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

The number of 4S dealership stores referred to in this prospectus includes a jointly-controlled entity whose revenues and sales volume are not included in our combined data. Accordingly, our results of operations, including sales revenues, gross profits and gross profit margins, and operating data, such as sales volumes, discussed in this prospectus do not include corresponding results or data of that jointly-controlled entity.

OVERVIEW

According to Euromonitor, we are a leading luxury 4S dealership group in China in terms of sales volume and number of dealership stores for BMW with a rapidly growing ultra-luxury dealership business. We have a well-established network comprising 28 4S dealership stores (including a jointly-controlled entity) as of September 30, 2011, 18 of which were luxury and ultra-luxury brand stores. As of the Latest Practicable Date, we had received manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another 14 luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center, including five stores which we expect to commence operations by December 31, 2011. All of our 4S dealership stores are strategically located in populous and affluent regions in China with rapidly growing economies. Each of our 4S dealerships is designated to sell one brand of automobiles. Our strong brand portfolio includes luxury brands such as BMW, MINI, Audi, and Cadillac, ultra-luxury brands such as Land Rover & Jaguar, and other popular mid-to-upper market brands, such as Buick, Toyota, Honda, Nissan, Volkswagen, Chevrolet and Hyundai. Sales under our luxury and ultra-luxury brands have contributed to an increasing percentage of our revenue and gross profit from automobile sales over the Track Record Period, accounting for 59.8%, 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.4%, 80.9%, 87.8% and 93.8% of our gross profit from automobile sales, in 2008, 2009, 2010 and the six months ended June 30, 2011, respectively. We believe that our focus on luxury and ultra-luxury brands have enabled us to achieve rapid revenue and profit growth and increasing profit margins over the Track Record Period. We also provide a wide range of after-sales services and products to our customers including repair, maintenance, customization services, spare parts and other automobile related products. We believe that our strong brand portfolio enables us to capture the opportunities in the PRC market.

Since we commenced operation in 1999, we have established a proven track record in building successful, high quality 4S dealership stores. We opened one of the first BMW Brilliance authorized 4S dealership stores in China in 2004 and have since become one of BMW's most important and largest dealerships in China in terms of 2010 sales volume. In 2010, China was the third largest market for BMW, and the fastest growing of its three largest markets, worldwide in terms of sales volume according to BMW's 2010 annual report. Average sales volume per store of our Comparable Stores for

Automobile Sales of luxury and ultra-luxury brands grew by 14.2% from 1,422 units in 2008 to 1,624 units in 2009 and by a further 25.0% to 2,030 units in 2010 and reached 1,000 units for the six months ended June 30, 2011. Average revenue from automobile sales per store of these stores grew by 17.7% from RMB656.0 million in 2008 to RMB771.8 million in 2009 and by a further 26.0% to RMB972.6 million in 2010 and reached RMB491.6 million for the six months ended June 30, 2011. Average revenue from after-sales business per store of our Comparable Stores for After-sales Business in the luxury and ultra-luxury market grew by 20.7% from RMB71.9 million in 2008 to RMB86.8 million in 2009 and by a further 15.1% to RMB99.9 million in 2010 and reached RMB49.9 million for the six months ended June 30, 2011, and the gross profit margin of our Comparable Stores for After-sales Business for luxury and ultra-luxury brands increased from 41.0% in 2008 to 47.6% in 2009 and 48.2% in 2010 and was 47.7% for the six months ended June 30, 2011.

We have rapidly expanded our network since early 2009 by increasing the number of our 4S dealership stores from 13 as of December 31, 2008 to 28 (including a jointly-controlled entity) as of September 30, 2011. As of September 30, 2011, over 40% of our luxury and ultra-luxury 4S dealership stores had been operating for less than one year. As our newer stores continue to ramp up their operations, we expect them to experience higher revenue growth rates than our more established stores and to contribute to an increasing percentage of our revenue and gross profits in 2011 and 2012.

We recorded significant growth in our revenues and profits during the Track Record Period. The following table sets out a breakdown of our revenue for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2008		2009		2010		2010		2011	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue										
Revenue from automobile sales										
Luxury and ultra-luxury brands[(1)]	1,994,348	59.8	3,336,666	70.6	5,583,995	77.9	2,451,315	77.7	4,213,133	85.6
Mid-to-upper market brands[(1)]	1,341,874	40.2	1,392,256	29.4	1,584,111	22.1	703,505	22.3	708,927	14.4
Sub-total	3,336,222	100.0	4,728,922	100.0	7,168,106	100.0	3,154,820	100.0	4,922,060	100.0
Revenue from automobile sales	3,336,222	90.1	4,728,922	91.6	7,168,106	92.9	3,154,820	93.0	4,922,060	94.0
Revenue from after-sales business	365,039	9.9	435,808	8.4	548,458	7.1	237,913	7.0	311,268	6.0
Total Revenue	3,701,261	100.0	5,164,730	100.0	7,716,564	100.0	3,392,733	100.0	5,233,328	100.0

Notes:

(1) 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.

The following table sets out a breakdown of our gross profits and gross profit margins for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2008		2009		2010		2010		2011	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Automobile Sales										
Luxury and ultra-luxury brands[1]	83,688	4.2	190,567	5.7	375,165	6.7	167,198	6.8	346,728	8.2
Mid-to-upper market brands[1]	20,394	1.5	45,070	3.2	52,230	3.3	23,363	3.3	22,929	3.2
Sub-total	104,082	3.1	235,637	5.0	427,395	6.0	190,561	6.0	369,657	7.5
After-Sales Business										
Luxury and ultra-luxury brands[1]	88,605	40.9	131,397	47.3	181,459	47.5	77,268	47.5	105,387	47.1
Mid-to-upper market brands[1]	63,402	42.8	71,052	45.0	79,144	47.6	34,523	45.8	44,019	50.2
Sub-total	152,007	41.6	202,449	46.5	260,603	47.5	111,791	47.0	149,406	48.0
Total	256,089	6.9	438,086	8.5	687,998	8.9	302,352	8.9	519,063	9.9

Notes:

(1) 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.

BASIS OF PRESENTATION

Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group after the Track Record Period on August 4, 2011. See "Our History and Reorganization". The companies now comprising the Group were under the common control of Mr. Yang Aihua both before and after the Reorganization. Accordingly, the financial information of our Group has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The combined income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the earliest date presented or, if later, since the date when the subsidiaries and/or businesses first came under the common control of Mr. Yang Aihua. The combined statements of financial position of our Group as of December 31, 2008, 2009, 2010 and June 30, 2011 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from Mr. Yang Aihua's perspective. No adjustments are made as a result of the Reorganization to reflect fair values or to recognize any new assets or liabilities.

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

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Our results of operations are affected by the demand for luxury and ultra-luxury automobiles and, to a lesser extent, by the demand for mid-to-upper market brand automobiles in the PRC. The rapid growth of the PRC economy has led to accelerated urbanization, increased living standards and higher per capita disposable income, which have in turn driven demand for automobiles in the PRC. Furthermore, the consumption of more expensive branded lifestyle products, including luxury and ultra-luxury automobiles, have also increased significantly.

Our 4S Dealership Network

Our sales of new automobiles are directly affected by the number, locations, maturity and business performance of our 4S dealership stores. To capture more of the increasing demand for luxury, ultra-luxury and mid-to-upper market automobiles, we have rapidly expanded our 4S dealership network through organic growth during the Track Record Period.

Our 4S dealership stores are strategically located in populous and affluent areas in the PRC with rapidly growing economies. The main regions where we operate, namely, Shanghai, Jiangsu, Zhejiang, Tianjin, Shandong and Liaoning, all ranked top ten in terms of per capita GDP in China in 2010 according to the Economist magazine. Our presence in these areas differentiates us from competitors who operate in less developed regions. We believe that, due in part to their advantageous locations, we are able to achieve high per store sales revenues and our newly-established stores are able to ramp up their sales and generate profit within six to eight months of commencement of operation.

For example, we opened four new luxury brand stores during the first half of 2009 and two new luxury brand stores during the second half of 2010 (excluding Shenyang Xinbaohang, a jointly-controlled entity the revenues and sales volume of which are not included in our combined revenues and sales volume):

- The combined automobile sales revenues of our four stores opened in 2009 grew by 139.7% from RMB1,021.4 million in 2009 to RMB2,448.2 million in 2010 and grew by 30.1% from RMB1,142.0 million for the six months ended June 30, 2010 to RMB1,485.7 million for the same period of 2011, contributing to 21.6%, 34.2% and 30.2% of our revenue from automobile sales for 2009, 2010 and the six months ended June 30, 2011, respectively. The combined revenue from after-sales business of those four stores grew significantly from RMB17.5 million in 2009 to RMB75.8 million in 2010 and grew by 74.1% from RMB29.3 million for the six months ended June 30, 2010 to RMB51.0 million for the same period of 2011, contributing to 4.0%, 13.8% and 16.4% of our revenue from after-sales business for 2009, 2010 and the six months ended June 30, 2011, respectively.

- The combined automobile sales revenues of our two stores opened in 2010 increased from RMB217.9 million in 2010 to RMB441.7 million during the six months ended June 30, 2011 and contributed to 3.0% and 9.0% of our revenue from automobile sales in 2010 and the six months ended June 30, 2011, respectively. The combined revenue from after-sales business of these two stores grew from RMB1.2 million in 2010 to RMB10.4 million in the six months ended June 30, 2011 and contributed to 0.2% and 3.3% of our revenue from after-sales business in 2010 and for the six months ended June 30, 2011, respectively.

- We opened six new luxury and ultra-luxury brand stores during the six months ended June 30, 2011 (including two stores which opened in May 2011). The combined automobile sales revenue of these six stores were RMB667.9 million for the six months ended June 30, 2011, contributing to 13.6% of our revenue from automobile sales for the six months ended June 30, 2011.

The following table demonstrates the growth in our store network over the Track Record Period:

	As of January 1,	As of December 31,						As of June 30,	
	2008	2008		2009		2010		2011	
Brand	Number of Stores	Number of Stores	Increase	Number of Stores	Increase	Number of Stores	Increase	Number of Stores	Increase
			%		%		%		%
Luxury and ultra-luxury brands[2]	3	3	—	7	133.3	10[1]	42.9	16[1]	60.0
Mid-to-upper market brands[2]	10	10	—	10	—	10	—	10	—
Total	13	13	—	17	30.8	20[1]	17.6	26[1]	30.0

Notes:

(1) Includes a jointly-controlled entity whose revenues and sales volume are not included in our combined data.

(2) 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.

A substantial majority of our existing and planned stores are located in provincial, sub-provincial and prefectural cities, as opposed to county cities and less developed areas. In addition, our newly-established stores generally start to generate profits within the first six to eight months of commencement of operation and achieve our expected automobile sales levels in their second year of operation. Accordingly, we view the revenues and gross profits from automobile sales of our 4S dealership stores that are located in a provincial, sub-provincial or prefectural city and have been in operation for at least 12 months as a useful measure for evaluating our performance in automobile sales. This measure excludes those of our 4S dealership stores which are located in county cities and less developed areas. As at the Latest Practicable Date, we had only one store (Changshu Baoxin) which falls into this latter category and has been in operation for at least 12 months. See "Definitions" for the definition of the term "Comparable Stores for Automobile Sales" as used in this prospectus.

