

**OVERVIEW**

We are a leading passenger vehicle retailer and comprehensive service provider in China focused on luxury and ultra-luxury brands. In 2011, we were the second largest dealership group in East China and the third largest dealership group in China, both in terms of sales volume of luxury and ultra-luxury passenger vehicles, according to Roland Berger. See “Industry Overview—The PRC Passenger Vehicle Market—Strong Growth of the New Passenger Vehicles Market—The PRC Passenger Vehicle Market Segments” for our categorization of luxury, ultra-luxury, mid- to high-end and low-end passenger vehicles. In 2011 and 2010, we were also the largest dealership group for BMW in China in terms of sales volume, according to Roland Berger. We opened our first 4S dealership in 1999. As of the Latest Practicable Date, we were operating and had obtained manufacturer’s authorizations to open a total of 91 outlets, including 66 existing outlets and 25 new outlets, located across 27 cities in 10 provinces in China. Our network of 66 existing outlets comprised 49 4S dealerships, five manufacturer-authorized service centers, 11 showrooms and one manufacturer-authorized CPO center. As of the Latest Practicable Date, 40 out of our 66 existing outlets were dedicated to luxury and ultra-luxury brands. Of the 25 new outlets that we had obtained authorizations to open as of the Latest Practicable Date, we will operate 24 new outlets for luxury and ultra-luxury brands and we expect 22 new outlets to commence operations by the end of 2012.

We have established strong, long-term relationships with leading automobile manufacturers of luxury and ultra-luxury brands. As of December 31, 2011, we had the second largest portfolio of luxury and ultra-luxury brands in China, including BMW, MINI, Audi, Porsche, Jaguar, Land Rover, Infiniti, Cadillac and Volvo. In 2011, we operated the largest 4S dealership in East China for each of Audi and Infiniti and the second largest 4S dealership in East China for BMW in terms of sales volume per outlet, according to Roland Berger. In addition, we also operate 4S dealerships for a select portfolio of mid- to high-end brands, including Buick, Chevrolet, Volkswagen, Toyota, Honda, Nissan and others.

We have established an extensive network with a strong presence in East China, particularly in Shanghai, and have expanded into other regions in China. As of the Latest Practicable Date, 59 out of our 66 existing outlets were located in East China and a vast majority of our new outlets will also be strategically located in this region. East China is the largest market for luxury and ultra-luxury passenger vehicles in China, accounting for approximately 44.5% of the total sales volume of luxury and ultra-luxury passenger vehicles in 2011, according to Roland Berger. In addition, we have selectively expanded our network into other strategic markets, such as Beijing and Shanxi in North China and Hainan in South China. We intend to further strengthen our leading market position in East China and expand our network in regions with strong growth potential.

To differentiate us from our competitors, we have successfully established our “永达 (Yongda)” brand, which has been designated as a “China Famous Trademark (中國馳名商標)” by the Trademark Office of the SAIC. We believe that our strong brand provides a competitive advantage for us in attracting and retaining customers and also strengthens our ability to obtain authorizations from automobile manufacturers.

We are committed to providing customers with a comprehensive range of automobile-related services through our “one-stop shop” approach. These include after-sales services, automobile rental services, as well as a wide array of services that we offer in connection with pre-owned vehicles, automobile insurance products, and vehicle inspection. Our comprehensive service offerings have

---

## BUSINESS

---

enabled us to generate diverse, fast-growing profit streams and are an important factor for customers in selecting us for vehicle purchases or services.

During the Track Record Period, we recorded significant growth in our business and results of operations. In 2009, 2010 and 2011, we sold a total of 31,719, 49,414 and 61,229 vehicles, respectively, representing a CAGR of 38.9% between 2009 and 2011. For the same periods, our revenue was RMB9,104.2 million, RMB15,017.9 million and RMB20,304.1 million, respectively, representing a CAGR of 49.3% between 2009 and 2011, of which sales of luxury and ultra-luxury passenger vehicles accounted for an increasing proportion of 58.7%, 64.7% and 70.4%, respectively. In addition, for the same periods, our profit and total comprehensive income attributable to owners of the Company was RMB185.0 million, RMB385.6 million and RMB504.8 million, respectively, representing a CAGR of 65.2% between 2009 and 2011.

