

OUR HISTORY AND REORGANIZATION

HISTORY AND DEVELOPMENT

Our Corporate History

During the 1980s, our founder Mr. Yang Aihua began his career in the sales of both imported and domestically manufactured automobiles. Having spent more than 10 years in the automobile sales business, Mr. Yang Aihua first engaged in operating an automobile dealership store when he opened one of the first authorized Audi dealership stores in China in 1999.

In 2004, our Group became one of the first authorized dealerships of BMW Brilliance in China. Since then, the Group has focused increasingly on the luxury and ultra-luxury automobile markets. See “Industry Overview—The PRC Passenger Vehicle Market—Luxury and ultra-luxury passenger vehicles outpaced the growth of the overall market” for our categorization of luxury, ultra-luxury, mid-to-upper and low end passenger vehicles. As at June 30, 2011, we have expanded our automobile dealership business to six regions in China, namely Shanghai, Jiangsu, Zhejiang, Shandong, Tianjin and Liaoning.

As of September 30, 2011, we operated 28 4S dealership stores.

Our Business Milestones

The following are important milestones in our history to date:

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|-----------|---|
| 1999 | We opened our first dealership store in Shanghai and became one of the first authorized dealerships for Audi in China. |
| 2004 | We became one of the first authorized dealerships for BMW Brilliance in China.

Our Group expanded to cities outside of Shanghai. |
| 2005 | We opened our first 4S dealership store in Jiangsu. |
| 2008–2010 | One of our Buick dealership stores was accredited as a five-star authorized service center for sales by Shanghai GM. |
| 2009 | We opened our first 4S dealership stores in Zhejiang and Shandong. |
| 2010 | Three of our dealership stores ranked 2nd, 3rd and 9th, respectively, out of the 10 BMW dealership stores nationwide that won its 2010 Best Dealership Quality Awards.

Two of our dealership stores ranked 1st and 3rd, respectively, in BMW’s list of its 10 best dealership stores for after-sales business.

We opened our first 4S dealership stores in Tianjin and Liaoning.

We opened our first BMW authorized repair center in Shanghai. |
| 2011 | We opened our first Land Rover & Jaguar dealership store. |

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Mr. Yang and his nominees have acquired 45% of the equity interests in Shanghai Kailong Qimao from Hu Yongtang (胡永堂), who is an Independent Third Party, in March 2001, the entire equity interests in Shanghai Taipingyang Jinsha from Li Zhenxin (酈振新) and Yang Fafa (楊發發), who are Independent Third Parties, in August 2002, and 20% of the equity interests in Suzhou Baoxin from Zhang Rongquan (張榮泉), who is an Independent Third Party, in December 2004, pursuant to which the above three companies then became wholly-owned by Mr. Yang Aihua directly or indirectly through his nominees. All the above equity interests were carried out on normal commercial terms, with the purchase considerations determined based on the registered capital of each subsidiary. Save as otherwise disclosed in this paragraph, the Group's subsidiaries have been directly or indirectly owned by Mr. Yang Aihua or through his nominees since their incorporation.

Mr. Yang Aihua's source of funding for the above acquisitions was generated from his business savings.

In May 2003, Mr. Yang Aihua subsequently disposed 10% equity interests in Shanghai Taipingyang Jinsha to Ms. Xu Runfang (徐潤芳), an Independent Third Party, on normal commercial terms with the consideration determined based on the registered capital of Shanghai Taipingyang Jinsha. In November 2009, Shanghai Kailong Qimao transferred 15% of equity interests in Shanghai Kailong Toyota to Shuangri Entities for a total consideration of RMB51.675 million. The consideration was determined with reference to the then net asset value of Shanghai Kailong Toyota evaluated by an independent valuer. In October 2008, Shanghai Baoxin disposed 10% equity interests in Hangzhou Baoxin to Mr. Wang Yang (王陽), an Independent Third Party, on normal commercial terms, with the consideration determined based on the registered capital of Hangzhou Baoxin.

REORGANIZATION

In preparation for the Global Offering, we commenced the Reorganization in August 2010. As advised by our PRC legal advisors, Jingtian & Gongcheng, the Reorganization was conducted in compliance with all applicable PRC laws and regulations and all necessary approvals from PRC regulatory authorities, including the necessary foreign exchange registration, have been obtained.

