ended	
	2006		2007		2008		30 September 2009	
	Amount (RMB'000)	%	Amount (RMB'000)	%	Amount (RMB'000)	%	Amount (RMB'000)	%
Revenue from:								
— New automobile sales								
business . . . . .	6,209,270	95.9	8,616,223	94.7	9,695,464	91.9	8,329,265	90.4
— After-sales businesses	262,773	4.1	486,911	5.3	853,113	8.1	883,359	9.6
	<u>6,472,043</u>	<u>100.0</u>	<u>9,103,134</u>	<u>100.0</u>	<u>10,548,577</u>	<u>100.0</u>	<u>9,212,624</u>	<u>100.0</u>

### New automobile sales

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands such as Mercedes-Benz, Lexus and Audi and mid-to-high end automobile brands such as Toyota, Nissan, Honda and GM. The automobiles we retail through our 4S dealerships include both imported automobiles and automobiles produced domestically by the automakers and/or their PRC joint venture corporations. For the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, revenue from Toyota brand automobiles accounted for approximately 44.3%, 47.1%, 53.0% and 51.2% of our revenue from new automobile sales, respectively, while revenue from Lexus brand automobiles accounted for approximately 30.5%, 34.1%, 24.7% and 16.7% of our revenue from new automobile sales for the same periods, respectively. The selling prices of domestically manufactured models are generally lower than those of imported models. While different models may vary in their profit margins, risk profiles and other aspects, such differences are not attributed to whether the vehicles are domestically or overseas produced.

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The tables below provide certain information about the luxury and mid-to-high end automobile brands that we had 4S dealership arrangements for, as of 31 December 2009.

### *Our Automobile brands*

We had dealership arrangements with nine automakers as of 31 December 2009:

- |               |   |   |
|---------------|---|---|
| Mercedes-Benz | — | We operated one 4S dealerships retailing Mercedes-Benz automobiles. Mercedes-Benz supplies us with a range of models including their C-class, E-class, S-class and other series of product offering.  |
| Lexus         | — | We operated five 4S dealerships retailing Lexus automobiles. Lexus supplies us with more than ten models including the ES350 which was our best selling Lexus model by volume for the year ended 31 December 2008.  |
| Audi          | — | We operated four Audi 4S dealerships. Audi supplies us with a range of different models, among which the A4 and A6 were among the highest rating models in terms of overall quality according to a PRC market survey conducted by JD Power in 2008. A6 was also among our most successful luxury models by revenue for the year ended 31 December 2008.                                   |
| FAW-Toyota    | — | FAW-Toyota supplies us with some of our most successful models in terms of sales volume, including Corolla, Reiz and Crown. We operated 18 4S dealerships which retail FAW-Toyota automobiles.  |
| GZ-Toyota     | — | We operated three GZ-Toyota 4S dealerships. GZ Toyota supplies us with Camry, Highlander and Yaris models. The Toyota Camry was one of our best selling models by sales volume in 2008.   |
| Nissan        | — | We operated seven 4S dealerships retailing Nissan automobiles. Nissan supplies us with a range of models including Teana which was given the highest rating in terms of overall quality in a PRC market survey conducted by JD Power in 2008.   |
| DF-Honda      | — | We operated four DF-Honda 4S dealerships. DF-Honda supplies us with CR-V and Civic models. Civic, which was the only model that we sell through our DF-Honda 4S dealerships to be assessed, was ranked better than most in terms of overall quality in a PRC market survey conducted by JD Power in 2008. Our sales of Civic and CR-V both increased significantly between 2006 and 2008. |
| GZ-Honda      | — | We operated two 4S dealerships retailing GZ-Honda automobiles. GZ-Honda supplies us with a range of models including Odyssey which was given the highest rating in terms of overall quality in a PRC market survey conducted by JD Power in 2008.   |

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- GM — We operated three 4S dealerships retailing GM automobiles. GM supplies us with a range of models including Excelle, La Crosse and GL8 under “Buick” series of product offering and Epica, Lova and Cruze under “Chevrolet” series of product offering.

### *Luxury brands*

<u>Automaker</u>	<u>Models offered include</u>	<u>Number of 4S dealerships in operation as of 31 December 2009</u>	<u>Location and number of 4S dealerships per location as of 31 December 2009<sup>(1)</sup></u>
Mercedes-Benz	B-class, C-class, E-class, S-class, CLK and SLK series, Viano, Vito	1	Liaoning (1)
Lexus	ES350, IS300, GS300, LS460, RX350, GS430, SC430, LS600, RX400, LX470, LS430, RX300	5	Liaoning (1), Yunnan (1), Guangdong (2), Fujian (1)
Audi	A4, A6, A8, Q7, TT, R8, S8, Q5	4	Liaoning (3), Shandong (1)

### *Mid-to-high end automobile brands*

<u>Automaker</u>	<u>Models offered include</u>	<u>Number of 4S dealerships in operation as of 31 December 2009</u>	<u>Location and number of 4S dealerships per location as of 31 December 2009<sup>(1)</sup></u>
FAW-Toyota	Vios, Corolla, Reiz, Crown, Prius, RAV4, Prado, Land Cruiser, Vito	18	Liaoning (4), Yunnan (2), Guangdong (3), Fujian (2), Jiangsu (2), Sichuan (1), Shanghai (1), Heilongjiang (1), Shandong (1), Zhejiang (1)
GZ-Toyota	Camry, Highlander, Yaris, FJ Cruiser	3	Liaoning (1), Yunnan (1), Changchun (1)

*Note:*

(1) The number in the parenthesis refers to the number of 4S dealerships in the relevant region.

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Automaker	Models offered include	Number of 4S dealerships in operation as of 31 December 2009	Location and number of 4S dealerships per location as of 31 December 2009 <sup>(1)</sup>
Nissan	Geniss, Bluebird, Paladin, Pickup, Tiida, Teana, Sunny, Sylphy, Livina, Fuga, Quest, X-Trail	7	Liaoning (3), Yunnan (1), Shandong (3)
DF-Honda	CR-V, Civic, Spirior	4	Liaoning (2), Yunnan (1), Zhejiang (1)
GZ-Honda	Fit, Accord, Odyssey, City	2	Liaoning (1), Zhejiang (1)
GM	Excelle, La Crosse, Regal, Park Avenue, GL8 of “Buick” series and Cruze, Lova, Captiva and Epica of “Chevrolet” series, Enclave	3	Shandong (3)

Our automobile brands have experienced sustained sales growth in the PRC. According to a PRC market survey performed by JD Power<sup>(1)</sup> in 2009, Mercedes-Benz, Lexus, Audi, Toyota, Nissan and Honda are the most highly-rated automobile brands in terms of overall service satisfaction based on service initiation, service advisor, service facility, automobile pickup and service quality. According to ACMR, between 2003 and 2008, our luxury automobile brands, Mercedes-Benz, Lexus and Audi, recorded a CAGR for their total sales in the Chinese market of approximately 34.7%, 63.4% and 12.1%, respectively and our mid-to-high end automobile brands, Toyota, Nissan and Honda recorded a CAGR for their total sales in the Chinese market of approximately 62.5%, 30.9% and 23.9%, respectively. However, the global financial crisis which commenced in 2008 caused substantial volatility in the capital markets and a downturn in the global and PRC automobile industries. Any tightening of credit conditions in the future may lead to the downturn in sales of the automobiles, including our new automobiles sales business.