### COMPETITIVE STRENGTHS

We believe that our success and our ability to capitalize on future growth opportunities are attributable to our competitive strengths as follows:

#### **We are a leading passenger vehicle retailer and comprehensive service provider in China focused on luxury and ultra-luxury brands**

We are a leader in the luxury and ultra-luxury passenger vehicle dealership sector in China. In 2011, we were the second largest dealership group in East China and the third largest dealership group in China, both in terms of sales volume of luxury and ultra-luxury passenger vehicles, according to Roland Berger. In 2011 and 2010, we were also the largest dealership group for BMW in China in terms of sales volume, according to Roland Berger. As of December 31, 2011, we had the second largest portfolio of luxury and ultra-luxury brands in China, including a total of nine luxury and ultra-luxury brands, namely, BMW, MINI, Audi, Porsche, Jaguar, Land Rover, Infiniti, Cadillac and Volvo. As of the Latest Practicable Date, we operated a network of 66 outlets, of which 40, representing 61% of our total number of outlets, were dedicated to luxury and ultra-luxury brands.

We began to operate 4S dealerships in 1999. We have made significant achievements with respect to our network for luxury and ultra-luxury brands as follows:

- We were the largest dealership group for BMW in China in terms of sales volume, in 2011 and 2010, according to Roland Berger. We also operated the second largest BMW 4S dealership in East China in terms of sales volume per outlet, in 2011, according to Roland Berger. During the Track Record Period, many of our BMW 4S dealerships received awards from the manufacturer in recognition of our outstanding sales and service performance, such as the “Top Dealer Management Award,” the “Top Sales Performance Award” and the “Top Services Award.”
- We operated the largest Audi 4S dealership in East China in terms of sales volume per outlet in 2011, according to Roland Berger.
- In 2010, we were authorized by Porsche in a single year to open three new 4S dealerships. We believe that this is an impressive achievement among dealership groups for Porsche in China, as Porsche maintains a stringent approval process for new 4S dealerships.
- We have obtained authorizations from Jaguar and Land Rover to operate or open 10 outlets since we first opened our Jaguar/Land Rover 4S dealership in 2011.

---

## BUSINESS

---

- We were the largest dealership group for Infiniti in China and East China, respectively, in terms of both sales volume and number of 4S dealerships in 2011, according to Roland Berger.

We believe that our strong passenger vehicle sales and comprehensive service platform have positioned us well to capitalize on future growth opportunities in the luxury and ultra-luxury passenger vehicle market.

### **We have established strong, long-term relationships with leading manufacturers of luxury and ultra-luxury passenger vehicles**

Since we opened our first 4S dealership in 1999, we have established strong, long-term relationships with many leading automobile manufacturers. Our portfolio includes seven out of the 10 largest luxury passenger vehicle brands and Porsche, the largest ultra-luxury passenger vehicle brand in China in terms of sales volume in 2011, according to Roland Berger.

We began our business relationships with BMW Brilliance in 2003 and have become an important business partner for BMW, the second largest luxury passenger vehicle brand in China in terms of sales volume in 2011, according to Roland Berger. As of the Latest Practicable Date, we had established a total of 27 outlets for BMW and MINI for the sale and servicing of a full range of imported and locally manufactured vehicle models. We were also authorized to open another eight outlets for BMW or MINI, thereby further strengthening our leading position as the largest dealership group for BMW in China in terms of sales volume in 2011 and 2010, according to Roland Berger. In addition, one of our BMW 4S dealerships has been revamped according to BMW's latest 5S standards and is among the first BMW 4S dealerships in Shanghai to obtain 5S-standard certification.

In 2002, we were authorized to open our first 4S dealership for Audi, which was the largest luxury passenger vehicle brand in China in terms of sales volume in 2011, according to Roland Berger. Since 2011, we were authorized to open four new Audi 4S dealerships. Our existing Audi 4S dealership in Shanghai has established a proven track record and has received a number of significant awards from the manufacturer, such as the "Best Dealer 2009 Award" and the "Best Sales Performance 2010 Award" of Audi.

Our strong, long-term relationships with BMW and Audi have contributed to our ability to introduce many other luxury passenger vehicle brands, including, most recently, Jaguar and Land Rover in 2011. We opened our first Porsche 4S dealership in 2011, thereby expanding our business into the ultra-luxury segment. In 2010, we were authorized by Porsche in a single year to open three new 4S dealerships. According to Roland Berger, while we operate 4S dealerships for BMW and Audi, two out of the top three luxury brands in the PRC luxury passenger vehicle market, our brand portfolio also includes five fastest-growing brands among the next top seven luxury passenger vehicle brands, namely, MINI, Land Rover, Infiniti, Cadillac and Volvo.