Domestic Reorganization

As of August 1, 2010, our subsidiaries were directly or indirectly controlled by Mr. Yang Aihua or through his nominees, namely Mr. Yang Hansong and Mr. Yang Zehua. In preparation for the Global Offering, our Group undertook the steps for the domestic reorganization as detailed below.

1. Establishment of the onshore holding structure

On August 25, 2010, Shanghai Kailong Qimao, as vendor, Kailong PRC and Shangchen PRC, as purchasers, entered into an equity transfer agreement pursuant to which Shanghai Kailong Qimao agreed to transfer 85% and 15% of the equity interests in Shanghai Baoxin to each of Kailong PRC and Shangchen PRC for a consideration of RMB8.5 million and RMB1.5 million, respectively. Each of the above consideration was determined with reference to the amount of registered capital of Shanghai Baoxin. Kailong PRC was owned as to 80% by Mr. Yang Aihua and 20% by Mr. Yang Aihua's nominees, namely Mr. Yang Zehua and Mr. Yang Hansong, in equal shares. Shangchen PRC was 51% owned by Mr. Yang Aihua and 49% was held by Mr. Yang Zehua as Mr. Yang Aihua's nominee, and is therefore related to Kailong PRC.

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In November 2010, each of Bentai PRC, Hengjun PRC and Chiheng PRC made a capital contribution of RMB11.8 million, RMB8.8 million and RMB3.0 million respectively in Shanghai Baoxin. Each of the above subscription amounts was determined based on net asset value of Shanghai Baoxin at the time of the subscription. In connection with such subscription, on November 12, 2010, pursuant to a shareholders' resolution of Shanghai Baoxin, the registered capital of Shanghai Baoxin was increased from RMB10 million to RMB10.85 million and out of the RMB0.85 million increase Bentai PRC, Hengjun PRC and Chiheng PRC contributed approximately RMB0.42 million, RMB0.32 million and RMB0.11 million in equity interests, respectively. As a result, Shanghai Baoxin was then owned as to 78.34% by Kailong PRC, 13.82% by Shangchen PRC, 3.92% by Bentai PRC, 2.94% by Hengjun PRC and 0.98% by Chiheng PRC. The beneficial owners of each of Bentai PRC, Hengjun PRC and Chiheng PRC were the same as those of Full Establish, Goffee and Moral Grand, respectively.

To consolidate Mr. Yang Aihua's interests in our Group, Shanghai Baoxin acquired the following equity interests in our subsidiaries previously owned by Mr. Yang Aihua and his brothers (as his nominees), namely Mr. Yang Hansong and Mr. Yang Zehua. The consideration for each of the transfers was determined with reference to the registered capital of the relevant subsidiary. Although Mr. Yang Aihua and his nominees agreed that Mr. Yang Aihua was the sole beneficial owner of the Group's interests having the right to exercise all shareholder rights and powers attaching to his equity interests, a nominee arrangement was implemented in each of the subsidiaries listed below given (i) a requirement under PRC Company Law effective before 2006 which required a PRC incorporated company to have two shareholders and (ii) the fact that the management of these subsidiaries were vested in Mr. Yang Aihua and Mr. Yang Hansong or Mr. Yang Zehua.

<u>Name of our Subsidiary</u>	<u>Date of Acquisition Agreement</u>	<u>Vendor</u>	<u>Equity Interest (%)</u>	<u>Consideration (RMB million)</u>
Suzhou Baoxin	November 22, 2010	Mr. Yang Aihua	20%	2
		Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	80%	8
Shanghai Taipingyang Shenlong.	November 15, 2010	Mr. Yang Aihua	30%	1.5
Tianjin Baoxin	November 14, 2010	Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	40%	4
Qingdao Xinbaohang	November 15, 2010	Mr. Yang Aihua	60%	6
		Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	40%	4
Ningbo Baoxin	November 16, 2010	Mr. Yang Aihua	60%	6
		Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	40%	4
Shanghai Xuhui Baoxin	November 15, 2010	Mr. Yang Aihua	70%	7
		Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	20%	2