In addition to our diverse portfolio of mid-to-high end and luxury automobile brands, we also retail a small number of new commercial vehicles and other automobiles manufactured by certain of the automakers and supplied to us under our 4S dealerships arrangements with them.

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*Note:*

- (1) JD Power was not commissioned by our Company or the Joint Sponsors. JD Power is a global marketing information services firm founded in 1968, which conducts surveys of customer satisfaction, product quality and buyer behaviour for industries, and is an Independent Third Party. All information from JD Power set out in the prospectus is public information. The All Power Circle Ratings generated by JD Power were based on the opinions of a sample of consumers who have used or owned the product or service being rated.

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### **After-sales businesses**

Our after-sales businesses provide a wide range of services and products to our customers including repair, maintenance, detailing services and automobile accessories. After-sales businesses set high service standards, and focus on providing quality customer-oriented services to satisfy our customers' needs. Services under warranties are included in the after-sales businesses. The target markets for our after-sales businesses are large and growing strongly, driven by our rapidly expanding customer base as the number of automobile owners continues to increase. In addition, the profit margins for our after-sales businesses are generally significantly higher than the profit margin for our new automobile sales business. As a result, a relatively mature 4S dealership, in term of operating history, is expected to have a large portion of profits derived from after-sales businesses.

As a result of its recurrent business nature, the revenue and income from after-sales businesses are more steady compared with those derived from the new automobile sales. In addition, after-sales businesses require relatively less working capital to operate. Such inventories can be procured on credit terms that vary from product to product.

The primary customers for our after-sales businesses are those who purchase new automobiles from our 4S dealerships. The after-sales businesses may also bring new automobile sales business. A 4S dealership with quality after-sales service and high customer satisfaction will not only retain existing customers, but also attract more new customers for new automobile sales and after-sale businesses. We have and will continue to adopt various marketing campaigns, including without limitation, one-on-one client surveys, major client visits, automobile club activities and client referral programs, to identify and procure potential customers of after-sales businesses.

The following is a detailed description of the types of after-sales businesses we operate during the Track Record Period.

#### *Repair, maintenance and detailing services*

We strive to provide quality repair, maintenance and detailing services to our customers. As a result of our customer-focused philosophy, several of our 4S dealerships operating Toyota, Lexus and Nissan brands achieved high ranking in terms of customer satisfaction indices among 4S dealerships in their respective cities in 2008. Our Group was also rated by the China Automobile Dealers Association in 2008 as one of the ten most influential automobile dealership groups in the industry for the 30 years since China's adoption of reform and opening-up policy. In addition, our individual 4S dealerships received various kinds of awards in recognition of their outstanding customer service. Recent awards we received in 2008 include:

- National Outstanding Sales Counseling Award for one of our Lexus dealerships in Guangzhou awarded by Lexus.
- Best After-sales Service Coordination Award for one of our FAW-Toyota dealerships in Dalian awarded by FAW-Toyota.
- FTMS After-sales Service TL Model Shop Award and Encouraging Quality Improvements Award for two of our FAW-Toyota dealerships in Fujian awarded by FAW-Toyota.



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We provide repair and maintenance services under warranties and we are subject to the terms of sale to our customers, who purchase new automobiles through our 4S dealerships. The automakers set the price we charge our customers for providing repair and maintenance services under warranties. We derive gross profit from the difference between the fee charged and the cost of providing such services.

We also provide repair, maintenance and detailing services to the general public. We use spare parts, accessories and tools primarily produced by the relevant automakers and/or other independent suppliers. In order to cope with greater demand for our repair, maintenance and detailing services and to expand our service and market coverage, we are in the process of establishing and intend to continue to establish quick service shops in the vicinity of each of our 4S dealerships to provide fast and efficient repair, maintenance and detailing services to our customers as an extension to our existing 4S dealership network, and to complement the repair, maintenance and detailing services provided at our 4S dealerships. We endeavor to ensure effective expertise transfer by bringing experienced general managers and automotive engineers from our 4S dealerships to our quick service shops to supervise the operations of our quick service shops, and we intend to leverage on our strong reputation for customer service and automotive technical excellence, to build a comprehensive network of quick service shops rapidly.

On 9 June 2009, Zhongsheng Holdings and Japan Tacti entered into an agreement to establish a joint venture company, Zhongsheng Tacti, to conduct quick automobile repair services in China. Pursuant to the terms of the joint venture agreement, each of Zhongsheng Holdings and Japan Tacti holds a 50% interest in Zhongsheng Tacti. Our cooperation with Japan Tacti is strategic in nature. Japan Tacti has a proven track record in operating quick automobile repair services in Japan and it offers high end brands of automobile accessories. We intend to capitalize on the experience of Japan Tacti in quick automobile repair services by establishing Zhongsheng Tacti as our model quick service shop. We plan to establish more quick service shops to be wholly owned by our Group in the future based on our successful experience in Zhongsheng Tacti. We will also cooperate with Japan Tacti by introducing its high end brands of automobile accessories to enrich the ranges of automobile accessories we sell and enhance our automobile accessories sales performance in the future.

We plan to expand our existing services network through establishing quick service shops in the vicinity of our 4S dealerships, especially those dealerships that are already operating at their full capacity in terms of after-sales service in order to provide fast and efficient repair, maintenance and detailing services. With the establishment of quick service shops, going forward, our 4S dealerships will focus on the more complicated repair and whole vehicle maintenance services and will direct the simpler and regular repair, maintenance and detailing services to the quick service shops.

We envisage that the location of our quick service shops will be less premier when compared with our 4S dealerships and that they will require fewer skilled technicians and equipment and could thus lower the operating cost and offer services to our customers at lower prices. We believe this would attract a new group of customers who are more sensitive to price level than the existing customers of our 4S dealerships. Moreover, while our 4S dealerships only offer repair, maintenance and detailing services to automobiles of a specific brand, our quick service shops are not subject to such limitation and we believe this would also broaden our customer base.

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We plan to apply 4% (or approximately HK\$102 million, HK\$120 million and HK\$138 million, based on the lower end, mid-point and higher end of the estimated Offer Price range) of the net proceeds from the Global Offering for the establishment of additional quick service shops in the future. Please also refer to the section entitled “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

### *Services under warranty*

The product warranty period for new automobiles typically lasts between 24 to 48 months, beginning on the date the automobile is delivered to the customer. In relation to components such as the battery and expendable parts including oil, fuel and air-conditioner filters, brake pads and spark plugs, the warranty period is typically six to 12 months generally, the product warranty is only valid within the PRC. As at 31 December 2009, there were approximately 101,000 automobiles sold by our Group which were still within the warranty period.