The after-sales revenues of our newer 4S dealership stores typically achieve our expected levels during their third year of operation as there is usually a time lapse between the automobile purchases and the demand for maintenance and repair services. Accordingly, we view the revenues and gross profits from our after-sales business of our 4S dealership stores that have been in operation for at least 24 months as a useful measure for evaluating the performance of our after-sales business. See "Definitions" for the definition of the term "Comparable Stores for After-sales Business" as used in this prospectus. Due to the timing of our new store openings, Comparable Stores for After-sales Business during the Track Record Period do not include any of the 4S dealership stores opened since January 1, 2009.

We believe that our network expansion during the Track Record Period led to certain synergies which improved our financial performance in recent years. As a result of the increase in the number of our 4S dealership stores, (1) we were able to better manage our automobile inventory by re-allocating automobiles of the same brand among different stores in the same region according to demand, which improved our sales performance, and (2) we were able to aggregate purchases of certain automobile accessories and other products to lower our related purchase costs. We believe that our high operating standards and service quality enable us to maximize the incentive rebates that we receive under prevailing manufacturers' rebate policies.

Product and Service Mix

We offer a diversified portfolio of luxury, ultra-luxury and mid-to-upper market automobile brands, which bear different gross margins. Changes in the mix of automobile brands and automobile models that we sell and the relative contribution of our after-sales business to our revenue affect our gross margins. Our gross profit margin increased from 6.9% in 2008 to 8.5% in 2009, 8.9% in 2010 and 9.9% for the six months ended June 30, 2011. Sales of luxury and ultra-luxury automobiles have accounted for an increasing percentage of our revenue and gross profit over the Track Record Period, accounting for 59.8%, 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.4%, 80.9%, 87.8% and 93.8% of our gross profit from automobile sales, in 2008, 2009, 2010 and the six months ended June 30, 2011, respectively. As of June 30, 2011, 16 out of 26, or more than 60%, of our 4S dealership stores were dedicated to the sales of luxury and ultra-luxury brands. During the Track Record Period, our sales of luxury and ultra-luxury brand automobiles have resulted in higher gross margins than our sales of mid-to-upper market automobile brands. As a result of our increased sales of luxury brand automobiles during the Track Record Period, our overall profit margins for automobile sales have increased over the same period.

The following table sets out a breakdown of our revenue from the sales of automobiles and the relative percentage contribution of each automobile category for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2008		2009		2010		2010		2011	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Automobile Sales										
Luxury and ultra-luxury brands[1]	1,994,348	59.8	3,336,666	70.6	5,583,995	77.9	2,451,315	77.7	4,213,133	85.6
Mid-to-upper market brands[1]	1,341,874	40.2	1,392,256	29.4	1,584,111	22.1	703,505	22.3	708,927	14.4
Total	3,336,222	100.0	4,728,922	100.0	7,168,106	100.0	3,154,820	100.0	4,922,060	100.0

Notes:

(1) 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.

The following table sets out a breakdown of our revenue from automobile sales by geography and the relative percentage contribution of each area for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2008		2009		2010		2010		2011	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Automobile Sales										
Shanghai	2,486,888	74.5	2,858,510	60.4	3,524,830	49.2	1,572,430	49.8	2,300,541	46.7
Jiangsu	823,129	24.7	963,754	20.4	1,283,984	17.9	577,378	18.3	949,090	19.3
Zhejiang	23,355	0.7	718,548	15.2	1,683,515	23.5	780,307	24.7	1,041,332	21.2
Greater Bohai Rim Economic Region	2,850	0.1	188,110	4.0	675,777	9.4	224,705	7.2	631,097	12.8
Total	3,336,222	100.0	4,728,922	100.0	7,168,106	100.0	3,154,820	100.0	4,922,060	100.0

The following table sets out our gross profits and gross margins for automobile sales for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2008		2009		2010		2010		2011	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Automobile Sales										
Luxury and ultra-luxury brands[(1)]	83,688	4.2	190,567	5.7	375,165	6.7	167,198	6.8	346,728	8.2
Mid-to-upper market brands[(1)]	20,394	1.5	45,070	3.2	52,230	3.3	23,363	3.3	22,929	3.2
Overall	104,082	3.1	235,637	5.0	427,395	6.0	190,561	6.0	369,657	7.5

Notes:

(1) 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.

Our overall profitability and gross margins of our business are also impacted by our product and service mix as the profit margins of our after-sales business are significantly higher than our profit margins for automobile sales. The following table sets out revenue, gross profits and gross margins from our after-sales business for the periods indicated:

	Year Ended December 31,									Six Months Ended June 30,					
	2008			2009			2010			2010			2011		
	Revenue	Gross Profit	Gross Margin	Revenue	Gross Profit	Gross Margin	Revenue	Gross Profit	Gross Margin	Revenue	Gross Profit	Gross Margin	Revenue	Gross Profit	Gross Margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
After-Sales Business															
Luxury and ultra-luxury brands[(1)]	216,748	88,605	40.9	277,846	131,397	47.3	382,166	181,459	47.5	162,556	77,268	47.5	223,584	105,387	47.1
Mid-to-upper market brands[(1)]	148,291	63,402	42.8	157,962	71,052	45.0	166,292	79,144	47.6	75,357	34,523	45.8	87,684	44,019	50.2
Overall	365,039	152,007	41.6	435,808	202,449	46.5	548,458	260,603	47.5	237,913	111,791	47.0	311,268	149,406	48.0

Notes:

(1) 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.

Our after-sales business volume in any given year is affected by the number of automobiles sold by us in prior years and the number and relative maturity of newly-established stores in our network at the time. Although revenue from our after-sales business increased over the Track Record Period, the relative contribution of our after-sales business to our revenue decreased slightly over the Track Record Period from 9.9% in 2008 to 7.1% in 2010 and to 6.0% for the six month ended June 30, 2011. This decrease was primarily due to the opening of new stores during the Track Record Period. Our new stores typically require two years to fully ramp up their after-sales business performance due to the demand cycle for repair and maintenance services. We expect our stores that commenced operation in 2009 and 2010 to contribute more to our overall revenue and profitability as their after-sales business continue to ramp up in 2011 and 2012.

Our Automobile Purchase Costs and Incentive Rebates from Automobile Manufacturers

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

In addition, automobile manufacturers typically offer incentive rebates that are generally determined with reference to the units of new automobiles which we purchase or sell, and are further adjusted based on our performance relative to certain targets set by our automobile manufacturer partners, including customer satisfaction ratings and dealership operating standards. We believe that it is common practice in our industry for the automobile manufacturers to determine their own rebate policies and practices and these policies and practices are not subject to negotiation by automobile dealerships. The basis for determining the rebate amounts is made known to us by the relevant automobile manufacturer in advance. Certain adjustments to our incentive rebates are assessed at the end of each quarter or year (depending on the policies of different automobile manufacturers) when the relevant manufacturer is able to assess our performance for the period and accordingly these amounts are not finalized until the end of each quarter or year, as the case may be. From time to time, automobile manufacturers also offer special incentive rebates for particular models of automobiles. These rebate amounts are settled from time to time (typically on a quarterly or annual basis) according to the different business practices of different automobile manufacturers. In 2008, 2009 and 2010, 46.0%, 57.0% and 67.5%, respectively, of our incentive rebates were paid in cash, while the balance was settled by deducting the aggregate purchase price payable by us for subsequent automobile purchase orders. Incentive rebates are accrued at each reporting date based on our actual purchasing amounts, the corresponding rebate rates as agreed with the automobile manufacturers and our management's estimate of relevant factors, including without limitation, meeting certain sales and service targets set by the relevant automobile manufacturers. In 2008, 2009, 2010 and the six months ended June 30, 2011, we recorded rebates of approximately RMB187.3 million, RMB325.7 million, RMB467.1 million and RMB315.6 million, respectively.

Rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but still held by us as inventory on the reporting date are deducted from the carrying value of these automobiles so that the cost of our inventory is recorded net of applicable rebates. There was no material discrepancy between accrued rebates and actual rebates we received from the automobile manufacturers during the Track Record Period. Any significant change to our purchase costs and the rebates that we receive from automobile manufacturers will affect our results of operation and financial condition. See the section headed "Risk Factors—Risks Relating to Our Business—Our business and operations depend on, and are subject to restrictions imposed by, our dealership authorization agreements with our automobile manufacturer partners. If one or more of these agreements is terminated or not renewed, or if our business dealings with any automobile manufacturer are otherwise reduced, our business, results of operations and prospects could be adversely affected" in this prospectus.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Basis of Combination

This prospectus includes our combined financial information for the Track Record Period. The acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

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

All significant intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by our Group in the results and net assets of the companies now comprising our Group.

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

Judgments and Estimates

The preparation of our combined financial information requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

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

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB6.4 million, RMB5.8 million, RMB6.5 million and RMB9.2 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

Estimation uncertainty

The key assumptions concerning the future and other key resources of estimation uncertainty at the end of the reporting period, which have a significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities for the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

We assess whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The following summarizes components of certain items appearing in the Accountants' Report set out in Appendix I to this prospectus, which we believe will be helpful in understanding the period-to-period discussion that follows below.

Revenue

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

	Year Ended December 31,							Six Months Ended June 30,			
	2008		2009		2010		2008–2010	2010		2011	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution	CAGR	Revenue	Contribution	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%
Revenue from automobiles sales	3,336,222	90.1	4,728,922	91.6	7,168,106	92.9	46.6	3,154,820	93.0	4,922,060	94.0
Revenue from after-sales business	365,039	9.9	435,808	8.4	548,458	7.1	22.6	237,913	7.0	311,268	6.0
Overall	3,701,261	100.0	5,164,730	100.0	7,716,564	100.0	44.4	3,392,733	100.0	5,233,328	100.0

Automobile sales generated a substantial portion of our revenue, accounting for 90.1%, 91.6%, 92.9% and 94.0% of our revenue in 2008, 2009 and 2010 and for the six months ended June 30, 2011, respectively. The contribution of our after-sales business to our revenue decreased slightly over the Track Record Period from 9.9% in 2008 to 8.4% in 2009 to 7.1% in 2010 and to 6.0% for the six months ended June 30, 2011. This decrease was primarily due to the opening of new stores during the Track Record Period. Our new stores typically require two years to fully ramp up their after-sales business performance due to the demand cycle for repair and maintenance services. All of our revenue is derived from our operations in the PRC. In 2010, we derived 50.9% of our revenue from our 4S dealership stores located in Shanghai and 22.4% and 17.7% from our 4S dealership stores located in Zhejiang and Jiangsu, respectively.

Revenue from automobile sales represents the sales of automobiles sold. Revenue from our after-sales business includes charges for maintenance, repair and other services rendered by us and revenue from the sales of spare parts, automobile accessories and other automobile-related products. We receive payment from automobile manufacturers for the repair and maintenance services and spare parts provided by us under their warranties. The warranty terms offered by automobile manufacturers generally cover services at any authorized 4S dealership store under their brands. Our after-sales customers include both our automobile buyers and customers who had purchased their automobiles elsewhere.

The prices of the automobiles and spare parts that we sell are affected by automobile manufacturers' pricing guidelines and other factors such as the popularity of particular models and competition with other 4S dealership stores in the same region who sell the same brands and models of automobiles as we do. Our after-sales service charges are also influenced by automobile manufacturers' pricing guidelines. We have greater flexibility to determine our retail pricing for automobile accessories and products of other types of manufacturers. We generally require customers to make full payment in cash when our products and services are delivered.