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<u>Name of our Subsidiary</u>	<u>Date of Acquisition Agreement</u>	<u>Vendor</u>	<u>Equity Interest (%)</u>	<u>Consideration (RMB million)</u>
Shanghai Taipingyang	November 15,	Mr. Yang Aihua	70%	7
Jinsha	2010	Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	20%	2
Shanghai Kailong	November 15,	Mr. Yang Aihua	50%	0.25
Zhuanghuang	2010	Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	50%	0.25
Shanghai Kailong	September 10,	Mr. Yang Aihua	90%	78.3
Qimao	2010	Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	10%	8.7
Hangzhou Baoxin	November 15, 2010	Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	40%	4
Yangzhou Xinbaohang	November 18, 2010	Mr. Yang Aihua	70%	7
Ninghai Baoxin	November 18, 2010	Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	30%	3
		Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	70%	7
Taizhou Xinbaohang	November 15, 2010	Mr. Yang Hansong (as nominee for Mr. Yang Aihua)	30%	3
		Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	70%	7
Shanghai Tianhua	November 15, 2010	Mr. Yang Zehua (as nominee for Mr. Yang Aihua)	10%	1

On November 29, 2010, pursuant to a shareholders' resolution of Shanghai Baoxin, the registered capital of Shanghai Baoxin was increased from RMB10.85 million to RMB190.8 million, out of which RMB7.1 million, RMB5.2 million and RMB1.7 million were contributed from Bentai PRC, Hengjun PRC and Chiheng PRC, respectively. Such capital contribution made by each of Bentai PRC, Hengjun PRC and Chiheng PRC was determined based on the registered share capital of Shanghai Baoxin. As a result, Shanghai Baoxin was owned as to 3.93% by Bentai PRC, 2.88% Hengjun PRC and 0.94% by Chiheng PRC.

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Bentai PRC, Hengjun PRC and Chiheng PRC were controlled by individuals who were business acquaintances of the Group. They are independent of the Group and the other shareholders of the Company. Each of them was a financial investor of Shanghai Baoxin and is independent of each other. None of them is a connected person of the Company within the meaning of the Listing Rules.

Shenyang Xinbaohang was legally owned as to 60% by Shanghai Baoxin and 40% by Mr. Yang Hansong when it was incorporated in July 2008. However, it has always been the understanding among the relevant parties that Mr. Liu Yan (劉岩), the local partner of Mr. Yang Aihua of Shenyang Xinbaohang, was the beneficial owner of 50% of the equity interests in Shenyang Xinbaohang. It is also the understanding that Shanghai Baoxin and Mr. Yang Hansong would hold Mr. Liu Yan's equity interests as nominees and pay his share of registered capital until Mr. Liu Yan would make the relevant capital investment. On December 21, 2010, Mr. Yang Hansong and Shanghai Baoxin entered into an equity transfer agreement with Mr. Liu Yan pursuant to which Mr. Yang Hansong transferred an 40%, and Shanghai Baoxin transferred a 10% of equity interests, in Shenyang Xinbaohang to Mr. Liu Yan for RMB4 million and RMB1 million, respectively. The amount for each of the transfers was determined with reference to the amount of registered capital of Shenyang Xinbaohang. Jingtian & Gongcheng, our PRC legal advisors, are of the view that this nominee arrangement is legal and valid under PRC laws and regulations and there is no legal impediment for Mr. Yang Aihua and/or Mr. Liu Yan to hold their interests in the respective companies above.

All the above transfers have been completed as at the date of this prospectus.

2. Domestic Pre-IPO Investors

On August 4, 2010, Shanghai Baoxin, amongst others, entered into an investment agreement (supplemented by a supplemental agreement dated December 2, 2010) with Huakong Innovation and Huakong Industry pursuant to which Huakong Innovation and Huakong Industry agreed to subscribe for an aggregate of 11.11% of the enlarged equity interests in Shanghai Baoxin for a consideration of RMB500 million. Such consideration was determined with reference to the prospective growth rate and scale of the underlying business of our Group and the valuation of comparable companies (having regard to the scale of business and the industry of the Group) at the time of negotiation.