We examine each automobile brought to our 4S dealerships for repairs to determine the cause of the problem before beginning work. In situations covered by the relevant product warranty, we request our customers to complete and sign a form setting out details of the problem(s) with the automobile. After the repairs are completed, the automobile is returned to the customer, and we send the forms to the relevant automakers on a regular basis for payment.

The automakers typically do not pay for repair of component claims not covered by the relevant warranty and for damage caused by wear-and-tear or normal usage, such as punctured tyres and broken glass. During the Track Record Period, none of our claims for payment for repairs performed under warranty were rejected by the automakers, as each of our automotive engineers and technicians has been trained to be familiar with the scope of the automakers’ warranty coverage, and instructed to liaise with the automakers in any event of doubt prior to commencing repair works.

### *Automobile recalls*

We also assist in automobile recalls conducted by the automakers. It is sometimes necessary for automakers to conduct automobile recalls to minimize the risks to consumers in the event of defects and in turn minimize the potential damage to their brand image. In such case, our Group typically rectifies the defect according to the relevant automaker’s instructions, rather than returning the entire automobile to the automaker. Although each automaker conducts recalls differently, typically, in the event of a recall campaign, the automaker notifies us prior to the commencement of the campaign, and provides us with various documents including repair instructions and the automaker’s responses to customers’ frequently asked questions. Using our database of customer records, we contact the relevant customers and request them to bring their automobiles to our 4S dealerships for inspection and repair where necessary. The automakers also provide information to the public about the recall campaign via additional channels, such as press releases, telephone hotlines and websites. In certain situations where the time required to complete the repairs may be longer, we also provide substitute automobiles to our customers and/or a door-to-door delivery service. We maintain records of all relevant correspondence with our customers, and provide regular updates to the automaker regarding the recall campaign. Work done in connection with a recall campaign is not charged to the customer but to the automaker, using claim or reimbursement forms provided by the automaker.

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During the Track Record Period, the automakers conducted automobile recalls for a number of their automobile models that we sold, including several of the recent large scale recalls experienced by several automakers in the global market, such as a recent large scale global recall by Toyota. The United States regulators have launched a preliminary investigation on Toyota and the president of Toyota Motor Corporation testified in front of the United States House of Representatives in February 2010.

In addition, automobiles of Lexus have also been recalled recently. Given that Toyota and Lexus are our two largest brands in terms of revenue and accounted for approximately 44.3%, 47.1%, 53.0% and 51.2% (in the case of Toyota), and 30.5%, 34.1%, 24.7% and 16.7% (in the case of Lexus) of our revenue generated from new automobile sales for the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, respectively, our customers' confidence in the quality and safety of the automobiles may be severely impaired due to the recalls, and any product defects or automobile recalls may have an adverse effect on our Group's reputation.

We are not liable for any damages caused by the automobiles under the recalls. We will provide assistance for automobile recalls conducted by the automakers and charge fees for our services. Any work done in connection with the recalls is not charged to the customer but to the automaker, using claim or reimbursement forms provided by the automaker.

However, as at the Latest Practicable Date, the automobiles we offered are not involved in recent recalls other than one automobile model of Toyota brand. We confirm that the recent recalls have not led to any significant drop in our new automobile sales and have not caused any significant increase in the cancellation of orders placed by our customers. As at the Latest Practicable Date, such recalls have not caused any material adverse impact on our business, and our operational and financial performance.

During the Track Record Period, the automakers conducted automobile recall activities for a number of their automobile models. The following table lists the automobile recall activities conducted by the automakers for models we sell in the PRC which commenced during the Track Record Period.

<u>Commencement Date</u>	<u>Automaker Conducting Recall</u>	<u>Recalled Model(s)</u>	<u>Affected Component(s)</u>
28 February 2010 . .	Tianjin FAW Toyota Motor Co., Ltd.	RAV4	Accelerator pedal
30 December 2009 . .	Toyota Motor (China) Investment Co., Ltd.	Lexus ES350, Lexus RX350 and Highlander	Engine oil tube of Variable Valve Timing Intake ( <i>VVT-i</i> ) System
14 October 2009 . . .	Dongfeng Motor Co., Ltd.	X-Trail	Steering box
7 October 2009 . . . .	FAW-VW Automobile Co., Ltd.	Audi TT	Fluid temperature sensor
29 September 2009 .	Guangzhou Honda Automobile Co., Ltd.	Accord	Air bag
14 September 2009 .	Daimler AG	Viano and Vito	Front hinge of rear ventilation window
25 August 2009 . . .	GAC Toyota Motor Co., Ltd.	Camry and Yaris	Power window

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<u>Commencement Date</u>	<u>Automaker Conducting Recall</u>	<u>Recalled Model(s)</u>	<u>Affected Component(s)</u>
25 August 2009 . . .	Tianjin FAW Toyota Motor Co., Ltd.	Vios and Corolla	Power window
12 June 2009 . . . . .	Dongfeng Motor Co., Ltd.	Teana	Engine air tube
11 June 2009 . . . . .	Sichuan FAW Toyota Motor Co., Ltd., Changchun Fengyue Company	Land Cruiser	Front Supplemental Restraint System (“SRS”) airbag
24 April 2009 . . . . .	GAC Toyota Motor Co., Ltd.	Camry	Vacuum booster
24 April 2009 . . . . .	Shanghai General Motors Co., Ltd.	Excelle	Skylight glass
27 March 2009 . . . . .	Dongfeng Motor Co., Ltd.	Sunny	Front suspension
18 February 2009 . .	Mercedes-Benz (China) Ltd.	Benz S-class	Front shock absorber
26 December 2008. .	Tianjin FAW Toyota Motor Co., Ltd.	Crown and Reiz	Electric Power Steering
25 December 2008. .	Toyota Motor (China) Investment Co., Ltd.	Lexus GS300, Lexus GS430, Lexus IS300 and Lexus RX400h	Electric Power Steering
3 November 2008 . .	Tianjin FAW Toyota Motor Co., Ltd.	Vios and Corolla	Manual transmission
21 October 2008 . . .	Guangzhou Honda Automobile Co., Ltd.	City	Rear wheel brake shoe component
30 May 2008 . . . . .	FAW-VW Automobile Co., Ltd.	Audi A4 and Audi A6	Engine ignition coils
30 May 2008 . . . . .	FAW-VW Automobile Co., Ltd.	Audi A6	Fuel tank ventilation valve
27 March 2008 . . . . .	Dongfeng Motor Co., Ltd.	Teana	Muffler
6 December 2007 . .	FAW-VW Automobile Co., Ltd.	Audi Q7	Rear boot
1 October 2007 . . . . .	Dongfeng Motor Co., Ltd.	Sylphy, Tiida, Teana and Livina	Front brake
26 June 2007 . . . . .	Sichuan FAW Toyota Motor Co., Ltd., Changchun Fengyue Company	Prius	SRS airbag
14 June 2007 . . . . .	Nissan (China) Investment Co., Ltd.	Quest	Front suspension cross link
19 March 2007 <sup>(1)</sup> . . . . .	Guangzhou Honda Automobile Co., Ltd.	Accord	Power steering fuel tube