Sales of automobiles, spare parts and automobile accessories and revenues generated from our provision of repair, maintenance and customization services are generally subject to a 17% value-added tax (VAT). Our revenue is recorded exclusive of VAT.

Cost of Sales and Services Provided

In 2008, 2009, 2010 and the six months ended June 30, 2011, our cost of sales and services represented 93.1%, 91.5%, 91.1% and 90.1% of our revenue, respectively. Our cost of sales and services primarily comprises the cost of the new automobiles purchased from automobile manufacturers, which represented 93.8%, 95.1%, 95.9% and 96.6% of our total cost of sales and services in 2008, 2009, 2010 and the six months ended June 30, 2011, respectively. Our cost of sales and services also includes the costs of our after-sales business, which primarily comprise the cost of purchasing spare parts for our repair, maintenance and customization services and the cost of purchasing automobile accessories and other products that we sell.

Other Income and Gains, Net

Our other income and gains, net, primarily comprise commissions received from insurance companies for automobile insurance policies sold to our customers, interest income from our bank deposits and government grants from local government authorities. The government grants that we receive are made at the discretion of local government authorities to encourage our business and development in their jurisdictions and are determined based on our tax contributions to the relevant local government authorities and our employment of local residents. There is no assurance that similar grants will be made in any future period.

Selling and Distribution Costs

In 2008, 2009, 2010 and the six months ended June 30, 2011, our selling and distribution costs were RMB97.9 million, RMB133.8 million, RMB177.1 million and RMB131.8 million, respectively, representing 2.6%, 2.6%, 2.3% and 2.5% of our revenue, respectively. The following table sets forth a breakdown of our sales and distribution costs for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Selling and distribution costs					
Salary and welfare expenses	35,549	49,054	56,456	27,273	35,542
Rental expenses and utilities	18,771	22,445	29,380	12,995	26,527
Advertising and promotion expenses	12,970	22,919	37,469	16,231	32,188
Depreciation	19,283	21,955	27,844	12,100	19,405
Logistics and petroleum costs	7,693	14,222	18,837	9,473	12,006
Software licensing fees	1,839	2,445	3,709	1,854	3,010
Others	1,787	716	3,405	2,269	3,083
Total	97,892	133,756	177,100	82,195	131,761

Administrative Expenses

In 2008, 2009, 2010 and the six months ended June 30, 2011, our administrative expenses were RMB53.5 million, RMB68.6 million, RMB91.0 million and RMB91.0 million, representing 1.4%, 1.3%, 1.2% and 1.7% of our revenue, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Administrative expenses					
Salary and welfare expenses	13,640	17,895	21,663	10,449	13,617
Office supplies and utilities	7,323	10,524	12,948	5,942	8,769
Business entertainment and travelling	8,166	9,313	12,932	7,071	12,960
Depreciation and amortization	10,243	11,902	16,908	7,450	15,398
Bank charges	4,185	4,408	6,913	3,266	9,113
Taxation	1,983	2,898	5,069	2,486	15,112
Professional fees and service charges	3,070	4,582	3,964	1,865	7,150
Others	4,859	7,074	10,588	3,590	8,878
Total	53,469	68,596	90,985	42,119	90,997

Finance Costs

Our finance costs primarily include interest expenses on bank loans and other borrowings. In 2008, 2009 and 2010 and the six months ended June 30, 2011, finance costs were RMB39.7 million, RMB26.0 million, RMB48.4 million and RMB48.1 million, representing 1.1%, 0.5%, 0.6% and 0.9% of our revenue, respectively. Our bank loans carried annual interest rates ranging from 5.8% to 9.0% in 2008 compared to 5.3% to 6.1% in 2009, 5.7% to 6.8% in 2010 and 5.8% to 7.9% for the six months ended June 30, 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 7.5% to 8.2% in 2008, 5.6% to 7.8% in 2009, 6.4% to 8.1% in 2010, and 6.7% to 8.1% for the six months ended June 30, 2011.

Share of (Loss)/Profit of a Jointly-Controlled Entity

Our BMW brand 4S dealership in Shenyang, Shenyang Xinbaohang, is operated under a joint venture arrangement that we have with an Independent Third Party, Mr. Liu Yan. We did not enter into a shareholders' agreement with Mr. Liu with respect to Shenyang Xinbaohang. The articles of association of Shenyang Xinbaohang provides that profit distribution among its shareholders shall be made in accordance with the PRC Company Law. The PRC Company Law provides that profit distribution among the shareholders shall be made on the basis of capital contribution ratio, unless otherwise agreed by the shareholders. There is no other agreement regarding profit distribution among the shareholders of Shenyang Xinbaohang. The joint venture, which is accounted for by us as a jointly-controlled entity is not a connected person of our Company under Listing Rule 14A.11. We recorded a share of loss of Shenyang Xinbaohang of approximately RMB33,000 in 2009, which was primarily attributable to cost and expenses incurred for its establishment, including its company registration fee and employee salaries. Shenyang Xinbaohang commenced operation in early 2010.

Tax

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to our Company or its operations.

Our subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Our subsidiaries in the PRC are directly or indirectly held by our subsidiary, Kailong HK, a Hong Kong tax resident. Our subsidiaries incorporated in Hong Kong were subject to an income tax at the rates of 16.5% during the Trace Record Period. No provision for Hong Kong profits tax has been made as we had no assessable profits arising in Hong Kong during the Trace Record Period.

According to the EIT Law which became effective on January 1, 2008, the statutory income tax rate of domestic companies was reduced from 33% to 25%. All of our PRC subsidiaries have been subject to the statutory income tax rate of 25% in accordance with the EIT Law since January 1, 2008.

Pursuant to the EIT Law and its implementation regulations, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%, with the approval of the competent tax authorities.

RESULTS OF OPERATIONS

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

	Year Ended December 31,			Six Months Ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	3,701,261	5,164,730	7,716,564	3,392,733	5,233,328
Cost of sales and services provided	(3,445,172)	(4,726,644)	(7,028,566)	(3,090,381)	(4,714,265)
Gross profit	256,089	438,086	687,998	302,352	519,063
Other income and gains, net	12,903	26,965	37,482	16,654	38,414
Selling and distribution costs	(97,892)	(133,756)	(177,100)	(82,195)	(131,761)
Administrative expenses	(53,469)	(68,596)	(90,985)	(42,119)	(90,997)
Profit from operations	117,631	262,699	457,395	194,692	334,719
Finance costs	(39,671)	(26,033)	(48,378)	(19,378)	(48,076)
Share of (loss)/profit of a jointly-controlled entity	—	(33)	2,907	118	2,275
Profit before tax	77,960	236,633	411,924	175,432	288,918
Tax	(20,504)	(60,788)	(104,266)	(44,239)	(75,014)
Profit for the year/period	57,456	175,845	307,658	131,193	213,904
Attributable to:					
Owners of the parent	57,673	174,756	303,940	129,298	204,013
Non-controlling interests	(217)	1,089	3,718	1,895	9,891
	57,456	175,845	307,658	131,193	213,904

The Six Months Ended June 30, 2010 Compared with the Six Months Ended June 30, 2011

Revenue. Our revenue increased by 54.3% from RMB3,392.7 million for the six months ended June 30, 2010 to RMB5,233.3 million for the same period in 2011 primarily due to an increase in revenue from the sale of automobiles.

Revenue from the sale of automobiles increased by 56.0% from RMB3,154.8 million for the six months ended June 30, 2010 to RMB4,922.0 million for the same period in 2011 due to (1) the contribution to automobile sales from the eight new luxury and ultra-luxury brand 4S dealership stores opened during the 12 months ended June 30, 2011, and (2) continued sales growth at our more mature stores. Revenue from sales of luxury and ultra-luxury automobiles increased by 71.9% from RMB2,451.3 million for the six months ended June 30, 2010 to RMB4,213.1 million for the same period in 2011, while revenue from sales of mid-to-upper market automobiles increased by 0.8% from RMB703.5 million for the six months ended June 30, 2010 to RMB708.9 million for the same period in 2011.

Revenue from our after-sales business increased by 30.9% from RMB237.9 million for the six months ended June 30, 2010 to RMB311.3 million for the same period in 2011. Revenue from our after-sales business is driven primarily by the demand for maintenance and repair services and related sales of spare parts, which is in turn primarily affected by the cumulative number of automobiles sold by us in the past and the relative maturity of the stores in our network. The increase in revenue from our after-sales business for the six months ended June 30, 2011 was attributable to increased after-sales revenue generated by our luxury brand 4S dealership stores including our stores which commenced operation in 2009 and, to a lesser extent, after-sales revenue growth at our mid-to-upper market brand 4S dealership stores which was attributable to increased sales of automobile-related products and accessories.

Cost of sales and services provided. Our cost of sales increased by 52.5% from RMB3,090.4 million for the six months ended June 30, 2010 to RMB4,714.3 million for the same period in 2011. This increase is consistent with the growth in our sales in the first half of 2011. As a percentage of revenue, our cost of sales decreased from 91.1% for the six months ended June 30, 2010 to 90.1% for the same period of 2011 primarily due to increased sales of luxury and ultra-luxury automobiles which generate higher gross margins than sales of mid-to-upper market brand automobiles. Cost of sales for luxury and ultra-luxury automobiles increased by 69.3% from RMB2,284.1 million for the six months ended June 30, 2010 to RMB3,866.4 million for the same period in 2011. Cost of sales for mid-to-upper market automobiles increased by 0.9% from RMB680.1 million for the six months ended June 30, 2010 to RMB686.0 million for the same period in 2011. These increases are consistent with the trends in our automobile sales in these product categories.

Gross profit. For the foregoing reasons, our gross profit increased by 71.7% from RMB302.4 million for the six months ended June 30, 2010 to RMB519.1 million for the same period in 2011. Gross profit from automobile sales increased by 94.0% from RMB190.6 million for the six months ended June 30, 2010 to RMB369.7 million for the same period in 2011. Gross margins from automobile sales increased from 6.0% for the six months ended June 30, 2010 to 7.5% for the same period in 2011. Gross profit from sales of luxury and ultra-luxury automobiles increased by 107.4% from RMB167.2 million for the six months ended June 30, 2010 to RMB346.7 million for the same period in 2011. Gross margins from sales of luxury and ultra-luxury automobiles increased from 6.8% for the six months ended June 30, 2010 to 8.2% for the same period in 2011. The increase in our gross margins from sales of luxury and ultra-luxury automobiles was mainly attributable to our sales of Land Rover & Jaguar brand automobiles in 2011. Gross profit from sales of mid-to-upper market automobiles decreased by 1.7% from RMB23.4 million for the six months ended June 30, 2010 to RMB23.0 million for the same period in 2011. Gross margins from sales of mid-to-upper market automobiles decreased slightly from 3.3% for the six months ended June 30, 2010 to 3.2% for the same period in 2011. The slight decreases in gross profits and gross margins from sales of mid-to-upper market automobiles were attributable to increased competition and the mix of automobile models sold under our mid-to-upper market brands.

Other income and gains, net. Other income and gains, net, increased by 129.9% from RMB16.7 million for the six months ended June 30, 2010 to RMB38.4 million for the same period in 2011, primarily due to an increase in our commission income. Our commission income increased due to an increase in the amounts of automobile insurance policies sold through our 4S dealership stores and higher commission rates that resulted from direct sales of automobile insurance policies to customers by certain of our 4S dealership stores which have obtained the necessary qualification to conduct such sales.