Each of Huakong Innovation and Huakong Industry is a limited partnership registered in the PRC focused on private equity investments. Their general partners are 北京華控匯金管理諮詢事務所 (Beijing Huakong Huijin Management Consulting) and 北京華控匯金投資顧問有限公司 (Beijing Huakong Huijin Investment Consulting Co., Ltd.), respectively, both of which are managed by the same team of managers. Huakong Innovation and Huakong Industry are leading private equity firms in China, focusing investment opportunities in various industries including consumer retail sector. As financial investors, they have provided capital support for companies engaging in several industries such as auto dealership, commercial real estate and telecommunications, media and technology. Since management and the ultimate investors of Huakong Innovation and Huakong Industry are identical to Innovation Capital and Tsinghua Fund I, Tsinghua Fund II respectively, please refer to the section headed “—Overseas Reorganization—Overseas Pre-IPO Investors” below for a detailed description of our overseas Pre-IPO Investors.

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Upon completion of the above subscriptions, Shanghai Baoxin was owned as to 69.88% by Kailong PRC, 12.11% by Shangchen PRC, 2.56% by Hengjun PRC, 0.84% by Chiheng PRC, 3.5% by Bentai PRC, 6.67% by Huakong Innovation and 4.44% by Huakong Industry.

Overseas Reorganization

Our Group's overseas Reorganization involved the establishment of a new shareholding structure pursuant to which our Controlling Shareholders restructured their equity interests in our Group through the establishment of intermediary holding companies incorporated outside of the PRC.

The following transactions involved principally changes in our Company's shareholding structure:

1. Establishment of the offshore holding structure and the Family Trust

Our Company was incorporated in the Cayman Islands on September 6, 2010 and was owned by Baoxin Investment, a BVI company then owned by Ms. Yang. Our directly wholly-owned subsidiaries, Xiangsong and Kailong HK, were incorporated in the BVI and in Hong Kong on April 4, 2011 and September 21, 2010, respectively. On April 18, 2011, our Company transferred its entire interests in Kailong HK to Xiangsong and as a result Kailong HK became a wholly-owned subsidiary of Xiangsong.

On May 23, 2011, Ms. Yang, as the settlor, established the Family Trust and her entire interests in Baoxin Investment was transferred to the trustee of the Family Trust for the benefit of the Family Trust Beneficiaries, which comprise of Mr. Yang Aihua, Mr. Yang Zehua and Mr. Yang Hansong, together with their respective children and further issue. As of the Latest Practicable Date, Credit Suisse Trust Limited acts as the trustee and has the powers customary granted to a trustee, including:

- (i) applying all or any part of the trust fund and the income thereof to and for the maintenance, education, advancement or otherwise for the benefit of any of the beneficiaries;
- (ii) paying or transferring of the trust fund and the income thereof to the trustees of any other trust for the benefit of the beneficiaries; and
- (iii) holding the trust fund and the income for the benefit of the beneficiaries.

Ms. Yang has completed her Bachelors degree in the University of Toronto in June 2011. She has no management role in the Group. Apart from her interests in the Group, she does not have any interests in other businesses.

The proper law of the Family Trust is the law of the Island of Guernsey and the provisions of the Family Trust are subject to, and enforceable under, the laws of the Island of Guernsey. Under the Family Trust, certain discretions of the trustee are only exercisable by the trustee with the consent of the protector, Mr. Yang Aihua, and such discretions includes: (i) determining the date of termination of the Family Trust; (ii) changing the proper law of the Family Trust; (iii) appointment of income to beneficiaries; (iv) appointment of capital and income to beneficiaries on termination of the Family Trust; (v) general powers of appointment and advancement; (vi) exclusion of beneficiaries; (vii) addition of beneficiaries; and (viii) variation of the trust powers and provisions of the Family Trust.

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In addition, for so long as there is a protector in office, the trustees shall not have any investment or asset management powers, including powers to interfere in the management of the business of Baoxin Investment and the voting rights attached to the shares of Baoxin Investment. The investment and asset management powers are vested solely in the protector. The protector also has the power to appoint or remove trustees. The settlor has no reserved power under the Family Trust.

2. Other investors in our Company

To prepare for the acquisition of Shanghai Baoxin, Baoxin Investment, through a series of transfers, transferred approximately 6,938.1, 9,281.9 and 24,330 Shares at a nominal consideration to each of Tsinghua Fund I, Tsinghua Fund II and Innovation Capital, respectively, which represented approximately 1.38%, 1.86% and 4.87% of the total issued share capital of our Company at the date of each transfer. On July 12, 2011, each of Baoxin Investment, Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, Auspicious Splendid, Full Establish, Goffee and Moral Grand respectively subscribed for approximately 269,350, 6,938.1, 9,281.9, 24,330, 121,100, 35,000, 25,600 and 8,400 Shares in the Company at par value. Upon completion of such subscriptions, our Company was held as to approximately 72.88%, 1.38%, 1.86%, 4.87%, 12.11%, 3.5%, 2.56% and 0.84% by Baoxin Investment, Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, Auspicious Splendid, Full Establish, Goffee and Moral Grand, respectively.