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<u>Commencement Date</u>	<u>Automaker Conducting Recall</u>	<u>Recalled Model(s)</u>	<u>Affected Component(s)</u>
19 March 2007 <sup>(1)</sup> . . .	Guangzhou Honda Automobile Co., Ltd.	Odyssey, Fit and Accord	Fuel pump relay
19 March 2007 <sup>(1)</sup> . . .	Guangzhou Honda Automobile Co., Ltd.	Odyssey	Fixed bolt of booster pump
10 January 2007 . . .	Dongfeng Honda Co., Ltd.	CR-V	Rear wheel shock absorber
17 November 2006 .	FAW-VW Automobile Co., Ltd.	Audi A8	Driver's airbag
28 August 2006 . . .	Tianjin FAW Toyota Motor Co., Ltd.	Crown	Front windshield
28 July 2006. . . . .	Toyota Motor (China) Investment Co., Ltd.	Lexus RX300	Floor carpet cover
25 June 2006 . . . . .	Toyota Motor (China) Investment Co., Ltd.	Corolla and Prius	Intermediate shaft of steering shaft and sliding shift fork
5 June 2006 . . . . .	Toyota Motor (China) Investment Co., Ltd.	Lexus GS300 and Lexus GS430	Safety belt retractor
31 May 2006 . . . . .	Toyota Motor (China) Investment Co., Ltd.	Land Cruiser Prado	Rear half-shaft flange
10 April 2006 . . . . .	Tianjin FAW Toyota Motor Co., Ltd.	Crown and Reiz	SRS airbag
7 March 2006 . . . . .	Nissan (China) Investment Co., Ltd.	X-Trail	Paint between fuel tank filler tube and bracket

*Note:*

- (1) Recall commenced prior to the acquisition of Dalian Zhongsheng Hongda Automobile Sales & Services Co., Ltd, formerly known as Dalian Xinshengrong Trading Co., Ltd., one of our Group's GZ-Honda dealership.

### *Automobile accessories*

We have accumulated significant experience in this area by leveraging on our existing resources including our operational experience, highly trained service teams and extensive market knowledge. The automobile accessories we retail may be broadly categorized into automobile electronics (including GPS systems, audio and video equipment), automobile styling products (including decals, seat covers and floor mats) and automobile maintenance products (including maintenance products for engine, handling and braking products, tires, waxes and polishes). We believe the increasing demand for automobile styling and automobile care products, together with our large customer base derived from our new automobile sales business, will provide significant growth potential for our automobile accessories business.

We source all of our automobile accessories from suppliers which are Independent Third Parties. We sometimes instruct the automobile accessories suppliers to attach the label of our Group to those accessories and give instruction to the suppliers as to the design, types, and specifications of the

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automobile accessories, in order to provide tailor-made accessories to our customers. Our strong and established relationships with these suppliers enable us to retail a wide range of high-quality automobile accessories, the latest and most advanced products at attractive prices. We also aim to become the sole distributor of certain automobile accessories. The revenue contribution from the sale of such labelled accessories was insignificant during the Track Record Period.

An automobile accessories division has been established in each of our 4S dealerships, comprising dedicated sales personnel and automotive engineers and technicians. Our automobile accessories are displayed both in dedicated showrooms in the 4S dealerships, and in the new automobiles exhibited in our 4S dealerships.

In addition to expanding our automobile accessories business through our existing 4S dealerships, we also intend to build automobile accessories exhibition centers to increase our sales of automobile accessories and market exposure. We have constructed our first automobile accessories exhibition center, the Kunming Exhibition Center, strategically located in an area with a high concentration of 4S dealerships. The Kunming Exhibition Center has a floor area of more than 3,000 square meters. Kunming Exhibition Center is divided into two levels, the first level will be our quick service shops, and retail standard automobile accessories. The second level will be a dedicated automobile accessories showroom retailing high-end specialty automobile accessories. We will handle all sales of automobile accessories within the Kunming Exhibition Center, although we expect that our suppliers will participate in and be responsible for the layout and design of each of their product display areas.

We have derived most of our revenue of sales of automobile accessories from the automobile accessories divisions established in each of our 4S dealerships during the Track Record Period. To further develop this line of business, we plan to apply 4% (or approximately HK\$102 million, HK\$120 million and HK\$138 million, based on the lower end, mid-point and higher end of the estimated Offer Price range) of the net proceeds from the Global Offering for the establishment of additional automobile accessories exhibition centers in the future. Please also refer to the section entitled “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus. We believe that by establishing more automobile accessories exhibition centers in the future, the total revenue derived from the sales of automobile accessories as well as the percentage of revenue attributable to automobile accessories business will increase.

### **Other automobile related businesses**

#### *Used automobile trade-in service*

Our Group began operating used automobile trade-in service mainly to facilitate our new automobile sales. Our 4S dealerships are not required to enter into contractual arrangement with or obtain permission from the automakers or other parties for conducting used automobile trade-in businesses. Customers for new automobile sales approach our 4S dealership to express their intention to trade-in their used automobiles for purchasing new automobile. We will also charge a certain amount from customers for our service provided.

#### *Automobile lease*

In addition to automobile sales, certain of our 4S dealerships operated automobile leasing businesses. Automobile leasing business is only an ancillary business to complement our main business.

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### *Automobile insurance, automobile finance related and automobile licensing services*

Our Directors anticipated that automobile insurance, automobile finance related and automobile licensing services have potential to grow in the future. Automobile insurance services refer to the arrangement with independent insurance companies, pursuant to which employees of our 4S dealerships will promote the automobile-related insurances provided by such automobile insurance company to our customers at our premises and receive commission from the relevant insurance company. Automobile finance related services refer to the arrangement with independent financing entities, pursuant to which employees of our 4S dealerships will promote automobile financing products (for instance, installment loans) provided by the financing entity to our customers at our premises and help process the application documents for the financing entities. In return, such financing entity will pay us service fee. Automobile licensing services refer to the application for new automobile licenses and payment of related taxes/charges on behalf of our customers. In return, we will charge our customers for the services provided.

These three types of services are either commission based or agency services, which do not require large amount of capital to operate. The cost of these three types of services are generally labor costs for employees required and costs for necessary equipments, such as computers and office supplies. Accordingly, the cash flow generated from daily operation of the 4S dealerships are sufficient to carry out these three types of services.