Selling and distribution costs. Our selling and distribution costs increased by 60.3% from RMB82.2 million for the six months ended June 30, 2010 to RMB131.8 million for the same period in 2011. This increase was primarily due to increases in our advertisement and business promotion expenses, rental expenses, depreciation and related salary and welfare, which were consistent with the growth in our business operation. As a percentage of revenue, sales and distribution costs remained relatively stable at 2.4% for the six months ended June 30, 2010 compared to 2.5% for the same period in 2011.

Administrative expenses. Our administrative expenses increased by 116.2% from RMB42.1 million for the six months ended June 30, 2010 to RMB91.0 million for the same period in 2011. This increase was consistent with the growth in our business operations over this period. As a percentage of revenue, administrative expenses increased from 1.2% for the six months ended June 30, 2010 to 1.7% for the same period in 2011. This increase was primarily due to the opening of eight new 4S dealership stores during the 12 months ended June 30, 2011.

Profit from operations. As a result of the foregoing, our profit from operations increased by 71.9% from RMB194.7 million for the six months ended June 30, 2010 to RMB334.7 million for the same period in 2011.

Finance costs. Our finance costs increased by 147.9% from RMB19.4 million for the six months ended June 30, 2010 to RMB48.1 million for the same period in 2011, primarily due to increased bank loans and other borrowings. Our financing needs increased during the six months ended June 30, 2011 due to (1) increased automobile purchases resulted from our network expansion and sales growth, and (2) our increased sales of luxury and ultra-luxury brand automobiles which involve higher purchase costs than mid-to-upper market automobiles. Our bank loans carried annual interest rates ranging from 5.7% to 6.8% for 2010 compared to 5.8% to 7.9% for the six months ended June 30, 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 6.4% to 8.1% for 2010 compared to 6.7% to 8.1% for the six months ended June 30, 2011.

Tax. Our tax increased by 69.7% from RMB44.2 million for the six months ended June 30, 2010 to RMB75.0 million for the same period in 2011. Our effective tax rate remained relatively stable at 26.0% for the six months ended June 30, 2011 compared to 25.2% for the same period of 2010.

Profit for the period. As a result of the cumulative effect of the foregoing, our profit increased by 63.0% from RMB131.2 million for the six months ended June 30, 2010 to RMB213.9 million for the same period in 2011.

2010 Compared with 2009

Revenue. Our revenue increased by 49.4% from RMB5,164.7 million in 2009 to RMB7,716.6 million in 2010 primarily due to an increase in revenue from the sale of automobiles.

Revenue from the sale of automobiles increased by 51.6% from RMB4,728.9 million in 2009 to RMB7,168.1 million in 2010 due to (1) a 139.7% increase in revenues achieved at our four stores which commenced operation in 2009 in 2010 compared to 2009; (2) increased demand for automobiles generally in our markets, particularly for luxury brand automobiles, which resulted in continued strong growth in sales at our more mature stores; (3) the increased proportion of BMW and other luxury brand automobiles that we sold which generally have higher unit prices than mid-to-upper market brand automobiles; and (4) two additional 4S dealership stores which commenced operation in 2010. Revenue from sales of luxury and ultra-luxury automobiles increased by 67.4% from RMB3,336.7 million in 2009 to RMB5,584.0 million in 2010, while revenue from sales of mid-to-upper market automobiles increased by 13.8% from RMB1,392.2 million in 2009 to RMB1,584.1 million in 2010.

Revenue from our after-sales business increased by 25.9% from RMB435.8 million in 2009 to RMB548.5 million in 2010. The increase in revenue from our after-sales business in 2010 was attributable to increased after-sales revenue generated by our luxury brand 4S dealership stores, including our stores which commenced operation in 2009.

Cost of sales and services provided. Our cost of sales increased by 48.7% from RMB4,726.6 million in 2009 to RMB7,028.6 million in 2010. This increase was consistent with the growth in our sales in 2010. As a percentage of revenue, our cost of sales decreased from 91.5% in 2009 to 91.1% in 2010 primarily due to increased sales of luxury and ultra-luxury automobiles as well as synergies that resulted from our network expansion. Cost of sales for luxury and ultra-luxury automobiles increased by 65.6% from RMB3,146.1 million in 2009 to RMB5,208.8 million in 2010. Cost of sales for mid-to-upper market automobiles increased by 13.7% from RMB1,347.2 million in 2009 to RMB1,531.9 million in 2010. These increases are consistent with the trends in our automobile sales in these markets.

Gross profit. For the foregoing reasons, our gross profit increased by 57.0% from RMB438.1 million in 2009 to RMB688.0 million in 2010. Gross profit from automobile sales increased by 81.4% from RMB235.6 million in 2009 to RMB427.4 million in 2010. Gross margins from automobile sales increased from 5.0% in 2009 to 6.0% in 2010. Gross profit from sales of luxury and ultra-luxury automobiles increased by 96.9% from RMB190.6 million in 2009 to RMB375.2 million in 2010. Gross margins from sales of luxury and ultra-luxury automobiles increased from 5.7% in 2009 to 6.7% in 2010. Gross profit from sales of mid-to-upper market automobiles increased by 16.0% from RMB45.0 million in 2009 to RMB52.2 million in 2010. Gross margins from sales of mid-to-upper market automobiles increased from 3.2% in 2009 to 3.3% in 2010.

Other income and gains, net. Other income and gains, net, increased by 38.9% from RMB27.0 million in 2009 to RMB37.5 million in 2010, primarily due to an increase in our commission income. Our commission income increased due to an increase in the amounts of automobile insurance policies sold through our 4S dealership stores.

Selling and distribution costs. Our selling and distribution costs increased by 32.4% from RMB133.8 million in 2009 to RMB177.1 million in 2010. This increase was primarily due to increases in our advertising and promotion expenses, related salary and welfare, rental expenses and utilities and depreciation, which were consistent with the growth in our business operations. As a percentage of revenue, sales and distribution costs remained relatively stable at 2.3% in 2010 compared to 2.6% in 2009.

Administrative expenses. Our administrative expenses increased by 32.7% from RMB68.6 million in 2009 to RMB91.0 million in 2010. This increase was consistent with the growth in our business operations over this period. As a percentage of revenue, administrative expenses remained relatively stable at 1.2% in 2010 compared to 1.3% in 2009.

Profit from operations. As a result of the foregoing, our profit from operations increased by 74.1% from RMB262.7 million in 2009 to RMB457.4 million in 2010.

Finance costs. Our finance costs increased by 86.2% from RMB26.0 million in 2009 to RMB48.4 million in 2010, primarily due to (1) increased bank borrowings to fund increased automobile purchases resulted from our network expansion and sales growth, and (2) higher borrowing rates in the PRC in 2010 compared to 2009. Our bank loans carried annual interest rates ranging from 5.3% to 6.1% in 2009 compared to 5.7% to 6.8% in 2010. Our borrowings from other financial institutions carried annual interest rates ranging from 5.6% to 7.8% in 2009 compared to 6.4% to 8.1% in 2010.

Tax. Our tax increased by 71.5% from RMB60.8 million in 2009 to RMB104.3 million in 2010. Our effective tax rate remained relatively stable at 25.3% in 2010 compared to 25.7% in 2009.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year increased by 75.0% from RMB175.8 million in 2009 to RMB307.7 million in 2010.

2009 Compared with 2008

Revenue. Our revenue increased by 39.5% from RMB3,701.3 million in 2008 to RMB5,164.7 million in 2009 primarily due to an increase in revenue from automobiles sales.

Revenue from automobiles sales increased by 41.7% from RMB3,336.2 million in 2008 to RMB4,728.9 million in 2009 due to (1) a strong rebound in automobile demand following a stimulus plan adopted in early 2009 by the PRC Government in response to the global financial crisis in 2008; (2) the increased amount of BMW and other luxury automobiles sold as luxury automobiles generally have higher unit prices than mid-to-upper market automobiles; and (3) four new 4S dealership stores which commenced operation in 2009. Revenue from sales of luxury and ultra-luxury automobiles increased by 67.3% from RMB1,994.3 million in 2008 to RMB3,336.7 million in 2009, while revenue from sales of mid-to-upper market automobiles increased by 3.7% from RMB1,341.9 million in 2008 to RMB1,392.2 million in 2009.

Revenue from our after-sales business increased by 19.4% from RMB365.1 million in 2008 to RMB435.8 million in 2009. The increase in revenue from our after-sales business in 2009 was driven primarily by (1) our automobile sales in prior fiscal periods, particularly in BMW and other luxury brand automobiles, which led to increased demand for related after-sales services, and (2) to a lesser extent, after-sales revenue contribution by our newly-established stores in 2009.

Cost of sales and services provided. Our cost of sales increased by 37.2% from RMB3,445.2 million in 2008 to RMB4,726.6 million in 2009, primarily due to the growth in our sales. As a percentage of revenue, our cost of sales decreased from 93.1% in 2008 to 91.5% in 2009 primarily due to increased sales of luxury and ultra-luxury brand automobiles as well as synergies and that resulted from our network expansion. Cost of sales for luxury and ultra-luxury automobiles increased by 64.7% from RMB1,910.7 million in 2008 to RMB3,146.1 million in 2009. This increase was generally in line with the increase in our sales of luxury and ultra-luxury brand automobiles in 2009. Cost of sales for mid-to-upper market automobiles increased from RMB1,321.4 million in 2008 to RMB1,347.2 million in 2009.

Gross profit. For the foregoing reasons, our gross profit increased by 71.1% from RMB256.1 million in 2008 to RMB438.1 million in 2009. Gross profit from automobile sales increased by 126.3% from RMB104.1 million in 2008 to RMB235.6 million in 2009. Gross margins from automobile sales increased from 3.1% in 2008 to 5.0% in 2009. Gross profit from sales of luxury and ultra-luxury brand automobiles increased by 128.0% from RMB83.6 million in 2008 to RMB190.6 million in 2009. Gross margins from sales of luxury and ultra-luxury automobiles increased from 4.2% in 2008 to 5.7% in 2009. Gross profit from sales of mid-to-upper market automobiles increased by 119.5% from RMB20.5 million in 2008 to RMB45.0 million in 2009. Gross margins from sales of mid-to-upper market automobiles increased from 1.5% in 2008 to 3.2% in 2009.

Other income and gains, net. Other income and gains, net, increased by 109.3% from RMB12.9 million in 2008 to RMB27.0 million in 2009, primarily due to an increase in our commission income. Our commission income increased due to increases in the amounts of automobile insurance sold through our 4S dealership stores.

Selling and distribution costs. Our selling and distribution costs increased by 36.7% from RMB97.9 million in 2008 to RMB133.8 million in 2009. This increase was primarily due to increases in related salary and welfare, advertising and promotion expenses and rental expenses, which were consistent with the growth in our business operations over this period. As a percentage of revenue, sales and distribution costs remained unchanged at 2.6% in 2009 and 2008.

Administrative expenses. Our administrative expenses increased by 28.2% from RMB53.5 million in 2008 to RMB68.6 million in 2009. This increase was consistent with the growth in our business operations over this period. As a percentage of revenue, administrative expenses remained relatively stable at 1.3% in 2009 compared to 1.4% in 2008.

Profit from operations. As a result of the foregoing, our profit from operations increased by 123.4% from RMB117.6 million in 2008 to RMB262.7 million in 2009.