The effective cost per share paid by each of Full Establish, Goffee and Moral Grand was RMB0.24, RMB0.25 and RMB0.25 respectively, which represents an aggregate discount of approximately 96.54%, 96.39% and 96.39%, respectively to the low end of the stated Offer Price of HK\$8.50, an aggregate discount of approximately 96.95%, 96.82% and 96.82%, respectively to the mid-point of the stated Offer Price range of HK\$9.65 and an aggregate discount of approximately 97.28%, 97.16% and 97.16%, respectively to the high end of the stated Offer Price range of HK\$10.80.

Among the above Shareholders, the ultimate investors and managers of Huakong Innovation and Huakong Industry are identical to those of Tsinghua Fund I, Tsinghua Fund II and Innovation Capital.

Auspicious Splendid is legally wholly-owned by Ms. Yang on trust for the Yang Trust Beneficiaries, pursuant to the trust deed in respect of the Yang Trust dated July 12, 2011 and as supplemented by a deed dated August 11, 2011. The proper law of the Yang Trust is the laws of the BVI. Under the Yang Trust, Ms. Yang has powers customarily granted to a trustee, such as the power to receive additional property and to hold the capital and income of the trust fund on trust for the beneficiaries in such shares as the protector, Mr. Yang Aihua directs.

The protector also has the power to (i) add or remove beneficiaries; (ii) exclude any person to be a beneficiary; and (iii) remove a trustee and appoint a successor trustee.

For so long as there is a protector in office, the trustee shall not have any investment or asset management powers, including powers to interfere in the management of the business of Auspicious Splendid and the voting rights attached to the shares of Auspicious Splendid. The investment and asset management powers are vested solely in the protector. Ms. Yang, as the settlor, has no reserved power under the Yang Trust.

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Full Establish, Goffee and Moral Grand were controlled by the beneficial owners of Bentai PRC, Hengjun PRC and Chiheng PRC, respectively, all of which are independent of each other and Independent Third Parties of our Group.

3. *Overseas Pre-IPO Investors*

Pursuant to a shareholders' agreement between Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, the Company and others dated July 8, 2011, Tsinghua Fund I, Tsinghua Fund II and Innovation Capital were granted certain rights customary to financial investors set out below. The shareholders' agreement contains similar rights as that of the investment agreement (as supplemented) dated August 4, 2010 between Shanghai Baoxin and others. All these rights will be terminated upon the Listing Date, including the following:

- Right to appoint a director: Tsinghua Fund I, Tsinghua Fund II and Innovation Capital (the "Tsinghua Investors") together have a right to appoint a non-executive Director.
- Information rights: Tsinghua Investors are entitled to receive information of our Group upon reasonable request and shall have the right to contact the respective clients and creditors of our Group directly for the purpose of inspection of the affairs of our Group.
- Anti-dilution right: If our Company issues new Shares or grants any rights to any Shareholders that are more favorable than those enjoyed by Tsinghua Investors, same rights shall be granted to Tsinghua Investors.
- Transfer Restrictions: Except with the prior written consent of the Director appointed by Tsinghua Investors, Mr. Yang Aihua, Mr. Yang Hansong and Mr. Yang Zehua shall not exercise any voting right or otherwise allow any existing Shareholders to directly or indirectly transfer, or create any encumbrance over, any Shares of our Company, provided that the existing Shareholders are entitled to transfer such Shares not exceeding 5% of the total issued shares of our Company to any non-financial investors so long as the proposed transfer would not result in any adverse effect on the Listing.
- Right of first refusal: If any of Mr. Yang Aihua, Mr. Yang Hansong or Mr. Yang Zehua proposes to transfer any of the Shares held by it to a third party purchaser, Tsinghua Investors shall have a right of first refusal to purchase such shares.
- Tag-along right: If any of Mr. Yang Aihua, Mr. Yang Hansong or Mr. Yang Zehua proposes to make a transfer of the Shares to a third party, Tsinghua Investors shall have a right to require the proposed transferee to purchase a pro rata portion of the Shares held by Tsinghua Investors.
- Non-competition: Each of Mr. Yang Aihua, Mr. Yang Hansong and Mr. Yang Zehua agrees that he shall not (without the written consent of Tsinghua Investors), directly or indirectly, in any way, be engaged or interested in or otherwise carry on any business in competition with the businesses carried on by our Group in the PRC and engage in any acts that might cause harm to the interest of our Group.