According to our PRC legal advisers, King & Wood, each 4S dealership conducting automobile insurance services is required to obtain licenses according to the Regulations on Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) promulgated by the China Insurance Regulatory Commission. Please also refer to the section entitled “Regulations” in this prospectus. There are no regulatory approvals needed or licenses required for automobile finance related services as currently conducted in certain 4S dealerships of our Group. According to the Administrative Measures on Registration Services Stations for Automobiles from 4S Dealerships and Used Automobile Markets (4S店、二手車市場機動車登記服務站管理辦法) in certain provinces, registration to the local police bureaus is required for automobile licensing services.

Several of the 4S dealerships in our Group have operated these three types of businesses during the Track Record Period, and all of them have received proper licenses and registrations required to conduct these businesses.

## **PROCUREMENT**

### **New automobiles**

The automakers set annual non-binding supply quotas of new automobiles for each of their associated 4S dealerships as part of the annual sales plans. These quotas are determined after consideration of a variety of factors, including the automaker’s own annual production plans and the previous purchase orders and track record of the relevant 4S dealership and may be changed at the automakers’ discretion. Inventory is managed on a rolling monthly basis with supplies of new automobiles delivered monthly, based on our management’s expectations of sales performance at the relevant 4S dealership.

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### *Logistical and financing arrangements*

New automobiles are delivered to us regularly, on the basis of orders placed by each of our 4S dealerships. The automakers, who are Independent Third Parties, are responsible for the transportation of the new automobiles and bear the associated costs, such as insurance and logistical expenses, until they reach our 4S dealerships or warehouses and are in our custody. Title and risk of the new automobiles are transferred to us at our 4S dealerships or warehouses. In line with industry practice, the automakers often require us to make full payment of the purchase price before delivery of the new automobiles to us.

For some of the automakers, we pay 20% of purchase price with the remaining amount financed by the automaker's automobile financing companies with an interest-free period for up to two months initially. The finance arms of certain automakers also extend short-term credit facilities including loans, which may be interest-free for up to two months, to encourage increased purchase orders and sales. For automobiles we have purchased by utilizing the loan from the automaker's automobile financing companies, the automobile financing companies will pay the balance of the purchase prices to the automakers and thus become our lenders. Accordingly, title and risk of the new automobiles are still transferred to us at our 4S dealership or warehouses upon delivery. We will then repay the loan to our lenders pursuant to the financing arrangements.

### **Spare parts and automobile accessories**

We source our spare parts, automobile accessories and other automobile-related products from the automakers and independent suppliers. Typically, we primarily source spare parts from the automakers, and automobile accessories from independent suppliers. Title to spare parts and automobile accessories passes to us upon delivery. Due to the size of our dealership network, we are well-positioned to negotiate for a favorable pricing with our independent suppliers of automobile accessories.

### **Our major suppliers**

Our purchases include new automobiles, spare parts and automobile accessories. For the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, our costs incurred in relation to new automobile sales were approximately RMB5,899.7 million, RMB8,064.9 million, RMB9,261.5 million and RMB7,950.1 million, respectively, representing approximately 97.1%, 96.2%, 94.8% and 94.1% of our total costs of sales and services, respectively.

Our top five suppliers are automakers which supply us new automobiles and spare parts. For the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, purchases from our top five suppliers accounted for approximately 92.3%, 93.9%, 92.9% and 88.9% of our total purchases, respectively. For the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, purchases from our top supplier accounted for approximately 40.3%, 45.2%, 36.2% and 38.4% of our total purchases, respectively.

All of our top five suppliers are Independent Third Parties. None of our Directors or their associates or any of our current Shareholders (who to the knowledge of our Directors owns more than 5% of our share capital) has any interest in any of our top five suppliers which is required to be disclosed under the Listing Rules.



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### INVENTORY MANAGEMENT

We actively manage and maintain our inventories to ensure cost-efficiency, quality control and the timely distribution and sales of new automobiles, spare parts and automobile accessories. Our senior management is actively involved in setting inventory standards, and is continually seeking ways to further improve our inventory control.

We monitor our inventory at each of our 4S dealerships to maintain a reasonable level of inventory turnover. We also maintain an advanced database, which enables us to monitor and manage our inventory turnover of each 4S dealership in a real-time manner for new automobiles, spare parts and automobile accessories.

In addition, we utilize our aggregate ordering and procuring power with an aim to obtain competitive pricing from suppliers of spare parts and automobile accessories. Through our Group's general budget plan and resources allocation, we are able to adjust the automobile quotas to some extent to improve mix of automobile inventory for our 4S dealerships. Automobile quota refers to the number of different types of automobile assigned by the automakers in a given period of time. Usually the automakers will set quota for certain types of automobiles, especially when the market demand for such types of automobile is large.

### MARKETING AND PROMOTIONAL ACTIVITIES

We utilize a variety of methods to promote our Zhongsheng brand image, our 4S dealerships and the products and services we offer through our "one-stop automobile shop" business model to our customers.

Our marketing campaigns are organized at two levels, our headquarters in Dalian City and each of our 4S dealerships. Our headquarters is responsible for coordinating regional marketing campaigns, and supervises the local marketing campaigns conducted by each of our 4S dealerships. We advertise through outdoor advertisements, distributions of marketing materials at our 4S dealerships, radio commercials, Internet advertisements, and advertisements in newspapers and magazines.

Our sales initiatives include complimentary gifts, lucky draws and local promotional events and activities. In particular, sales and marketing events to promote new models of automobile, such as automobile exhibitions, are typically organized jointly with the relevant automaker.

We typically increase our marketing and promotional activities shortly before the Chinese Lunar New Year public holidays and the PRC National Day holiday in October.

Our marketing and promotional expenses were approximately RMB41.4 million, RMB46.6 million, RMB44.9 million and RMB34.7 million for each of the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009.

### CUSTOMER SERVICE

We place a high priority on providing our customers with consistent, high-quality customer service and support. Our corporate motto is "Zhongsheng — Lifetime Partner", and it is central to our corporate culture. We believe that providing high-quality service to each of our customers is the key to building

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long-lasting customer relationships, and to attracting new customers for each of the businesses offered through our “one-stop automobile shop” business model. In line with this core principle, we provide systematic training courses to our customer-facing employees such as our sales personnel to achieve high customer satisfaction rankings.

### **Customer relationship management**

We have adopted a customer relationship management system through our centralized ERP system which stores our customers information. Such system enables us to facilitate our interaction with and services to our customers. In addition, we assign customer relationship managers to our customers. We provide our customer relationship managers access to our database of customer records which tracks his or her consumption patterns and preferences for our products and services so that our customer relationship managers may understand their needs better and tailor a customized service strategy for each individual customer.

### **24-hour hotline and roadside assistance**

We provide a 24-hour hotline to answer customer enquiries. We also provide 24-hour roadside assistance services to our customers, including automobile towing service.

### ***Other initiatives***

We organize other initiatives for our customers, including seminars such as basic repair and maintenance workshops, and social events including musical concerts and sporting events. We invite our customers to the launch of new models of automobiles.