In developing and maintaining good relationships with our business partners, we endeavor to (i) reduce our reliance on a small number of brands, and (ii) increase our share in each manufacturer's total sales volume in China and strictly adhere to its commercial policies in order to secure the manufacturer's support for our network expansion in the long term. We believe that our proven record of working with leading automobile manufacturers positions us well to obtain authorizations for additional outlets as well as new brands.

**We have an extensive network in Shanghai as well as other markets across East China, the largest regional market for passenger vehicles in the country**

We have established an extensive network with a strong presence in East China, particularly in Shanghai, and have expanded into other regions in China.

Of our existing 66 outlets as of the Latest Practicable Date, we had a total of 59 outlets in East China. According to Roland Berger, East China is the country's largest market for luxury and ultra-luxury passenger vehicles, accounting for approximately 44.5% of the total sales volume of luxury and ultra-luxury passenger vehicles in 2011. The sales volume of luxury and ultra-luxury passenger vehicles in East China also grew rapidly at a CAGR of 41.3% and 50.6%, respectively, between 2006 and 2011. With a large car parc for luxury and ultra-luxury passenger vehicles, East China is also the country's largest market for after-sales services and pre-owned vehicles. As of the Latest Practicable Date, we had obtained manufacturer's authorizations to open 19 new outlets in the luxury and ultra-luxury segments in 10 cities across East China by the end of 2012 to further increase our share in China's largest market for luxury and ultra-luxury passenger vehicles.

We have also selectively expanded our network into other strategic regional markets with significant growth potential. For example, since 2008, we have opened three BMW 4S dealerships, one BMW-authorized service center and one MINI showroom in Shanxi, a province in North China with rapid economic growth fueled by its rich natural resources. In 2011, we launched our first Porsche 4S dealership in Hainan, a province in South China which recorded the highest growth rate of luxury and ultra-luxury passenger vehicle sales volume between 2006 and 2011, according to Roland Berger. We have also obtained authorizations from Jaguar and Land Rover to open a 4S dealership and a showroom by the end of 2012 in Henan in Central China, which is a fast growing luxury passenger vehicle market in China, according to Roland Berger. We believe that the passenger vehicle market in these regions will experience a similar growth as in East China.

**We have made outstanding achievements in respect of brand building, marketing innovation and customer retention**

We have been committed to building our own corporate brand since our inception. Our “永达 (Yongda)” brand has been designated as a “China Famous Trademark (中國馳名商標)” by the Trademark Office of the SAIC. In 2011, we received the “2011 China Automobile Dealership Industry Outstanding Contribution Award (2011中國汽車流通行業卓越貢獻獎)” and the “2011 China Automobile Dealership Industry Charity Contribution Award (2011中國汽車流通行業公益事業貢獻獎)” from the China Automobile Dealers Association. We were also ranked among top 10 in the “Top 100 Auto Dealer Groups of China (中國汽車經銷商集團百強排行榜)” by the China Automobile Dealers Association in 2010. Moreover, in 2011, we were selected as a “National Model Unit (全國文明單位)” by the PRC central government in recognition of our commitment to social responsibility and civil development, which we believe further enhances our corporate brand image and recognition.

In addition, we have developed a number of innovative and far-reaching customer services and marketing channels to attract and retain customers:

- We have established a multi-media “96818” customer service platform comprising a 24-hour toll-free customer service hotline (40080-96818), text message and website support (<http://www.96818.com.cn>).

---

## BUSINESS

---

- We have introduced a VIP program to provide our high-value customers with benefits relating to vehicle purchase and services, such as express service channels and VIP lounges in our 4S dealerships.
- We have partnered with the Bank of Communications to launch a co-branded credit card that provides cardholders with a series of special benefits relating to vehicle purchase and after-sales services.
- We have explored innovative sales and marketing channels, such as TV-shopping through cooperation with Oriental CJ and online shopping through cooperation with Tmall.com (“天貓” or formerly known as “淘寶商城”), to advertise and sell passenger vehicles. For more information, see “Sales and Marketing” below.
- We have advertised our brand and products and services through a range of media formats such as television, radio and outdoor billboards. We believe our “永达 (Yongda)” brand and our advertising slogan, “taking driving lessons, purchasing vehicles, reselling vehicles, renting vehicles, repairing vehicles and inspecting vehicles (「學車、買車、賣車、租車、修車、驗車」)”, have gained wide recognition in Shanghai and East China.
- We are able to collect specific and useful customer information from our pre-owned vehicle market and our vehicle safety inspection center in order to conduct more targeted marketing initiatives and more efficiently attract customers.

We believe that our continuing efforts in customer relationship management and customer service improvement have resulted in a high level of customer loyalty.