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Details of the investment of Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, Huakong Innovation and Huakong Industry are summarized as follows:

Name of pre-IPO investor(s)	: Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, Huakong Innovation and Huakong Industry
Date of investment agreement	: August 4, 2010
Amount of consideration paid	: RMB500 million
Date of payment of consideration and completion	: December 15, 2010
Use of proceeds	: For expansion of our Group's 4S dealership network
Cost per Share paid by pre-IPO investor	: RMB2.05
Discount to the Offer Price (not taking into account the 3% equity interest in Shanghai Baoxin which is subject to a conditional purchase agreement, details of which please refer to "Onshore Acquisition" below):	
<ul style="list-style-type: none"> ● assuming low end of stated Offer Price range of HK\$8.50 	: 70.43%
<ul style="list-style-type: none"> ● assuming mid-point of stated Offer Price range of HK\$9.65 	: 73.95%
<ul style="list-style-type: none"> ● assuming high end of stated Offer Price range of HK\$10.80 	: 76.73%
Shareholding in the Company immediately following the Global Offering (assuming Over-allotment Option is not exercised)	: 7.05% in our Company and 3% in Shanghai Baoxin (Pursuant to the Equity Transfer Agreement (as defined below), Suzhou Baoxin will acquire such 3% of the equity interest in Shanghai Baoxin from Huakong Innovation and Huakong Industry after completion of the Listing.)

Each of Tsinghua Fund I, Tsinghua Fund II and Innovation Capital is an Exempted Limited Partnership registered in the Cayman Islands focused on private equity investments. Their general partner is TH Capital, a limited liability company organized and existing under the laws of the Cayman Islands. Each of Tsinghua Fund I, Tsinghua Fund II, Innovation Capital is managed by TH Management

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Company, a limited liability company incorporated in Cayman Islands. Their beneficial owners include various companies, a foundation and individuals, all of which will be Independent Third Parties upon Listing.

Onshore Reorganization

On March 11, 2011, Suzhou Baoxin entered into an equity transfer agreement with each of Mr. Yang Aihua and Mr. Yang Hansong, pursuant to which Mr. Yang Aihua and Mr. Yang Hansong transferred 80% and 20% of the equity interests in Suzhou Xinbaohang to Suzhou Baoxin, respectively, for a total consideration of RMB10 million. The consideration was determined with reference to the registered capital of Suzhou Xinbaohang. Upon completion of such transfer, Suzhou Xinbaohang became a wholly-owned subsidiary of Suzhou Baoxin.

Suzhou Xinbaohang entered into an equity transfer agreement on May 29, 2011 with Shanghai Hanchuan, a company wholly-owned by Mr. Yang Aihua and his nominee, Mr. Yang Hansong, pursuant to which Suzhou Xinbaohang acquired the entire equity interest in Jiaying Tianhua for a consideration of RMB10 million. Suzhou Xinbaohang entered into another two equity transfer agreements with the same entity on June 10, 2011 to acquire the entire equity interests in Wuxi Tianhua and Ningbo Tianhua, respectively, for an aggregate consideration of RMB30 million. The considerations were determined with reference to the registered capital of each of the relevant target companies.