Finance costs. Our finance costs decreased by 34.5% from RMB39.7 million in 2008 to RMB26.0 million in 2009, primarily due to (1) increased utilization of short term financing from automobile manufacturers which offered certain interest-free periods of up to two months, and (2) successive reductions in borrowing rates in the PRC during 2009. Our bank loans carried annual interest rates ranging from 5.8% to 9.0% in 2008 compared to 5.3% to 6.1% in 2009. Our borrowings from other financial institutions carried annual interest rates ranging from 7.5% to 8.2% in 2008 compared to 5.6% to 7.8% in 2009.

Tax. Our tax increased by 196.6% from RMB20.5 million in 2008 to RMB60.8 million in 2009. Our effective tax rate remained relatively stable at 25.7% in 2009 compared to 26.3% in 2008.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year increased by 205.7% from RMB57.5 million in 2008 to RMB175.8 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new 4S stores and to fund our working capital and normal operating expenses. We finance our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities. We expect the finance costs of our Group to increase as our inventory level and prepayments for new automobiles will grow due to the continuing expansion of our business. Our operating cash flow during the Track Record Period was negative, and may continue to be negative in the future, as a result of automobile inventory purchases to stock our rapidly expanding store network. We finance our working capital needs primarily through cash flow generated from operations and bank borrowings. We have historically repaid our bank acceptance notes and repaid or rolled over our bank loans when due. During the Track Record Period, we did not experience any significant difficulties in rolling over our bank loans. Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loans and other borrowings and the estimated net proceeds from the Global Offering, our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital available to satisfy our requirements, including to fund our planned dealership network expansion, for at least 12 months following the date of this prospectus. We do not expect our future dealership network expansion to have a significant impact on our financing capability.

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

	Year Ended December 31,			Six Months Ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	17,893	(56,974)	(121,247)	72,375	(259,875)
Net cash used in investing activities	(35,931)	(187,153)	(579,906)	(68,354)	(202,954)
Net cash (used in)/generated from financing activities	(7,327)	370,726	872,836	69,496	492,452
Net (decrease)/increase in cash and cash equivalents	(25,365)	126,599	171,683	73,517	29,623
Cash and cash equivalents at the end of each year/period	86,194	212,793	384,476	286,310	414,099

Cash Flow Generated from/(used in) Operating Activities

Our net cashflow from operating activities was negative in 2009, 2010 and during the six months ended June 30, 2011 mainly because (1) we need to purchase and maintain inventory for the new stores opened during those periods although they were still in the process of ramping up their sales. As a result of our network expansion, a significant number of our 4S dealership stores had been operating for less than one year at any given time during the Track Record Period (four out of 17 as of December 31, 2009, three out of 20 as of December 31, 2010 and eight out of 26 as of June 30, 2011), which meant that those stores had not fully ramped up their sales; and (2) we are required to make full payment for our automobile purchases prior to shipment, and there is a time lapse ranging from two to three weeks to, in extreme cases, four months before the related automobiles are delivered to our stores for sale; as a result, our prepayments for automobile purchases are reflected in our operating cashflows before profit from the related automobile sales are recorded and significantly higher automobile purchases made in anticipation of increased sales for future periods result in significant cash outflow for the current period. We finance our liquidity requirements through a combination of bank loans and other borrowings and cash flows generated from our operating activities. We regularly monitor current and expected liquidity requirements and our compliance with lending covenants to ensure that we maintain sufficient working capital to meet our daily operation demand and liquidity requirements both in the short term and in the long term. Our negative operating cashflow increased from 2009 to 2010 and during the six months ended June 30, 2011 due to our accelerated pace of opening new dealership stores, and we are likely to continue to have negative operating cashflow in the foreseeable future due to (1) the fact that a significant percentage (nine out of 26 as of June 30, 2011) of our dealership stores commenced operation within the past 24 months and are still in the process of ramping up their automobile sales and after-sales businesses, and (2) our continued network expansion plans. As of the Latest Practicable Date, we had received automobile manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another 14 luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. Please refer to the section headed "Our Business—Our Dealership Network—Network Expansion" for a description of our planned network expansion for the remainder of 2011 and 2012. Unless we have sufficient funding from other resources, such as bank credit facilities, our working capital and capital expenditures may be constrained which could materially and adversely affect our business, growth, results of operations and financial condition.

For the six months ended June 30, 2011, our net cash used in operating activities was RMB259.9 million, consisting primarily of profit before taxation of RMB288.9 million and an increase in trade and bills payables of RMB633.1 million attributable mainly to our increased automobile purchases, which was offset by an increase in inventories of RMB777.2 million, an increase in pledged bank deposits of RMB220.7 million, which corresponded with the increase in bills payables, and an increase in prepayments, deposits and other receivables of RMB216.0 million due to increased prepayments resulting from our increased automobile purchases. Our automobile purchases during the six months ended June 30, 2011 was primarily attributable to (1) increased automobile sales at our existing stores, including the stores opened in 2009 and 2010, compared to the same period in 2010, (2) inventory purchased for our new stores opened during the six months ended June 30, 2011 and a Land Rover & Jaguar store opened in July 2011 and (3) purchases made in anticipation of sales for the second half of 2011. The increase in inventories during the six months ended June 30, 2011 reflected increased automobile purchases made by us during the same period.

In 2010, our net cash used in operating activities was RMB121.2 million, consisting primarily of profit before taxation of RMB411.9 million and an increase in trade and bills payables of RMB262.1 million attributable to increased automobile purchases, which was offset by an increase in prepayments, deposits and other receivables of RMB419.8 million primarily attributable to increased prepayments for automobile purchases, an increase in inventories of RMB317.8 million and an increase in pledged bank deposits of RMB112.5 million, which corresponded with the increase in bills payables. The increase in our automobile purchases in 2010 was primarily due to increased sales at our stores, including the stores opened in 2009 and the need to purchase and maintain inventory for the new stores opened in 2010 and in the first half of 2011. The increase in inventories in 2010 reflected our increased automobile purchases made during that year.

In 2009, our net cash used in operating activities was RMB57.0 million, consisting primarily of profit before taxation of RMB236.6 million and an increase in trade and bills payables of RMB29.8 million attributable to increased automobile purchases, which was offset by an increase in prepayments, deposits and other receivables of RMB256.4 million primarily attributable to increased prepayments for automobile purchases, an increase in inventories of RMB60.3 million and an increase in pledged bank deposits of RMB51.7 million which corresponded with the increase in bills payables. The increase in our automobile purchases in 2009 was primarily due to increased sales at our stores and the need to purchase and maintain inventory for the new stores that we opened in 2009.

In 2008, our net cash generated from operating activities was RMB17.9 million, consisting primarily of profit before taxation of RMB78.0 million, a decrease in prepayments, deposits and other receivables of RMB61.2 million attributable to a decrease in our automobile purchases resulting from the market slowdown in 2008 and a decrease in pledged bank deposits of RMB55.7 million due to a reduction in bills payables, which were offset by an decrease in trade and bills payables of RMB165.6 million and an increase in inventories of RMB48.7 million.

Cash Flow used in Investing Activities

For the six months ended June 30, 2011, our net cash used in investing activities was RMB203.0 million, consisting primarily of RMB189.5 million used for the purchase of property, plant and equipment and RMB15.5 million for the purchase of land use rights in connection with our new stores that commenced operation in the first half of 2011 and new stores planned for the second half of 2011 and 2012.

In 2010, our net cash used in investing activities was RMB579.9 million, consisting primarily of RMB257.4 million used for the purchase and development of land use rights, purchases of property, plant and equipment of RMB163.1 million in connection with our new stores which commenced operation in 2010, the acquisition of certain equity interests from Mr. Yang Aihua in the amount of RMB146.0 million in connection with our reorganization and an advance of RMB32.9 million to Shenyang Xinbaohang for its business development. This advance is non-trading related in nature and has no fixed repayment date.

In 2009, our net cash used in investing activities was RMB187.2 million, consisting primarily of purchases of property, plant and equipment of RMB163.3 million for our new stores which commenced operation in 2009 and acquisition of certain equity interests from Mr. Yang Aihua in the amount of RMB41.8 million in connection with our reorganization, which were partially offset by proceeds of RMB21.4 million from the disposal of a relatively large quantity of retired test-drive automobiles.

In 2008, our net cash used in investing activities was RMB35.9 million consisting primarily of purchases of property, plant and equipment of RMB41.5 million.

Cash Flow (used in)/Generated from Financing Activities

For the six months ended June 30, 2011, our net cash generated from financing activities was RMB492.5 million, consisting primarily of proceeds from bank loans and other borrowings of RMB1,724.7 million and contribution from the then equity holders of our subsidiaries of RMB40.0 million, which was partially offset by repayment of bank loans and other borrowings of RMB1,199.6 million.

In 2010, our net cash generated from financing activities was RMB872.8 million, consisting primarily of proceeds from bank loans and other borrowings of RMB2,471.7 million, contribution from the then equity holders of our subsidiaries of RMB755.5 million, which was partially offset by repayment of bank loans and other borrowings of RMB2,212.3 million.

In 2009, our net cash generated from financing activities was RMB370.7 million, consisting primarily of proceeds from bank loans and other borrowings of RMB1,934.8 million and advances from Mr. Yang Aihua of RMB130.9 million, which were partially offset by repayment of bank loans and other borrowings of RMB1,649.0 million and dividends of RMB14.6 million paid to Mr. Yang Aihua.

In 2008, our net cash used in financing activities was RMB7.3 million, consisting primarily of the repayment of bank loans and other borrowings of RMB1,494.6 million, which were primarily offset by proceeds from bank loans and other borrowings of RMB1,483.3 million and contribution from Mr. Yang Aihua of RMB39.0 million.

NET CURRENT ASSETS AND LIABILITIES

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

	As of December 31,			As of June 30,	As of September 30,
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	359,894	420,165	737,953	1,515,202	1,265,321
Trade receivables	28,849	41,736	42,847	54,253	62,293
Prepayments, deposits and other receivables	214,596	478,905	897,726	1,078,113	1,242,859
Amounts due from a related party	—	1,000	33,900	37,835	37,835
Pledged bank deposits	111,971	163,623	276,149	496,818	500,834
Cash in transit	7,550	17,423	14,022	33,660	30,714
Cash and cash equivalents	86,194	212,793	384,476	414,099	530,367
Total current assets	809,054	1,335,645	2,387,073	3,629,980	3,670,223

	As of December 31,			As of June 30,	As of September 30,
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Bank loans and other borrowings	262,159	547,988	807,339	1,182,456	1,299,450
Trade and bills payables.	297,836	327,593	589,645	1,222,511	1,117,149
Other payables and accruals . . .	130,186	170,324	164,375	281,564	321,264
Amounts due to related parties .	17,879	148,814	5,385	1,143,991	1,099,003
Income tax payable	18,196	69,804	152,713	176,607	122,601
Dividends payable	—	—	—	4,932	4,932
Total current liabilities	726,256	1,264,523	1,719,457	4,012,061	3,964,399
Net Current Assets/(Liabilities) . .	82,798	71,122	667,616	(382,081)	(294,176)

As of September 30, 2011, we had net current liabilities of RMB294.2 million, representing a decrease of RMB87.9 million from our net current liabilities of RMB382.1 million as of June 30, 2011. This change was primarily due to (1) an increase in our cash and cash equivalents of RMB116.3 million attributable to our increased operation scale and increased sales in the third quarter of 2011, and (2) a net settlement of RMB54.0 million in our corporate income tax payable.