### **Our comprehensive service offerings generate an increasing amount of recurring revenue and contribute significantly to our overall profitability**

We believe that our comprehensive service offerings have been a key factor for our success, particularly in the luxury and ultra-luxury segments, in which vehicle owners generally prefer service providers that can offer comprehensive and high-quality services and are less price-sensitive. In addition to the sale of passenger vehicles, we also provide a broad range of after-sales services and other automobile-related services, including pre-owned vehicle agency services, title transfer and registration services, distribution of automobile insurance products, and vehicle inspection services. Our strong service capabilities are reflected in the significant growth of our revenue from these services during the Track Record Period. For example, revenue from after-sales services, together with other automobile-related services, grew rapidly at a CAGR of 42.2% from RMB750.5 million in 2009 to RMB1,516.8 million in 2011. These services not only generate an increasing amount of recurring revenue but also contribute significantly to our overall profitability, together accounting for a significant share of 40.2%, 33.1% and 36.2% of our gross profit in 2009, 2010 and 2011, respectively.

In addition, we began to provide automobile rental services in 2000 and have since developed a strong rental customer base. Our rental customers are primarily corporate customers, including affiliates of many Fortune 500 enterprises that operate in China, such as General Motors (China) Investment Co., Ltd., Ford China Co., Ltd. and Honeywell China Co., Ltd. In 2009, 2010 and 2011, our automobile rental services had a gross profit margin of 13.0%, 23.7% and 36.4%, respectively. We

---

## BUSINESS

---

believe that automobile rental services can create significant synergies with our passenger vehicles sales and after-sales services businesses.

### **Our standardized and centralized operations and our large operating scale have enabled us to efficiently operate and expand our business**

As we have expanded our business through continued organic growth, we have standardized and optimized our management and operations:

- *Standardization.* At the group level, we have designed standardized management processes for our main business functions, such as construction and operation of new outlets, procurement and inventory management, financial management and budgeting, selection of supplier and quality control, and staffing, training and career planning. These standardized management processes have resulted in an operation model that can be readily replicated to our future outlets and in new regions.
- *Centralization.* We believe that our ERP system facilitates our monitoring and forecast of customer demand for better inventory management and more efficient operations. We have centralized the budgeting and working capital management of all our outlets to the group level to optimize our allocation of financial resources. Our management team at the group level assesses and analyzes the performance of individual outlets and seeks ways to make improvements.
- *Scale.* We believe that we have been able to achieve economies of scale in various areas such as outlet operation, financial management and human resources management. We consolidate our purchase orders for passenger vehicles, spare parts and accessories from our outlets, which positions us well to obtain more favorable terms from our suppliers than our smaller competitors. We are able to utilize the knowledge, relationships and expertise of our local management teams for our future business expansion. In addition, we promote our “永达 (Yongda)” brand by utilizing our extensive network and large customer base.

We believe that our standardized and centralized operations and our large scale of operations have enabled us to rapidly expand our network size while maintaining a high operational efficiency across the entire network.

### **We have a seasoned senior management team supported by experienced executives at the dealership level**

We have a seasoned and stable senior management team with substantial experience in the PRC passenger vehicle dealership sector. Our senior management team has an average of 11 years of experience in the PRC passenger vehicle dealership sector and has been with us for an average of 11 years. Our Chairman, Cheung Tak On, and our Vice Chairman, Cai Yingjie, are both highly experienced and knowledgeable in the PRC passenger vehicle dealership sector. In particular, Mr. Cheung has received numerous accolades, including the “2011 National May Day Labor Medal (2011 全國五一勞動獎章)” by All China Federation of Trade Union (中華全國總工會), “Outstanding Entrepreneur of China of 2009 (2009 中國卓越企業家)” by the research centre of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) and China Enterprise News Agency (中國企業報社) and “Shanghai Labor Model (2007-2009) (2007-2009 年度上海市勞動模範)” by Shanghai government in 2010.

In addition, we have experienced executives at the 4S dealership level. The majority of general managers at our 4S dealerships have been promoted through the ranks internally. They have substantial experience in the management of 4S dealerships and have a high degree of loyalty to us. On average, they have 15 years of experience in the PRC passenger vehicle dealership sector and have worked for us for more than 11 years. In addition, our 4S dealership sales managers have an average of 10 years of experience in the PRC passenger vehicle dealership sector and have worked for us for an average of nine years. Our after-sales managers have an average of 13 years of experience in the PRC passenger vehicle dealership sector and have worked for us for an average of nine years. Our 4S dealership management teams have received numerous awards and accolades from manufacturers, and our employees have also achieved excellent results in many technical skill contests organized by manufacturers. For more information, see “Awards” below. Their experience, skills and market knowledge have contributed significantly to our success.