As a result of our emphasis on a customer-focused philosophy, two of our FAW-Toyota 4S dealerships were ranked within FAW-Toyota’s top ten dealerships in China in 2007. Five of our Toyota 4S dealerships were ranked as the number one dealership in their respective cities in 2007. We are also one of Lexus’ three top dealership groups in China, and all of our Lexus 4S dealerships were ranked first in their respective cities in 2007. In 2008, our Group was rated by the China Automobile Dealers Association as one of the ten most influential automobile dealership groups in the industry for the 30 year since China’s adoption of reform and opening-up policy. In addition, our individual 4S dealerships and our employees received various kinds of awards in recognition of their outstanding customer service, most recent awards in 2008 including National Outstanding Sales Counseling Award for one of our Lexus dealerships in Guangzhou awarded by Lexus, Best After-sales Service Coordination Award for one of our FAW-Toyota dealerships in Dalian awarded by FAW-Toyota, and FTMS After-sales Service TL Model Shop Award and Encouraging Quality Improvement Award for two of our FAW-Toyota dealerships in Fujian in 2008 awarded by FAW-Toyota.

## **CUSTOMERS**

Due to the retail nature of our business, we do not have one single major customer and cannot readily identify our top five customers. As such, we believe that our top five customers accounted for less than 1% of our total revenue during the Track Record Period. Our target customers are consumers residing in China’s rapidly developing cities, who are likely to purchase luxury or mid-to-high end brand automobiles and who we expect to have a high automobile usage.

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### EMPLOYEES

#### Employees

Our success is closely linked to the implementation of our growth strategies by our experienced, dedicated and innovative employees. We are committed to recruiting, training and retaining adequately skilled and experienced people throughout our operations to serve our customers better. We intend to do so through offering attractive remuneration packages, including discretionary bonuses and our Share Option Scheme, as well as by placing an emphasis on employee training and career development.

As at 31 December 2009, our Group had a total of 5,824 employees, all of which are full-time employees. The following table sets out the total number of our employees by function as at 31 December 2009.

<u>Functions</u>	<u>Number of employees</u>
Management . . . . .	107
Administration . . . . .	466
After-sales Operations . . . . .	3,373
Sales and Marketing . . . . .	1,470
Finance and Accounting . . . . .	<u>408</u>
<b>Total</b> . . . . .	<u>5,824</u>

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

#### Remuneration

We review the performance of our employees on a regular basis. The results of these reviews are used for salary and promotion appraisals. Our key employees are considered for annual incentive payments based on various performance criteria and their assessment results. Our sales personnel are considered for bonuses based on various performance criteria, including whether their individual sales target has been met and customer feedback on the quality of their service. We review our staff remuneration packages from time to time.

#### Training

Our employees are critical to our success. We have invested, and intend to continue to invest substantially in our employees in order to recruit, assimilate and retain the best personnel for our business. We will also regularly review and improve the training programs for our trainee managers and sales personnel, as well as maintain and deepen our relationships with the automakers and local educational institutions in order to ensure our continued access to highly-skilled automotive engineers and technicians.

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We have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager to different positions in a 4S dealership, including deputy-store manager, sales director, service director and finance director, to ensure that our store managers are familiar with all operational aspects of a 4S dealership.

We provide systematic training courses to our customer-facing employees such as our sales personnel, and motivate our employees by granting bonuses and awards to encourage our 4S dealerships to achieve high customer satisfaction rankings.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For instance, we draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist with the curriculum design for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, and it has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

We are also able to achieve a high rate of retention for our employees in the face of intense competition for human resources, as our corporate policy is to promote capable personnel from within our Group's operations, thus motivating our employees. Further, our large scale of operations enables us to offer our employees a variety of opportunities to work with different automobile brands in several regions in China, as well as several other incentives and competitive remuneration packages.

### **Safety**

Our Group's dedicated safety council, led by three of our Group's executive Directors, analyzes, directs and coordinates safety procedures and plans in the short, medium and long-term, for our entire Group. Each of our subsidiaries has established a safety committee and appointed safety representatives or supervisors to report to the safety council, which meets four times a year.

Our Group's safety inquiry commission, also led by three of our Group's executive Directors, conducts bi-annual surveys of our Group's operations to identify potential safety or occupational hazards.

Our Group's emergency incident commission is responsible for directing rescue operations in the event of an accident. The emergency incident commission is also in charge of providing detailed reports and recommendations for improvement.

We have also issued detailed safety regulations which emphasize the importance of safety education and training for all employees, and strict compliance with applicable PRC safety laws, rules, regulations and standards. Our safety regulations provide guidance on a variety of matters, and authorize the suspension of operations in the event of a serious incident. Our 4S dealerships are in compliance with applicable safety laws and regulation, our Group have not experienced any material safety accidents at our 4S dealership during the Track Record Period.

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### COMPETITION

Based on the information provided by ACMR, the top ten automobile dealership groups in the PRC accounted for only approximately 11.4% of the passenger car market's total revenue<sup>(1)</sup> for 2008. Our Group was ranked sixth, fifth and fourth among the passenger car dealerships in terms of revenue in 2006, 2007 and 2008 respectively. The PRC automobile dealership industry is highly fragmented and competitive. In addition, with China's accession to the World Trade Organization in November 2001, it has become easier for foreign entities to enter and compete in the PRC automobile dealership industry. In view of the increasing number of dealerships, we expect that the competition we face will be increasingly intense. PRC automobile dealerships compete primarily on the following bases: capital, service, after-sales services offered, and the capabilities of sales personnel and automotive engineers.

We expect the increasingly competitive nature of the PRC automobile dealership industry to present acquisition opportunities as, among other factors, intensive capital requirements deter new entrants and force out weaker players. Based on the information provided by ACMR, we accounted for approximately 1.0%, 1.1% and 1.2% of the Chinese passenger car market's total revenue<sup>(1)</sup> in 2006, 2007 and 2008, respectively. As a leading national automobile dealership group in the PRC with a well-established track record of acquiring and quickly and significantly improving the performance of such acquired 4S dealerships, we believe we are well-positioned to take advantage of such opportunities to expand our business and consolidate our leadership position further.

### OUR PROPERTIES

As at the Latest Practical Date, we owned 34 properties in the PRC as well as leased 29 properties in the PRC and one property in Hong Kong from Independent Third Parties.

#### Properties we own

As of the Latest Practical Date, we owned 34 properties in the PRC with an aggregate GFA of approximately 219,834.20 square meters, among which:

- We have submitted and the land authorities have accepted our applications for the Title Certificates of three properties with an aggregate GFA of approximately 27,201.20 square meters, accounting for 12.37% of the aggregate GFA of our owned properties. The land authorities granted approvals to us for the use of these three properties before the issue of formal Title Certificates. As at the Latest Practicable Date, we operated four 4S dealership on these three properties.
- We have obtained the deal confirmation of listing for bidding process of land use rights for one property, and have entered into land use rights transfer agreements with the relevant local land authorities for four properties. We have fully paid the required land transfer fees for all of these five properties. We have been advised by our PRC legal advisers, King &

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*Note:*

(1) The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue includes VAT.