As at June 30, 2011, we had net current liabilities of RMB382.1 million, representing a decrease of RMB1,049.7 million from our net current assets of RMB667.6 million as at December 31, 2010. This change was primarily due to an increase in our amounts due to related parties of RMB1,138.6 million, an increase in our trade and bills payables of RMB632.9 million, an increase in our bank loans and other borrowings of RMB375.1 million and an increase in our other payables and accruals of RMB117.2 million, which were partially offset by an increase in our inventories of RMB777.2 million, an increase of our pledged bank deposits of RMB220.7 million, and an increase in our prepayments, deposits and other receivables of RMB180.4 million. Our amounts due to related parties and dividends payable increased due to dividends declared but not paid to our existing shareholders in an aggregate amount of RMB453.3 million and the acquisition by Suzhou Baoxin of the 3% equity interests in Shanghai Baoxin from the existing shareholders, Huakong Innovation and Huakong Industry, in an aggregate amount of RMB550 million. We will make the dividend payment to our shareholders before the Listing Date using our internal resources. Our Directors are satisfied, after due and careful inquiry, that after such dividend payment, we will still have sufficient funds available to satisfy our working capital requirements, including to fund our planned dealership network expansion, for at least 12 months following the date of this prospectus. Our trade and bills payables, bank loans and other borrowings, inventories and prepayments, deposits and other receivables increased due to increased automobile purchase volumes, which was attributable both to increased sales at our existing stores and to the new stores which we opened during the second half of 2010 and in the first half of 2011. Deposits pledged to our lenders as collateral against bank credit facilities granted to us increased as a result of the increase in our bank loans and bank acceptance notes. The increase in other payables and accruals is mainly attributable to payables incurred for the purchase of land use rights and increased advances from customers, both of which are attributable to the new 4S dealership stores which we opened during the six months ended June 30, 2011. We expect that all amounts due from related parties will be fully repaid prior to the Listing Date. We will settle all amounts due to our related parties prior to the Listing, other than an aggregate amount of RMB550 million due to Huakong Industry and Huakong Innovation as the consideration to purchase the aggregate equity interest of 3% in Shanghai Baoxin, which amount will be settled after the completion of our Global Offering. We plan to consummate this purchase within two weeks of the Listing Date. Please see section headed "Future Plans and Use of Proceeds" for details.

We plan to settle the RMB594.0 million due to our related parties (being the total amount of RMB1,144.0 million due to our related parties as of June 30, 2011 less the RMB550.0 million due to Huakong Innovation and Huakong Industry, which we intend to settle after the completion of the Global Offering) using our internal resources prior to the Listing. Our cash and cash equivalents as of September 30, 2011 increased to RMB530.4 million from RMB414.1 million as of June 30, 2011. We expect our cash and cash equivalents to continue to increase during the fourth quarter of 2011 as our business operations continue to expand. As such, we expect to have sufficient cash to settle approximately RMB594.0 million due to related parties prior to the Listing. The settlement of the amounts due to related parties, including the RMB550 million due to Huakong Innovation and Huakong Industry, will significantly reduce our current liabilities and the net proceeds from the Global Offering will significantly increase our current assets. Accordingly, we expect to return to a net current assets position following the completion of the Global Offering. However, there can be no assurance that we will not record a net current liabilities position in the future due to other reasons, including the risk factors disclosed in this prospectus under the section headed "Risk Factors". If we have net current liabilities in the future, our working capital may be constrained and we may be forced to seek additional external financing, which may not be available at commercially reasonable terms or at all. Any such development could materially and adversely affect our business, results of operations and financial condition.

Our net current assets increased by RMB596.5 million from RMB71.1 million as of December 31, 2009 to RMB667.6 million as of December 31, 2010. This change was primarily due to an increase in our inventories of RMB317.8 million, an increase in our prepayments, deposits and other receivables of RMB418.8 million, an increase in our cash and cash equivalents of RMB171.7 million, an increase in our pledged bank deposits of RMB112.5 million and an increase in our amounts due from related parties of RMB32.9 million, which were partially offset by an increase in bank loans and other borrowings of RMB259.4 million and an increase in trade and bills payable of RMB262.1 million. Our cash and cash equivalents, inventories, prepayments to suppliers, incentive rebates receivables due from automobile manufacturers and bank loans and other borrowings increased due to increased automobile sales and purchase volumes, which was attributable both to increased sales at our existing stores and to the new stores which we opened in 2010. Our deposits pledged to our lenders as collateral against bank credit facilities granted to us increased as a result of the increase in our bank loans and bank acceptance notes. Amounts due from a related party increased due to the loan made by us to Shenyang Xinbaohang in 2010. We expect all such outstanding amounts to be settled in full prior to the Listing Date. Amounts due to our related party, namely, Mr. Yang Aihua had decreased from RMB148.8 million as of December 31, 2009 to RMB5.4 million as of December 31, 2010. This outstanding amount was extended to us by Mr. Yang Aihua on an interest-free basis and we expect all such outstanding amounts to be repaid in full prior to the Listing Date.

Our net current assets decreased by RMB11.7 million from RMB82.8 million as of December 31, 2008 to RMB71.1 million as of December 31, 2009. This change was primarily due to increases in our bank loans and other borrowings and amounts due to a related party, which were partially offset by increases in our inventories, prepayments, deposits and other receivables and cash and cash equivalents. The increases in our bank loans and other borrowings, amounts due to a related party, inventories, and prepayments, deposits and other receivables were due to increased automobile purchase volumes, which were attributable both to the new stores which we opened in the first half of 2009 and to increased sales at our other stores. Our deposits pledged to our lenders as collateral against bank credit facilities granted to us increased in 2009 as a result of the increase in our bills payable.

CAPITAL EXPENDITURE

Our capital expenditures during the Track Record Period primarily comprised of expenditures on property, plant and equipment and land use rights. During the Track Record Period, our total capital expenditures were RMB59.1 million, RMB180.2 million, RMB427.0 million and RMB300.1 million, respectively. The following table sets out our expenditures on property, plant and equipment and land use rights for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure				
Property, plant and equipment	58,981	180,152	169,556	181,205
Land use rights	88	—	257,398	116,479
Intangible assets	—	—	—	2,379
Total	59,069	180,152	426,954	300,063

The increase in our capital expenditure in 2009, 2010 and the six months ended June 30, 2011 was primarily due to increased cost of property and equipment acquired for the new 4S dealership stores which we opened during those periods and reflected higher costs as a result of inflation in the PRC. In addition, our capital expenditure in 2010 included the purchase price of land use rights acquired for two new 4S dealership stores and the conversion of an industrial use land for commercial use in Shanghai.

The converted land (the "**Putuo Land**") is located in the Putuo District of Shanghai and the net book value of the land use right for the Putuo Land as of June 30, 2011 was RMB264.5 million, which was calculated by deducting the accumulated amortization from the original cost of RMB57.3 million for the acquisition of the initial industrial use land and the cost of RMB219.1 million for the subsequent conversion for commercial use. The majority portion of the conversion costs was advanced by Mr. Yang Aihua to the Group and was recorded as an amount due to related parties.

The Putuo Land is owned by Shanghai Kailong Qixiao, which also operated a Nissan 4S store on such land during the Track Record Period. Shanghai Kailong Qixiao is controlled by Mr. Yang Aihua. To avoid any competition between the Group and the Controlling Shareholders, as part of the Reorganization, Shanghai Kailong Qixiao transferred all the operating assets and liabilities relating to the Nissan 4S store to Minhang Automobiles, one of our subsidiaries, based on the book value of the operating assets and liabilities as at June 30, 2011. As Mr. Yang Aihua has intended to use the Putuo Land for future commercial property development, which is not an integral part or an intended constituent of the Group's business and operations, the Putuo Land, along with other assets and liabilities that are not directly related to the Group's business, were retained by Shanghai Kailong Qixiao, which was accounted for as a shareholder distribution to Mr. Yang Aihua on June 30, 2011 in the combined financial statements. As a result, our amounts due to related parties have been reduced accordingly. For details of the transfer of the land use rights for the Putuo Land, please refer to Note 31 to the Accountants' Report included in Appendix I to this prospectus and the section headed "Our History Reorganization—Reorganization—Onshore Reorganization".

The Group currently operates a Nissan 4S store and a Hyundai 4S store on the Putuo Land and the premises on which the two 4S dealership stores conduct their operations only form a small portion of the entire Putuo Land. In order to allow the two 4S dealership stores to continue their business operations, Shanghai Kailong Qixiao has entered into lease agreements with the Group pursuant to which the Group leases from it the premises currently used by these two 4S stores. As each of the lease agreements is valid for a term of three years ending in 2014, we have no current plan to relocate those two 4S dealership stores and do not expect to incur any relocation costs in the foreseeable future. Accordingly, we do not expect the business operations of the abovementioned two 4S dealership stores to be materially and adversely affected. The lease agreements were entered into on normal commercial terms and will constitute a continuing connected transaction of the Group. It is, however, considered to be a *de minimis* transaction under the Listing Rules and therefore exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. Although Mr. Yang Aihua has not decided on how and when to carry out the commercial property development on the Putuo Land, there can be no assurance that the lease arrangements between us will not be disrupted. If the lease agreements were terminated or not renewed upon termination, we may need to seek alternate premises.

Our capital expenditure in the six months ended June 30, 2011 included the purchase price of land use rights acquired for opening of new 4S dealership stores during this period.

CAPITAL COMMITMENTS

The following table sets out our capital commitments in respect of property, plant and equipment and land use rights, as of each date indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for land use rights and buildings.	2,040	5,420	3,010	45,976
Authorized, but not contracted for land use rights and buildings.	3,040	233,561	25,124	36,986
Total.	5,080	238,981	28,134	82,962

OPERATING LEASE COMMITMENTS

The following table sets out our total future minimum lease payments under non-cancellable operating leases as of each date indicated:

	As of December 31,						As of June 30,	
	2008		2009		2010		2011	
	Properties	Land	Properties	Land	Properties	Land	Properties	Land
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,204	11,846	1,293	13,700	6,861	9,650	10,481	26,034
After 1 year but within 5 years	4,755	34,596	3,906	37,547	18,990	34,531	34,303	103,672
After 5 years	14,057	55,179	13,693	92,027	24,574	79,676	71,323	161,412
Total	20,016	101,621	18,892	143,274	50,425	123,857	116,107	291,118

INVENTORY

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

The following table sets forth a summary of our total inventories as of each date indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Automobiles	321,400	370,868	678,858	1,429,471
Spare parts and accessories	38,494	49,297	59,095	85,731
Total	359,894	420,165	737,953	1,515,202

Our inventories increased by RMB777.2 million from RMB738.0 million as of December 31, 2010 to RMB1,515.2 million as of June 30, 2011, primarily due to an increase in our inventory of new automobiles by RMB750.6 million from RMB678.9 million as of December 31, 2010 to RMB1,429.5 million as of June 30, 2011. We increased the inventory that we maintained across our network in 2011 due to (1) increased demand and sales at our stores, (2) increased sales of luxury and ultra-luxury automobiles, and (3) the addition of six dealership stores which commenced operation during the six months ended June 30, 2011. As of September 30, 2011, the subsequent utilization of our inventories as of June 30, 2011 was RMB1,161.6 million, or 76.7% of RMB1,515.2 million of our inventory balance as of June 30, 2011. Our inventories for the six new luxury and ultra-luxury brand dealership stores opened during the six months ended June 30, 2011 were RMB246.5 million as of June 30, 2011. As of September 30, 2011, the subsequent utilization of our inventories for these six new dealership stores as of June 30, 2011 was RMB211.5 million, or 85.8% of our inventories for these six new dealership stores as of June 30, 2011.