## **OUR STRATEGIES**

We aim to strengthen our market position as a leading luxury and ultra-luxury passenger vehicle dealership group in China and to capture the opportunities in the world’s largest and fast-growing passenger vehicle market by pursuing the following strategies:

### **Expand our network in East China and in other select fast-growing regions through organic growth and acquisitions**

We plan to further expand our network in Shanghai and other markets in East China to strengthen our leading position in these markets. We also seek to selectively expand into other regions with strong growth potential. We will pursue these expansion plans through both organic growth and acquisitions of other dealerships.

#### ***Organic growth***

We believe that East China will continue to provide us with significant growth opportunities both in terms of new vehicle sales and after-sales services with the large and aging vehicle parc in these markets. It remains a strategic priority for us to strengthen our leadership position in these markets through expansion of our network. We have a proven track record of organic growth in East China, expanding our network from 22 outlets at the end of 2007 to 59 as of the Latest Practicable Date, and have obtained authorizations from manufacturers to open further 23 outlets in the region.

We have established our presence in other regions outside East China, including North China (Beijing and Shanxi) and South China (Hainan). We will continue to pursue opportunities to build up our network in regions with high growth prospects. For example, we have been authorized to open a 4S Dealership and a new showroom for Jaguar and Land Rover in Henan. We believe our strong relationships with automobile manufacturers and our demonstrated ability to establish and operate 4S dealerships position us well to obtain authorizations to open new outlets.

#### ***Acquisitions***

We will seek to acquire other 4S dealerships that are consistent with our brand strategy and geographic focus. While our senior management team sets the overall strategy, we have a dedicated business development team focused on identifying and pursuing strategic acquisition opportunities. We

---

## BUSINESS

---

believe our longstanding industry experience and operational expertise will help us integrate the acquired targets into our network.

### **Further strengthen our focus on the luxury and ultra-luxury segments**

We will continue to focus on network expansion and seek to pursue opportunities to introduce new brands into our brand portfolio in the luxury and ultra-luxury segments. We believe these segments will grow more rapidly and generate higher margins for our business compared to the mid- to high-end segment.

We have built up a strong and diverse portfolio of nine luxury and ultra-luxury brands to date. We seek to continue to expand our presence in the luxury and ultra-luxury segments by leveraging our strong relationships with the manufacturers and our operating experience. As of the Latest Practicable Date, we were authorized to open 24 new outlets for luxury and ultra-luxury brands.

We have a strong track record of introducing new brands in the luxury and ultra-luxury segments, including, most recently, Jaguar, Land Rover and Porsche in 2011. In addition to our existing partners, we plan to pursue opportunities to cooperate with manufacturers of other luxury and ultra-luxury brands. We believe that our leading market position and our strong track record of managing a large portfolio of luxury and ultra-luxury brands will position us well to obtain authorizations for additional brands in these segments. We are currently in negotiations to become the authorized dealer for a number of new ultra-luxury brands.

### **Continue to improve our profitability and operational efficiency**

We aim to continue to improve profitability by optimizing our product and service mix. We seek to improve gross profit margins by increasing the sales volume of luxury and ultra-luxury passenger vehicles and their proportion to our total passenger vehicle sales. While our customer base continues to grow, we plan to provide more high-margin value-added after-sales services and other services to increase our revenue and improve our margins.

In order to further improve our operational efficiency, we plan to upgrade our ERP system to better support our network expansion. We believe that an upgraded information system will enable us to better track, monitor and analyze our key operating data and achieve more efficient management and allocation of our resources.

In addition, we intend to strengthen cost control by optimizing our staff structure and decision-making process, implementing advanced inventory management systems and sharing technology and expertise among our outlets. We intend to further enhance the efficiency, effectiveness and replicability of our business process. As our network continues to expand, we intend to increase the flexibility of our operation model and tailor our management systems to adapt to various market environment.

### **Leverage our “永达 (Yongda)” brand to further develop our after-sales services, pre-owned vehicle business, automobile rental services and other automobile-related services**

We intend to grow our after-sales service business to generate increased recurring revenue and higher margins. We seek to retain existing customers and leverage our established brand to attract new



---

## BUSINESS

---

customers, including those who have purchased vehicles from our competitors. To further strengthen our after-sales services, we plan to:

- open manufacturer-authorized or “永达 (Yongda)” branded repair and maintenance centers for BMW, Audi and other luxury brands in areas remote from our existing dealerships and service centers;
- identify business opportunities and recommend our services to customers by closely monitoring and analyzing their usage habits and repair and maintenance records through our customer information database; and
- attract, train and retain experienced service representatives and technicians to implement the best service standards.