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Wood, that there will be no substantial impediment for us to obtain the Title Certificates for these five properties. As at the Latest Practicable Date, we did not operate any 4S dealership on these five properties.

- For two properties with an aggregate GFA of approximately 11,740.03 square meters, accounting for 5.34% of the aggregate GFA of our owned properties, the transferors are in the process of going through procedures to transfer the relevant Title Certificates to us. As at the Latest Practicable Date, we operated one 4S dealership on these two properties. We have been advised by our PRC legal advisers, King & Wood, that there will be no substantial impediment for us to obtain the Title Certificates for these two properties.
- Two properties with an aggregate GFA of approximately 13,756.30 square meters, accounting for 6.26% of the aggregate GFA of our owned properties, have not been converted into state-owned construction land from collectively-owned land, which is required for the land use rights of those properties to be transferred to us under PRC laws, rules and regulations. We have submitted applications to convert these two properties into state-owned construction land to land authorities. By accepting our applications, the relevant land authorities have further confirmed that we could operate our 4S dealerships on these two properties, they will not inflict punishment on our Company for using these two properties, as well as that they will assist us in relocating our 4S dealerships should we be unable to continue operation on these two properties. As at the Latest Practicable Date, we operated two 4S dealerships on these two properties. We have been advised by our PRC legal advisers, King & Wood, that our rights to use these two properties will not be adversely affected.

### Properties we lease

As of the Latest Practical Date, we leased 30 properties from Independent Third Parties with an aggregate GFA of approximately 136,281.68 square meters, among which:

- We leased one property as our administrative office with a GFA of approximately 2,978.98 square meters, accounting for 2.19% of the aggregate GFA of our leased properties, for which our landlord did not possess the Title Certificates as at the Latest Practicable Date.
- For one property with a GFA of approximately 5,800 square meters, accounting for 4.26% of the aggregate GFA of our leased properties, our landlord has entered into a land use rights transfer agreement with the relevant local land authority and is in the process of applying for the Title Certificates. As at the Latest Practicable Date, we operated one 4S dealership on this property. Our landlord has agreed to indemnify us against any costs, expenses and operating or business losses (including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from this property.
- For three properties with an aggregate GFA of approximately 19,254.28 square meters, accounting for 14.13% of the aggregate GFA of our leased properties. We have requested that our landlords apply to the relevant PRC Government authorities for the outstanding Title Certificates or approvals for lease of their properties that we occupy. As at the Latest Practicable Date, we operated three 4S dealerships on these three properties. Our landlords have agreed to indemnify us against any costs, expenses and operating or business losses

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(including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from their respective properties with defective Title Certificates.

- Four properties with an aggregate GFA of approximately 30,594 square meters, accounting for 22.45% of the aggregate GFA of our leased properties, are collectively-owned land and are not permitted to be leased to others for non-agricultural or commercial purposes under applicable PRC laws, rules and regulations. As at the Latest Practicable Date, we operated four 4S dealerships on these four properties. The land authorities have confirmed that we could operate our 4S dealerships on these four properties, they will not inflict punishment on our Company for using these four properties, as well as that they will assist us in relocating our 4S dealerships should we be unable to continue operation on these four properties. We have been advised by our PRC legal advisers, King & Wood, that our rights to use these four properties will not be adversely affected.

The aforementioned properties with defective Title Certificates (whether owned or leased) primarily comprise 4S dealerships, warehouses and ancillary buildings. Our Directors are of the view that such properties are not crucial to our operations since: (i) we have the Title Certificates for or the right to use majority of both our owned and leased properties; (ii) the revenue and profit contribution of the 4S dealerships located on such properties during the Track Record Period were not significant; (iii) for the operation of 4S dealerships in the automobile retail business, such factors as selection of brands portfolio, relationships with our automakers, design and layouts of outlets, types of services offered, quality of services provided, management, etc., are more crucial in attracting customers and generating revenue of the Group than the premises on which our 4S dealerships are constructed and operated; (iv) the business of the Group is typically located at sub-urban areas and we can easily find comparable properties and relocate if necessary; and (v) the long-term lease arrangements in respect of the properties we lease would give us the exclusive use of the sites during the terms of the relevant leases.

Our Controlling Shareholders have agreed to indemnify us against any costs, expenses and operating or business losses (including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from any affected properties. For more details of the deed of indemnity, please see the paragraph entitled “Statutory and General Information — Tax and other indemnities” in Appendix VII to this prospectus. In addition, some of our landlords have also agreed to indemnify us against any costs, expenses and operating or business losses (including but without limitation to penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from their respective properties with defective Title Certificates. Please also see “Appendix IV — Property Valuation” to this prospectus for details of our properties and the paragraph entitled “Risk Factors — Risks Relating to Our Business — We do not have valid titles or rights to use certain properties and the required permits for construction and development on certain properties occupied by us” in this prospectus for details of the risks associated with these affected properties.

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### INSURANCE COVERAGE

We carry insurance covering risks including loss and theft of, and damage to, property (such as our fixed assets and inventories in all of our 4S dealerships). We believe that our insurance coverage is adequate for our operations and as at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

### LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

To the best of the knowledge of our Directors, there are no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

During the Track Record Period, we had a number of instances of non-compliance in relation to our automobile repair and maintenance business or automobile leasing business, such as not possessing valid Road Transport Licenses and Project Initiation Approvals with respect to certain of our subsidiaries. As at the Latest Practicable Date, all of our operating subsidiaries engaging automobile maintenance, repair and leasing services had valid Road Transport Licenses or in the process of renewing Road Transport Licenses. One of our operating subsidiaries had not obtained proper Project Initiation Approvals, namely Fuzhou Zhongsheng Toyota Services. Accordingly to Foreign-invested Road Transport Services Regulation, the Ministry of Transport shall grant the Project Initiation Approval based on the initial approval issued by the local transport bureau. Based on the consultation with the local transport bureau, we confirm that the local bureau has initially approved the application of Fuzhou Zhongsheng Toyota Services and has transferred the relevant materials to the Ministry of Transport. We expect that the approval from the Ministry of Transport will be obtained by the end of March 2010. On this basis, our PRC legal advisers, King & Wood, have confirmed that it is unlikely that the decision of the local transport bureau will be overturned by the Ministry of Transport, thus there is no substantial legal impediments for Fuzhou Zhongsheng Toyota Services to obtain such approval. We also undertake that we will obtain all relevant approvals and licenses required for operation (including but not limited to Road Transport Licenses and Project Initiation Approvals) for its 4S dealerships before they commence operation going forward.

In the opinion of our PRC legal advisers, King & Wood, we have complied with relevant PRC laws, rules and regulations in all material respects, and save as disclosed in the sections entitled “Risk Factors” and “Regulations” in this prospectus, we and all of our subsidiaries have obtained all the licenses, approvals and permits from appropriate regulatory authorities that are material for our business operations in the PRC.