Our inventories increased by RMB317.8 million from RMB420.2 million as of December 31, 2009 to RMB738.0 million as of December 31, 2010, primarily due to an increase in our inventory of new automobiles by RMB308.0 million from RMB370.9 million as of December 31, 2009 to RMB678.9 million as of December 31, 2010. We increased the inventory that we maintained across our network in 2010 due to (1) increased demand and sales at our stores, (2) increased sales of luxury and ultra-luxury automobiles, and (3) the addition of two dealership stores which commenced operation in 2010.

Our inventories increased by RMB60.3 million from RMB359.9 million as of December 31, 2008 to RMB420.2 million as of December 31, 2009, primarily due to an increase in our inventory of new automobiles by RMB49.5 million from RMB321.4 million as of December 31, 2008 to RMB370.9 million as of December 31, 2009 to support our new stores opened in 2009 and the growth in our automobile sales during that year. We increased the inventory that we maintained across our network in 2009 due to (1) a sharp recovery in demand and sales across our stores following the stimulus package promulgated by the PRC Government in 2009, (2) increased sales of luxury and ultra-luxury automobiles, and (3) the addition of four 4S dealership stores which commenced operation during the first half of 2009.

Our 4S dealership stores generally order their inventory on a monthly basis and plan their inventory purchases for each month based on an annual non-binding sales target set by the relevant automobile manufacturer at the beginning of each year. The monthly purchases made by each store is adjusted by taking into account its existing inventory levels, expected customer demand, projected sales trends and expected delivery times for different automobile models. We did not experience during the Track Record Period any material fluctuations in our inventory balances on a per store basis. Over the Track Record Period, automobile sales were usually slower in the first half of each year due to store closures during the Chinese New Year and Labor Day holidays in China. In anticipation of higher sales in the second half of a given year, we generally purchase more inventories during the first half of the year than in the second half.

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

Certain of our inventories with a carrying amount of RMB101.4 million, RMB139.5 million, RMB225.6 million and RMB382.6 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively, were pledged as security for our Group's bank loans and other borrowings. The increase in pledged inventories was primarily due to the increases in our bank loans and other borrowings as of December 31, 2009 and 2010 and June 30, 2011.

Our inventories with a carrying amount of RMB191.0 million, RMB209.2 million, RMB398.9 million and RMB798.2 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively, were pledged as security for our Group's bills payables. This increase was primarily due to our increased use of bank acceptance notes as of December 31, 2009 and 2010 and June 30, 2011.

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

	Year Ended December 31,			Six Months Ended June 30,
	2008	2009	2010	2011
Average inventory turnover days(1)	35.6	30.1	30.1	43.7

Note:

(1) The average inventory turnover days for a certain period is the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 365 days for a year or 183 days for a six-month period, as applicable.

Our average inventory turnover days in 2009 decreased to 30.1 days from 35.6 days in 2008 primarily due to the sharp recovery in market demand for automobiles in 2009. Our average inventory turnover days in 2010 remained stable at 30.1 days. Our average inventory turnover days increased to 43.7 days in the six months ended June 30, 2011, primarily due to (1) the eight new stores which we opened during the second half of 2010 and the first half of 2011 as inventory turnover at these newly-established stores took longer compared to our more mature stores, and (2) our increased purchases (resulting in higher inventory holdings) of certain BMW models made in anticipation of expected customer demand and sales trends for the second half of 2011.

The table below sets forth the aging analysis of our inventory for the periods indicated:

	Year Ended December 31,									Six Months Ended June 30,		
	2008			2009			2010			2011		
	Automobiles	Spare parts and accessories	Total amount	Automobiles	Spare parts and accessories	Total amount	Automobiles	Spare parts and accessories	Total amount	Automobiles	Spare parts and accessories	Total amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	303,138	38,494	341,632	364,205	49,297	413,502	668,943	59,095	728,038	1,400,019	85,731	1,485,750
6–12 months	13,719	—	13,719	3,213	—	3,213	5,027	—	5,027	22,597	—	22,597
1–2 years	4,543	—	4,543	3,450	—	3,450	4,888	—	4,888	6,855	—	6,855
Over 2 years	—	—	—	—	—	—	—	—	—	—	—	—
Total	321,400	38,494	359,894	370,868	49,297	420,165	678,858	59,095	737,953	1,429,471	85,731	1,515,202

TRADE RECEIVABLES

Our automobile sales are typically settled on a cash basis upon delivery of the automobiles. Our trade receivables primarily comprise (1) proceeds due to us from banks and other financial institutions from automobile financing loans obtained by our customers for their purchases, and (2) outstanding amounts due to us from automobile manufacturers and insurance companies for repair, maintenance and other after-sales services performed for our customers.

Our trade receivables increased from RMB28.8 million as of December 31, 2008 to RMB41.7 million as of December 31, 2009 and RMB42.8 million as of December 31, 2010. As of June 30, 2011, our trade receivables has reached RMB58.4 million, of which an aggregate amount of RMB53.0 million was settled during the three months ended September 30, 2011. The increase in trade receivables in the Track Record Period was consistent with the growth in our after-sales business over the Track Record Period.

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

	Year ended December 31,			Six Months Ended June 30,
	2008	2009	2010	2011
Average trade receivables turnover days[1]	2.8	2.5	2.0	1.7

Note:

(1) The average trade receivables turnover days for a certain period is the average of opening and closing gross trade receivables balances divided by revenue for that period and multiplied by 365 days for a year or 183 days for a six-month period, as applicable. Therefore, our average trade receivables turnover days indicate the time required for the Company to obtain cash proceeds from our sales.

We maintained short turnover days during the Track Record Period mainly because our sales are typically settled by cash. Our average trade receivable turnover days remained low during the Track Record Period.

It is our accounting policy and practice to provide 100% provision for the trade receivables in doubt with aging over 12 months. The amount of identified trade receivables outstanding for over 12 months and with recoverability in doubt as of December 31, 2008, 2009 and 2010, respectively, was individually and in the aggregate immaterial to the Group and therefore was not recognized. As of June 30, 2011, trade receivables outstanding for over 12 months and with recoverability in doubt amounted to RMB4.2 million and the Group has made full provision for such amount. Such trade receivables are mainly related to payments for after-sales services due from individual customers and not covered by their insurance policies. Despite the provision, the Company is seeking to recover such amounts from the relevant individual customers.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The following table sets out our prepayment, deposits and other receivables as of each date indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	111,681	285,666	621,251	699,163
Prepayments for purchase of items of plant, property and equipment	8,556	7,970	4,422	13,165
Deposit paid for potential acquisition of land use rights	8,200	22,171	18,698	—
Rebate receivables	60,809	131,219	180,853	239,705
VAT recoverable(1)	5,969	7,497	20,881	60,388
Staff loans	8,829	13,279	30,776	32,279
Others	10,552	11,103	20,845	33,413
Total	214,596	478,905	897,726	1,078,113

Note:

(1) Our Group's sales of automobiles are subject to PRC Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of our Group is 17%.

The increases in our prepayments, deposits and other receivables as of December 31, 2009 and 2010 and June 30, 2011 were primarily attributable to increases in our prepayments to suppliers and rebate receivables. We are required to pay in advance for the automobiles that we purchase prior to shipment. The increases in our prepayments to suppliers as of December 31, 2009 and 2010 and June 30, 2011 were attributable to the increases in our automobile inventory purchases during those years to support our increased sales and new store openings. The increases in our rebate receivables were also consistent with the growth in our sales and our business during these years. As of June 30, 2011, the total amount of our rebate receivables was RMB239.7 million, of which an aggregate amount of RMB122.2 million was settled during the three months ended September 30, 2011.

TRADE AND BILLS PAYABLES

The balance of trade and bills payables at the end of each year or period represented outstanding amounts payable by us for new automobiles, spare parts and automobile accessories that we purchased.

Trade payables are mainly relating to purchases of spare parts and automobile accessories, and are recognized upon receipt of spare parts and automobile accessories. Generally, automobile manufacturers do not give any credit period and require us to pay for spare parts and automobiles accessories before delivery. We purchase a small portion of automobile accessories from other types of suppliers. Such suppliers generally grant us a credit period for no more than three months. Our bills payables primarily relate to our use of bank acceptance notes to finance our purchases of new automobiles. These bank acceptance notes are generally secured by bank deposits and inventories. As of December 31, 2010, we had bills payables of RMB575.3 million and pledged bank deposits of RMB276.1 million. As of June 30, 2011, we had bills payables of RMB1,199.5 million and pledged bank deposits of RMB496.8 million. We are required to bear relevant bank charges for the issuance of these bank acceptance notes, which are generally non-interest bearing. Upon the repayment of bank acceptance notes, the pledged deposits are released and can be used to secure new bank acceptance notes. If we are unable to generate sufficient sales from our existing inventory of new automobiles to repay our bank acceptance notes within the applicable credit term, which is typically two to three months, we may be required to repay the notes from other cash resources. This could adversely affect our working capital and our ability to acquire new inventory. We may incur additional financing costs as a result of the new borrowings. During the Track Record Period, our inventory turnover days were generally shorter than the credit term of our bank acceptance notes and we did not experience any difficulty in repaying our bank acceptance notes with payments from customers for sales of new automobiles.

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

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	265,612	307,768	570,884	1,163,462
3 to 6 months	28,408	11,996	16,410	57,501
6 to 12 months	2,423	1,784	2,129	437
Over 12 months	1,393	6,045	222	1,111
Total	297,836	327,593	589,645	1,222,511

As of June 30, 2011, our trade and bills payables were RMB1,222.5 million. Our trade and bills payables increased by RMB29.8 million, or 10.0%, from RMB297.8 million as of December 31, 2008 to RMB327.6 million as of December 31, 2009. Our trade and bills payables increased by RMB262.0 million, or 80.0%, from RMB327.6 million as of December 31, 2009 to RMB589.6 million as of December 31, 2010. Our trade and bills payables increased by RMB632.9 million, or 107.3%, from RMB589.6 million as of December 31, 2010 to RMB1,222.5 million as of June 30, 2011. The increases in our trade and bills payables as of December 31, 2009 and 2010 and June 30, 2011 were attributable primarily to our increased automobile inventory purchase volumes during those periods. As of June 30, 2011, our trade payables were RMB23.0 million, of which an aggregate amount of RMB21.8 million has been settled during the three months ended September 30, 2011. As of June 30, 2011, our bills payables were RMB1,199.5 million, of which an aggregate amount of RMB1,174.5 million has been settled during the three months ended September 30, 2011.

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

	Year ended December 31,			Six Months Ended June 30,
	2008	2009	2010	2011
Average trade and bills payables turnover days(1)	40.3	24.1	23.8	35.2

Note:

(1) The average trade and bills payables turnover days for a certain period is the average of opening and closing trade and bills payables balances divided by cost of sales and services for that period and multiplied by 365 days for a year, or 183 days for a six-month period as applicable.

Our average trade and bills payables turnover days in 2009 decreased to 24.1 days from 40.3 days in 2008, primarily due to more rapid inventory turnover. We maintained very low trade receivables turnover days over the Track Record Period. The average trade and bill payables turnover days in 2010 remain relatively stable at 23.8 days compared to 24.1 days in 2009. Our average trade and bill payables turnover days during the six months ended June 30, 2011 increased to 35.2 days primarily due to our increased use of bank acceptance notes as part of our enhanced efforts to manage our cash flow and liquidity.