When market conditions mature, we intend to expand our pre-owned vehicle business to capture opportunities arising from the fast-growing pre-owned vehicle market in China. We plan to establish “永达 (Yongda)” branded pre-owned vehicle sales outlets which provide trading platform for pre-owned vehicles of various brands. We will open new manufacturer-authorized CPO centers. For example, we plan to open a BMW Premium Selection sales center by the end of 2012, which will be dedicated to selling BMW CPOs.

We plan to expand our automobile rental business as the PRC automobile rental market continues to grow rapidly. We will primarily focus on long-term rental services while continuing to explore opportunities in short-term rental services and finance lease business. We intend to grow our customer base and expand the geographic coverage of our rental services. As our automobile rental business continues to grow, we intend to leverage the synergies between our automobile rental business, passenger vehicles sales and after-sales services to facilitate cross-selling among these businesses.

We intend to further develop other business areas, such as distribution of automobile insurance products, customization and modification services, extended warranty services and sale of vehicle care products.

In terms of capital expenditure planning, there will be no separate capital expenditures required for developing after-sales services which are provided through our network of outlets. Our other strategic plans relating to pre-owned vehicle business, other automobile-related businesses and automobile rental business are currently at a preliminary stage. When market conditions mature, we will develop a detailed plan for capital expenditures for these strategic plans.

### **Continue to focus on the recruitment, training and retention of our employees to support our rapid growth**

We believe that a stable, loyal and well-trained workforce is critical to our long-term success. We will continue to focus on our human resources development and provide competitive remuneration packages to attract and retain talent. We will continue to focus on the recruitment, training and retention of our management team, sales professionals and technicians who possess the required qualifications and industry experience. To meet the needs of our expansion plan, we are committed to providing training and career development opportunities to our employees. For example, to improve the management skills and professional capabilities of our employees, we provide rotation training, apprenticeship program and off-site training. We intend to expand our recruitment channels by

## BUSINESS

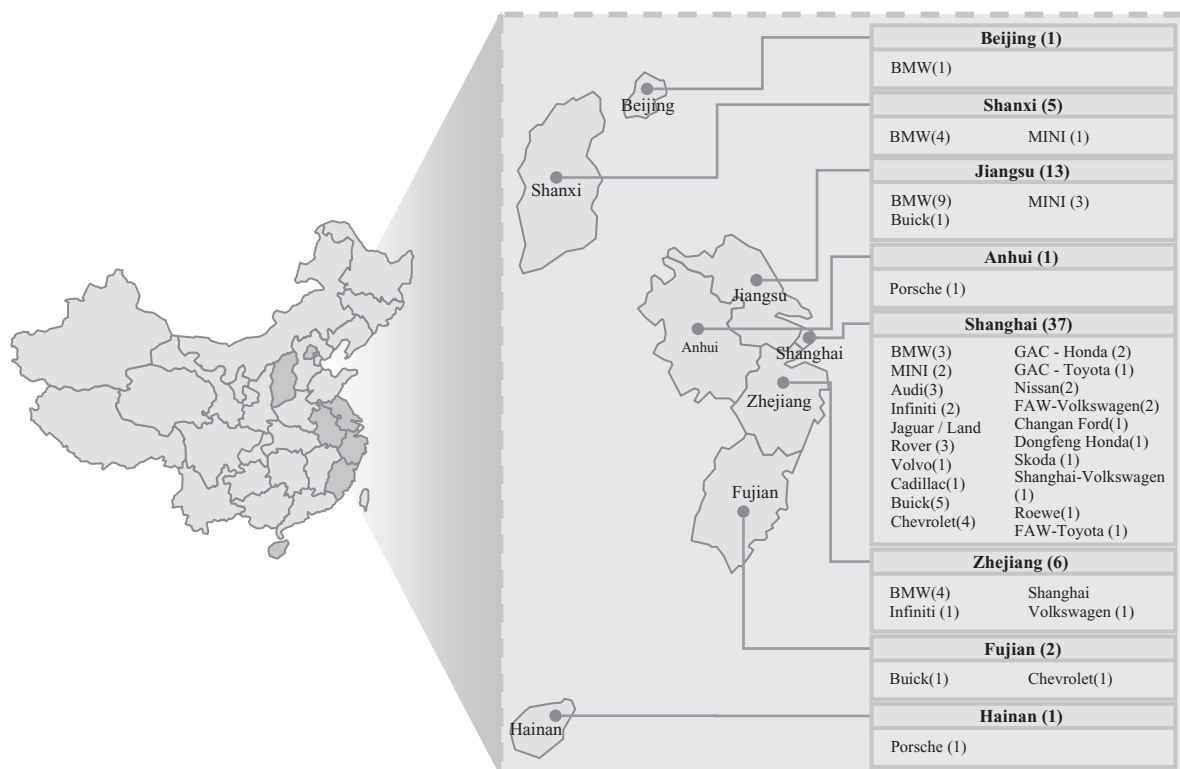
cooperating with universities and vocational schools. In order to further enhance employee loyalty, we will continue to develop our corporate culture and provide our employees with the necessary support through our Employee Care Foundation (員工關愛工程基金).