Our PRC legal advisers, King & Wood, have confirmed that our business complies with the Labor Contract Law and other PRC laws, rules and regulations relating to labor and safety.

As a matter of internal policy, we continually review our operations procedures, and have appointed dedicated personnel to supervise the safety of our staff in each of our 4S dealerships and other distribution outlets.

Automobile distribution in China was a regulated industry. Prior to 2001, an automobile dealership group with 30 or more 4S dealerships in the PRC was subject to the 30 Dealerships Limitation. During China’s accession to the World Trade Organization in 2001, China made a commitment to abolish the 30



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Dealerships Limitation within five years of its accession<sup>(1)</sup>. Accordingly, each of the 2004 Edition of the Catalogue, the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) and the Measures for the Administration on Foreign Investment in Commercial Sector 《外商投資商業領域管理辦法》 provides that the 30 Dealerships Limitation would terminate on 11 December 2006. However, the 2007 Edition of the Catalogue included the 30 Dealerships Limitation. As such, there is uncertainty as to the interpretation of the current PRC legal position in relation to foreign investment in automobile dealership groups with 30 or more 4S dealerships in the PRC.

Our PRC legal advisers, King & Wood, have advised that the Accession to WTO Agreement is an international treaty which was approved at the 17th meeting of the Standing Committee of the 9th National People's Congress, and the approval of China's accession to the WTO was endorsed by the President of the PRC; whereas the 2007 Edition of the Catalogue was a domestic regulation approved by the relevant domestic ministries and might be revised or interpreted by the relevant authorities. King & Wood have advised that the Accession to WTO Agreement, which is an international treaty, should take precedence over domestic laws and regulations promulgated by the State Council or the relevant ministries or departments (including the 2007 Edition of the Catalogue). King & Wood have further advised that decisions of the approving authorities should not conflict with China's commitment to the WTO regarding the 30 Dealerships Limitation when handling any individual case. Such view has been confirmed by verbal consultations with the competent officials of the relevant approving authority conducted by our Company and King & Wood and supported by the fact that none of our 4S dealerships has encountered any restriction in obtaining approvals from the relevant PRC approving authorities for the incorporation, acquisition and/or operation of additional 4S dealerships of our Group, notwithstanding the number of our 4S dealerships has already exceeded the 30 Dealerships Limitation. Accordingly, King & Wood have advised that it is unlikely that MOFCOM will interpret the 30 Dealerships Limitation differently in the future, which would in turn impact on the approval of new establishment and acquisition of 4S dealerships by our Group.

We plan to establish and acquire additional 4S dealerships in the future and will seek approval from MOFCOM as required under PRC law. We currently operate more than 30 4S dealerships and we confirm that all the newly established or acquired 4S dealerships of our Group have obtained the requisite approvals from the relevant competent PRC authorities. King & Wood have advised that for the 4S dealerships operated by us as of 31 December 2009 in which our Group has a majority ownership, such ownership rights are legal and valid under PRC law. Our Group has not encountered any restriction in connection with the 30 Dealerships Limitation as at the Latest Practicable Date, and King & Wood have further advised that regardless of the future interpretation of the 30 Dealerships Limitation, the 30 Dealerships Limitation will not apply retrospectively to the existing dealerships operated by our Group and that the approvals granted to the dealerships of our Group would remain legal, valid and effective for the following reasons: (i) the application for the establishment or acquisition of the dealerships of our Group have been reviewed and approved by MOFCOM or its local counterparts where required; (ii) our Group has applied to appropriate authorities for the approvals in accordance with the relevant laws and regulations; (iii) our Group has provided all information required by the relevant laws and

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*Note:*

- (1) China has entered into the Accession to WTO Agreement (中國加入世貿組織議定書) on 11 December 2001, which states that the 30 Dealerships Limitation as stipulated under Annex 9 "Schedule of Specific Commitments on Services" shall be eliminated after five years from the date of accession (i.e. 11 December 2006) when foreign chain store operators shall have the freedom of choice of any partners, legally established in China in accordance with the PRC laws and regulations.

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regulations to the relevant authorities; (iv) MOFCOM or its local counterparts have granted such approvals within their jurisdiction; and (v) the competent officials of the relevant approving authority have confirmed, in response to the verbal consultations conducted by our Company and King & Wood, that the 30 Dealerships Limitation was no longer enforced since 11 December 2006 and they approve the establishment and/or acquisition of foreign invested automobile dealerships in accordance with the Measures for the Administration on Foreign Investment in Commercial Sector and the Measures for the Implementation of the Administration of Branded Automobile Sales (both of which provide that the 30 Dealerships Limitation would have been terminated on 11 December 2006) as well as confirmed that our Group will not be penalized for exceeding the 30 Dealerships Limitation.

As such, King & Wood have further advised that the business and 4S dealership network of our Group which have already obtained the approvals from MOFCOM or its local counterparts will not be adversely affected, and that our Group will not be subject to any penalty for exceeding the 30 Dealerships Limitation.

However, we cannot assure you that the relevant PRC authorities will not interpret PRC laws, rules and regulations relevant to our corporate structure differently in the future. If MOFCOM or its local counterparts do not approve our acquisitions in the future, we will not be able to implement our growth strategy by further expanding establishment and/or our 4S dealership network through establishing and/or acquiring additional dealerships. We would only be able to operate our existing dealership which have already obtained the approval from MOFCOM or its local counterparts and further develop our business by increasing the productivity and profitability of these dealerships via re-investing our retained earnings in the network.

King & Wood have further advised that our Group has submitted the applications for approval to the appropriate authorities in accordance with the thresholds set out in the Circular of the MOFCOM on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial Enterprises (關於下放外商投資商業企業審批事項的通知) and the Circular of the MOFCOM on Further Improving the Work of Examination and Approval of Foreign Investment (商務部關於進一步改進外商投資審批工作的通知) promulgated by the MOFCOM on 12 September 2008 and 5 March 2009 respectively, which provided that whether an individual application shall be handled by the MOFCOM or its local counterparts depends on the size of the transaction. King & Wood have further advised that our Group has submitted all the relevant information and documents for approval in accordance with the requirements laid down in the laws and regulations governing the granting of the MOFCOM approvals and as at the Latest Practicable Date, our Group has obtained all the proper approvals from MOFCOM or its local counterparts for all the dealerships regarding the acquisition or establishment of foreign invested automobile dealerships in the PRC, where applicable. Out of the 47 4S dealerships as of 31 December 2009, 27 4S dealerships have obtained approvals from the MOFCOM and the remaining 4S dealerships have obtained approvals from the local counterparts of the MOFCOM where required by the relevant rules and regulations. King & Wood have also advised that our 4S dealerships are not required to renew such approvals obtained from MOFCOM or its local counterparts.

### CONNECTED TRANSACTIONS

We do not have any connected transactions pursuant to Chapter 14A of the Listing Rules as at the Latest Practicable Date.