AMOUNTS DUE TO RELATED PARTIES

As of December 31, 2008, 2009 and 2010 and June 30, 2011, our amounts due to related parties were RMB17.9 million, RMB148.8 million, RMB5.4 million and RMB1,144.0 million, respectively. We will settle all amounts due to our related parties prior to the Listing, other than an aggregate amount of RMB550 million due to Huakong Industry and Huakong Innovation as the consideration to purchase an aggregate equity interest of 3% in Shanghai Baoxin, which amount will be settled after the completion of our Global Offering. We plan to consummate this purchase within two weeks of the Listing Date. Please see section headed "Future Plans and Use of Proceeds" for details.

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

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related:				
The Controlling Shareholder				
— Mr. Yang Aihua	17,879	148,814	5,385	481,045
The then equity holders				
— Huakong (Tianjin) Innovation Fund	—	—	—	370,338
— Huakong (Tianjin) Industry Investment Fund	—	—	—	246,893
— Bentai Investment	—	—	—	23,166
— Hengjun Investment	—	—	—	16,989
— Chiheng Investment	—	—	—	5,560
	17,879	148,814	5,385	1,143,991

INDEBTEDNESS

Bank Loans and Other Borrowings

Our bank loans and other borrowings as of December 31, 2008, 2009 and 2010 and June 30, 2011 were RMB262.2 million, RMB548.0 million, RMB807.3 million and RMB1,182.5 million, respectively. Our bank loans and other borrowings increased during the Track Record Period due to our capital expenditures on new stores and increased working capital requirements due to our new stores and increased sales at our other stores.

	As of December 31,			As of June 30,	As of October 31,
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current bank borrowings and other borrowings representing:					
Secured	86,320	154,259	262,772	390,554	806,158
Guaranteed	31,000	113,000	129,040	206,711	256,189
Unsecured	144,839	280,729	415,527	585,191	519,496
	262,159	547,988	807,339	1,182,456	1,581,843

None of the buildings owned by us was pledged as of December 31, 2008. Pledged buildings had an aggregate net book value of RMB24.3 million, RMB22.8 million and RMB22.1 million as of December 31, 2009 and 2010 and June 30, 2011. None of the land use rights held by us was pledged as of December 31, 2008. Pledged land use rights had an aggregate net book value of RMB22.7 million, RMB36.1 million and RMB82.1 million as of December 31, 2009 and 2010 and June 30, 2011, respectively. Inventories pledged as security for our bank loans and other borrowings had an aggregate carrying value of RMB101.4 million, RMB139.5 million, RMB225.6 million and RMB382.6 million, respectively, as of December 31, 2008, 2009 and 2010 and June 30, 2011. The increases in our pledged land use rights and pledged inventories as of December 31, 2009 and 2010 and June 30, 2011 were primarily due to increased bank loans and other borrowings to finance our capital expenditures for new stores and our increased automobile purchases.

As of December 31, 2008, 2009 and 2010 and June 30, 2011, RMB31.0 million, RMB113.0 million, RMB129.0 million and RMB206.7 million, respectively, of our bank loans and other borrowings were guaranteed by Mr. Yang Aihua. All of the guarantees provided by Mr. Yang Aihua will be released prior to the Listing Date.

As of October 31, 2011, we had total bank credit facilities of approximately RMB4,025.7 million, of which approximately RMB2,584.5 million was utilized.

Statement of Indebtedness

As of October 31, 2011, being the latest practicable date for the purpose of this indebtedness statement, save as disclosed in the sub-section entitled "—Bank Loans and Other Borrowings" in this section, we did not have any other debt securities, borrowings, indebtedness, mortgages, contingent liabilities or guarantees. Since October 31, 2011, there has been no material adverse change in our indebtedness.

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated. Since October 31, 2011, there has been no material adverse change in our contingent liabilities.

Off-Balance Sheet Commitments and Arrangements

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

MARKET RISK DISCLOSURE

We are exposed to various types of market risks, including interest rate risk, credit risk and liquidity risk. Our Directors confirm that, since June 30, 2011, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates relating primarily to our borrowings with floating interest rates. Our bank loans carried annual interest rates ranging from 5.8% to 9.0% in 2008 compared to 5.3% to 6.1% in 2009, 5.7% to 6.8% in 2010 and 5.8% to 7.9% in the six months ended June 30, 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 7.5% to 8.2% in 2008, 5.6% to 7.8% in 2009, 6.4% to 8.1% in 2010 and

6.7% to 8.1% in the six months ended June 30, 2011. We have not used any interest rate swaps to hedge our exposure to interest rate risk. Any future increases in interest rates could increase our cost of borrowings. If this occurs, our profit and financial condition can be adversely affected.

We do not have significant interest-bearing assets other than pledged bank deposits, which amounted to RMB496.8 million, and cash and cash equivalents, which amounted to RMB414.1 million, as of June 30, 2011, respectively.

Credit Risk

We do not have any significant concentration of credit risk. The carrying amounts of our bank deposits, cash in transit, cash and cash equivalents, trade and other receivables represent our maximum exposure to credit risk in relation to our financial assets. As of December 31, 2008, 2009 and 2010 and June 30, 2011, all of our bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity Risk

We are exposed to liquidity risk. We monitor our risk to shortage of funds by using a recurring liquidity planning tool which considers the maturity of both our financial instruments and financial assets and projected cash flows from operations.

We conduct our capital management to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize shareholder value. We manage our capital structure and make adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust our dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. We had not made any changes in our objectives, policies or processes for managing capital during the Track Record Period.

Foreign Exchange Risk

Substantially all of our revenue, cost of revenue and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although in general, our exposure to foreign exchange risks should be limited, a depreciation of Renminbi may cause automobile manufacturers to raise their prices, which would increase our purchase costs for automobiles and spare parts, which could in turn increase our automobile retail prices and adversely affect our sales and profits. For more details, please refer to "Risk Factors—Fluctuation in the exchange rates of Renminbi may have a material adverse effect on your investment."

DISTRIBUTABLE RESERVES

Our Company was incorporated on September 6, 2010 and has not carried out any business since the date of incorporation. We did not record any distributable reserves as of December 31, 2010.

DIVIDEND POLICY

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

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

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. In 2008, our subsidiaries in China did not declare any dividends. In 2009, 2010 and the six months ended June 30, 2011, our subsidiaries in China declared dividends of RMB14.6 million, RMB4.4 million and RMB453.3 million, respectively. The dividends declared by our subsidiaries in 2009 and 2010, respectively, have been paid to Mr. Yang Aihua. The dividends declared by our subsidiaries in the six months ended June 30, 2011 will be funded by our internal resources and paid to our shareholders before the Listing Date. Our shareholders have resolved that an accumulated earnings of RMB227.6 million generated by our subsidiaries in China during the Track Record Period will be retained and used by these subsidiaries in China for further business development purposes when appropriate opportunities arise and will not be distributed in the foreseeable future. We currently intend to pay dividends of no more than 30% of our profits available for distribution of each accounting year beginning from the year ended December 31, 2011. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. The amounts of distribution that we have declared and made in the past should not be taken as indications of the dividends, if any, that we may pay in the future.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

On the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus and in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending December 31, 2011 are set out below:

Consolidated forecast profit attributable to owners of the Company[(1)(2)]	Not less than RMB600.0 million (approximately HK$735.7 million)
Unaudited pro forma forecast earnings per Share[(3)]	Not less than RMB0.237 (approximately HK$0.291)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2011 have been prepared are summarized in Appendix III to this prospectus.

(2) The consolidated forecast profit attributable to owners of the Company for the year ending December 31, 2011 prepared by our Directors is based on the audited combined results of our Group for the six months ended June 30, 2011 and the unaudited consolidated results of our Group for the three months ended September 30, 2011 and a forecast of the consolidated results of our Group for the remaining three months ending December 31, 2011 on the basis that the current group structure had been in existence throughout the whole financial year ending December 31, 2011. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by our Group as set out in the Accountants' Report in Appendix I to this prospectus.

(3) The unaudited pro forma forecast earnings per Share is calculated by dividing the consolidated forecast profit attributable to owners of the Company for the year ending December 31, 2011 by a total of 2,528,740,000 Shares in issue, assuming that the Global Offering has been completed on January 1, 2011 (without taking into account the Over-allotment Option).

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2011 or any future date. It is prepared based on our combined net assets as of June 30, 2011 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Combined net tangible assets attributable to owners of the Company as of June 30, 2011	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	(HK$ equivalent)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*
Based on an offer price of HK$8.50 per Share	461,540	2,128,949	2,590,489	1.02	1.25
Based on an offer price of HK$10.80 per Share	461,540	2,720,909	3,182,449	1.26	1.54

Notes:

1. The combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2011 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the audited combined equity attributable to owners of the Company as of June 30, 2011 of RMB463,804,000 less intangible assets as of June 30, 2011 of RMB2,264,000.

2. The estimated net proceeds from the Global Offering are based on estimated offer prices of HK$8.50 or HK$10.80 per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.

3. Details of the valuations of the Group's properties as of October 31, 2011 are set out in "Appendix IV—Property Valuation". The revaluation surplus or deficit of properties included in buildings held for own use, construction in progress, land use rights and properties under development was not incorporated in the Group's combined financial statements for the six months ended June 30, 2011. If the revaluation surplus was recorded in the Group's combined financial statements, the annual depreciation expense would increase by approximately RMB0.2 million.

4. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,528,740,000 Shares are in issue assuming that the Global Offering has been completed on June 30, 2011 and an Offer Price of HK$8.50 per Share, being the low end of the Offer Price range, and 2,528,740,000 Shares are in issue assuming that the Global Offering has been completed on June 30, 2011 and an Offer Price of HK$10.80 per Share, being the high end of the Offer Price range, excluding Shares which may be issued upon the exercise of the Over-allotment Option and Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.

5. The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.8156, the prevailing rate quoted by the PBOC on November 24, 2011.

6. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2011.

PROPERTY INTERESTS AND PROPERTY VALUATION

Savills Valuation and Professional Services Limited, an independent property valuer, has valued our property interests as of October 31, 2011. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The table below sets forth the reconciliation between the net book value of our Group's property interests as of June 30, 2011 and the valuation of such property interest as of October 31, 2011:

	(RMB'000)
Net book value of property interests of our Group as of June 30, 2011	
Buildings, land use rights and construction in progress	666,161
Movements for the four months ended October 31, 2011	
Add: Net addition during the period (unaudited)	64,792
Less: Depreciation and amortization during the period (unaudited)	(12,053)
Net book value as of October 31, 2011 (unaudited)	718,900
Less: Net book value of certain properties as of October 31, 2011 (unaudited)(1)	(456,221)
	262,679
Capital value of property interests as of October 31, 2011, as set out in the property valuation report in Appendix IV to this prospectus(2)	274,100
Valuation surplus	11,421

Note:

(1) As of October 31, 2011, we had not yet obtained valid titles or rights to use certain land use rights and properties with an aggregate net book value of RMB456,221,000. Our property valuer has valued it of no commercial value since it is not freely transferable.

(2) Capital value of property interests attributable to the Group as of October 31, 2011, as set out in the property valuation report in Appendix IV to this prospectus, was RMB264,780,000.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since June 30, 2011 and there is no event since June 30, 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus. Our Directors consider that all information necessary for the public to make an informed assessment of the activities and financial position of our Group has been included in this prospectus.