### OUR BUSINESS

We are a leading passenger vehicle retailer and comprehensive service provider in China focused on luxury and ultra-luxury brands, including BMW, MINI, Audi, Porsche, Jaguar, Land Rover, Infiniti, Cadillac and Volvo. We also operate 4S dealerships for a select portfolio of mid- to high-end brands, including Buick, Chevrolet, Volkswagen, Toyota, Honda and Nissan and others. In addition, we also provide after-sales and other automobile-related services through our network. As of the Latest Practicable Date, we were operating and had obtained manufacturer’s authorizations to open a total of 91 outlets, including 66 existing outlets and 25 new outlets, located across 27 cities in 10 provinces. As of the Latest Practicable Date, our existing outlets included 49 4S dealerships, five manufacturer-authorized service centers, 11 showrooms and one manufacturer-authorized CPO center. Of the 25 new outlets that we had obtained authorizations to open as of the Latest Practicable Date, we will operate 24 new outlets for our luxury and ultra-luxury brands and we expect 22 new outlets to commence operations by the end of 2012.

Our outlets are located in populous and affluent cities in China with a strategic focus on Shanghai and the other markets in East China. According to Roland Berger, East China is the largest market for luxury and ultra-luxury passenger vehicles in China, accounting for approximately 44.5% of the total sales volume of luxury and ultra-luxury passenger vehicles in China in 2011. We have also expanded our network to select regions with significant market potential in North and South China.

The map below illustrates the geographic coverage of our network of existing outlets as of the Latest Practicable Date:



---

## BUSINESS

---

Our principal businesses are:

- sale of new passenger vehicles, including both imported and domestically manufactured vehicles;
- after-sales services, including (i) repair and maintenance services, (ii) sale of spare parts and accessories, and (iii) detailing services; and
- automobile rental services, including long-term rental services of six months or more and short-term rental services.

In addition to the above, we also engage in a broad range of other automobile-related businesses. For more information, see “Other Automobile-Related Businesses” below.

### **Our Network of Outlets**

#### ***4S Dealerships***

Our 4S dealerships integrate the four automobile-related business elements initiated by “S”: sales, spare parts, service and survey. Through our 4S dealerships we sell new passenger vehicles, provide after-sales services and engage in a variety of other automobile-related businesses, such as: (i) pre-owned vehicle business; (ii) distribution of automobile insurance products; and (iii) vehicle inspection services. As of the Latest Practicable Date, we had 49 4S dealerships in operation.

#### ***Non-4S-Dealership Outlets***

In addition to 4S dealerships, our network included the following types of non-4S-dealership outlets as of the Latest Practicable Date:

- five manufacturer-authorized service centers. These are repair and maintenance outlets authorized by the manufacturer to supplement our 4S dealership network and provide customers in smaller cities with convenient access to reliable quality service. All of our existing outlets of this type are BMW-authorized service centers. Subject to BMW’s approval, we may consider upgrading part or all of our BMW-authorized service centers to 4S dealerships when market conditions mature.
- 11 showrooms. These are outlets authorized by automobile manufacturers to display the latest models, attract potential customers, promote the recognition of both the passenger vehicle brands and our “永达 (Yongda)” brand, and engage in, or facilitate, the sales of new passenger vehicles. Unlike 4S dealerships, our showrooms do not offer after-sales or any other automobile-related services.
- one manufacturer-authorized CPO center, which is dedicated to the sale of CPOs. As of the Latest Practicable Date, we had one Audi-authorized CPO Center and had been authorized to open a BMW Premium Selection sales center by the end of 2012, which will be dedicated to the sale of BMW CPOs.