On February 22, 2011, Shanghai Baoxin entered into an equity transfer agreement with Kailong HK pursuant to which the entire equity interests in Suzhou Baoxin was transferred to Kailong HK for a consideration of RMB14,280,000, as a result of which Suzhou Baoxin became a wholly-owned subsidiary of Kailong HK. The consideration was determined with reference to the total amount of investment of Suzhou Baoxin and was funded by bank borrowings obtained by Ms. Yang. As advised by our PRC legal counsel, Jingtian & Gongcheng, the acquisition by Kailong HK of the entire equity interests in Suzhou Baoxin complies with the PRC legal requirements and, in particular, this transaction did not contravene the M&A Rules. In particular, article 11 of the M&A Rules provides that approval of MOFCOM is required where a domestic company or natural person intends to takeover its domestic affiliated company which it establishes or controls. Our PRC legal counsel, Jingtian & Gongcheng has confirmed the acquisition does not constitute an acquisition under Article 11 of the M&A Rules given that (i) Ms. Yang, the then ultimate shareholder of Kailong HK, is not a “domestic natural person” under the M&A Rules; and (ii) Suzhou Baoxin is not deemed as an affiliated company as Kailong HK given the shareholding of these two companies were different as the time of the acquisition. Before entering into the equity transfer agreement, the 江蘇省商務廳 (Jiangsu Ministry of Commerce) (“Jiangsu MOFCOM”) has been consulted. Having been disclosed all relevant facts relating to the equity transfer agreement, including the father-daughter relationship between Mr. Yang Aihua and Ms. Yang, the Jiangsu MOFCOM has not raised any objection to the transfer and issued a 外商投資企業批准證書 (foreign investment approval) on April 1, 2011, to Suzhou Baoxin, which approved of the equity transfer, and subsequently local SAIC granted a renewed business licence on May 20, 2011.

On June 28, 2011, Suzhou Baoxin entered into an equity transfer agreement with each of the shareholders of Shanghai Baoxin, pursuant to which Kailong PRC, Shangchen PRC, Huakong Innovation, Huakong Industry, Bentai PRC, Hengjun PRC and Chiheng PRC transferred 69.88%, 12.11%, 4.866%, 3.244%, 3.5%, 2.56% and 0.84% of the equity interests in Shanghai Baoxin to Suzhou Baoxin, respectively, for a total consideration of RMB208,210,500 as part of the reorganisation of the

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Group. The consideration was determined with reference to the registered capital of Shanghai Baoxin. Upon completion of such transfer, Shanghai Baoxin became 97% indirectly owned by our Company, with the remaining 3% owned by Huakong Innovation and Huakong Industry.

On August 15, 2011, Shanghai Kailong Qimao entered into an equity transfer agreement with Shanghai Kailong Qixiao, pursuant to which Shanghai Kailong Qimao acquired the entire equity interest in Minhang Automobiles for a consideration of RMB10 million. The consideration was determined with reference to the registered capital of Minhang Automobiles. On the same day, Shanghai Kailong Qixiao further transferred all the operating assets and liabilities relating to the Nissan 4S store to Minhang Automobiles for a consideration of RMB41 million. The consideration was determined with reference to the book value of the operating assets and liabilities as at June 30, 2011. Shanghai Kailong Qixiao is an entity controlled by Mr. Yang Aihua and it has ceased its business of sales and service of motor vehicles pursuant to the above transactions.

Onshore Acquisition

As mentioned above, Shanghai Baoxin was 97% owned by Suzhou Baoxin and 3% by Huakong Innovation and Huakong Industry as a result of the equity transfer agreement dated June 28, 2011. On the same day, Suzhou Baoxin entered into another equity transfer agreement (the “3% Equity Transfer Agreement”) with Huakong Innovation and Huakong Industry, pursuant to which Huakong Innovation and Huakong Industry agreed to sell and Suzhou Baoxin agreed to purchase 3% of the equity interests in Shanghai Baoxin for a consideration of RMB550 million provided that any one of the following three conditions is fulfilled: (i) the Global Offering has been completed; (ii) our Shareholders (apart from Tsinghua Fund I, Tsinghua Fund II and Innovation Capital) have disposed of an aggregate of 40% or more of their Shares in our Company; or (iii) Mr. Yang Aihua has ceased to be a Controlling Shareholder. Completion of the 3% Equity Transfer Agreement would effectively increase the Group’s shareholding in Shanghai Baoxin such that it will be 100% owned by our Group. We plan to consummate this purchase within two weeks of the Listing Date. The consideration of RMB550 million is currently expected to be kept in an escrow account to be released pending compliance with SAFE and other regulatory procedures.

The consideration is determined with reference to valuation of other comparable companies and after taking into consideration of the then growth prospect of the underlying business. The per share price for the purchase of the 3% equity interests in Shanghai Baoxin represents a 307.4% increase of the per share price of the subscription in the shares of Shanghai Baoxin by Huakong Innovation and Huakong Industry in August 2010. Such appreciation is primarily due to the difference in (i) the prospective growth rate; (ii) the scale of the underlying business of our Group; and (iii) the valuations of comparable companies at the respective time of negotiating each transaction.

This arrangement was not entered into as a condition to the Pre-IPO Investors’ investment in 2010. The buy back of the 3% equity interests by the Group has the effect of consolidating and streamlining the Group’s interests in Shanghai Baoxin such that it would be wholly-owned by the Group at completion of the Global Offering. Given that the buy back arrangement was conducted on normal commercial terms and entered into on an arms’ length basis, the Company is of the view that this arrangement is fair and reasonable and in the interests of the shareholders as a whole and that all shareholders of the Company are treated fairly and equally under Rule 2.03(4) of the Listing Rules.

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Notes:

- (1) Sunny Sky Limited is controlled by Credit Suisse Trust Limited, the trustee of the Family Trust.
- (2) Each of Tsinghua Fund I, Tsinghua Fund II, Innovation Capital, Full Establish, Goffee and Moral Grand is an Independent Third Party and the Shares held by each of them will be counted towards the public float upon Listing.
- (3) Suzhou Baoxin has entered into the Equity Transfer Agreement pursuant to which 3% of the equity interests in Shanghai Baoxin will be transferred to Suzhou Baoxin after completion of the Listing.
- (4) 50% of the equity interests in Shenyang Xinbaohang is owned by Mr. Liu Yan, who, apart from his equity interests herein, is an Independent Third Party.
- (5) 10% of the equity interests in Fuyang Baoxin is owned by Mr. Wang Yang, who, apart from his equity interests in Fuyang Baoxin and Hangzhou Baoxin, is an Independent Third Party.
- (6) 30% of the equity interests in Yangzhou Xinbaohang is owned by Mr. Bo Yutang, who, apart from his equity interests in Yangzhou Xinbaohang, is an Independent Third Party.
- (7) 10% of the equity interests in Hangzhou Baoxin is owned by Mr. Wang Yang, who, apart from his equity interests in Hangzhou Baoxin and Fuyang Baoxin, is an Independent Third Party.
- (8) 49% of the equity interests in Beijing Xinbaohang is owned by 力天集團有限公司 (Liten Group Co., Ltd.). In accordance with the memorandum and articles of association of Beijing Xinbaohang, Liten Group Co., Ltd. has the right to appoint two out of five directors and a right of first refusal upon the proposed sale of equity interests to any third party. Beijing Xinbaohang may not undertake certain actions including any merger or acquisition of another entity, change in share capital, winding up or amendment of the articles of association without the consent of the holders of at least two-thirds of its equity interests. Liten Group Co., Ltd. is an Independent Third Party apart from its equity interests in Beijing Xinbaohang.
- (9) 25% of the equity interests in Zibo Baoxin is owned by Mr. Zhou Wenfang, who, apart from his equity interests in Zibo Baoxin, is an Independent Third Party.
- (10) 21% of the equity interests in Shanghai Wujiaochang Kailong is owned by 上海五角場(集團)有限公司 (Shanghai Wujiaochang (Group) Co., Ltd.) and the other 9% equity interests is owned by Mr. Chen Zhenghui, an Independent Third Party. Shanghai Wujiaochang (Group) Co., Ltd., apart from its equity interests in Shanghai Wujiaochang Kailong, is an Independent Third Party.
- (11) 15% of the equity interests in Shanghai Kailong Toyota is owned by the Shuangri Entities, which, apart from their equity interests in Shanghai Kailong Toyota, are Independent Third Parties. In accordance with the memorandum and articles of association of Shanghai Kailong Toyota the Shuangri Entities have the right to appoint one out of five directors, and, upon any increase in the registered capital thereof, have an anti-dilution right to maintain their pro rata share of equity interests therein. Shanghai Kailong Toyota may not, without the consent of all directors, undertake certain actions including any merger with or acquisition of another entity, change in share capital, transfer of shares, issuance of guarantees or distribution of profits.
- (12) 10% of the equity interests in Shanghai Taipingyang Jinsha is owned by Ms. Xu Runfang, who, apart from her equity interests in Shanghai Taipingyang Jinsha, is an Independent Third Party.