### **Brand Segment**

As of December 31, 2011, we had the second largest portfolio of luxury and ultra-luxury passenger vehicle brands in China, including BMW, MINI, Audi, Porsche, Jaguar, Land Rover, Infiniti, Cadillac and Volvo. As of the Latest Practicable Date, 40 out of our 66 existing outlets were in the luxury and ultra-luxury segment, including 21 BMW, six MINI, three Audi, two Porsche,

## BUSINESS

three Jaguar/Land Rover, three Infiniti, one Cadillac and one Volvo outlets. According to Roland Berger, we were the largest BMW dealership group in China in terms of sales volume in 2011 and 2010. We also have the largest 4S dealership in East China for each of Audi and Infiniti and the second largest 4S dealership in East China for BMW, respectively, in terms of sales volume per outlet in 2011.

We also operate 4S dealerships for select mid- to high-end brands, including Buick, Chevrolet, Volkswagen, Toyota, Honda and Nissan among others. As of the Latest Practicable Date, we had 26 outlets in the mid- to high-end segment.

The following table sets forth a breakdown of our existing outlets by brand segment as of the dates indicated:

	Number of Existing Outlets					As of the Latest Practicable Date
	As of December 31,					
	2007	2008	2009	2010	2011	
<b>Luxury and ultra-luxury</b>						
BMW .....	4	7	10	18	21	21
MINI .....	—	1	2	5	6	6
Audi .....	1	1	2	2	3	3
Porsche .....	—	—	—	—	1	2
Jaguar/ Land Rover .....	—	—	—	—	3	3
Infiniti .....	1	1	2	2	3	3
Cadillac .....	1	1	1	1	1	1
Volvo .....	—	1	1	1	1	1
<b>Subtotal</b> .....	<u>7</u>	<u>12</u>	<u>18</u>	<u>29</u>	<u>39</u>	<u>40</u>
<b>Mid- to high-end</b> .....	<u>15</u>	<u>17</u>	<u>20</u>	<u>23</u>	<u>25</u>	<u>26</u>
<b>Total</b> .....	<u><u>22</u></u>	<u><u>29</u></u>	<u><u>38</u></u>	<u><u>52</u></u>	<u><u>64</u></u>	<u><u>66</u></u>

### Geographic Presence

#### *Shanghai*

Our headquarters is located in Shanghai. As of December 31, 2011, we had the largest luxury and ultra-luxury passenger vehicle dealership network in Shanghai. We operate 4S dealerships for a broad portfolio of passenger vehicle brands in Shanghai, including eight luxury and nine mid- to high-end brands. As of the Latest Practicable Date, we operated 37 outlets in Shanghai, including 31 4S dealerships, five showrooms and one manufacturer-authorized CPO center. In terms of location of our outlet network in Shanghai, our dealerships are all within the Shanghai Outer Ring Expressway (上海外環高速公路) and our showrooms are all in prime locations of the city.

#### *Other Markets in East China*

We have successfully expanded our network from Shanghai to the other affluent and developed provinces in East China. In 2011, we were the second largest dealership group in East China and the third largest dealership group in China, both in terms of sales volume of luxury and ultra-luxury passenger vehicles, according to Roland Berger. As of the Latest Practicable Date, we operated 22 outlets in the other markets in East China, including 13 in Jiangsu, six in Zhejiang, two in Fujian and one in Anhui.

## BUSINESS

### *Other Strategic Markets*

We have also established outlets in the other strategic markets in China with large and wealthy consumer base and well-established road networks. As of the Latest Practicable Date, we operated seven outlets in the other strategic markets, including three BMW 4S dealerships in Shanxi, one BMW 4S dealership in Beijing, one Porsche 4S dealership in Hainan, one MINI showroom in Shanxi and one BMW-authorized service center in Shanxi. Some of these outlets have gained a first-mover advantage in their regional passenger vehicle markets. For example, we operate the only BMW 4S dealership in each of Linfen City and Changzhi City of Shanxi province.

The following table sets forth a breakdown of our existing outlets by geographic coverage as of the dates indicated:

	Number of existing outlets					As of the Latest Practicable Date
	As of December 31,					
	2007	2008	2009	2010	2011	
<b>Shanghai</b> .....	19	23	27	32	36	37
<b>Other provinces in East China</b>						
Jiangsu .....	2	4	5	8	13	13
Zhejiang .....	—	—	1	4	6	6
Fujian .....	1	1	2	2	2	2
Anhui .....	—	—	—	—	—	1
<b>Subtotal</b> .....	3	5	8	14	21	22
<b>Other strategic markets</b>						
Beijing .....	—	—	—	1	1	1
Shanxi .....	—	1	3	5	5	5
Hainan .....	—	—	—	—	1	1
<b>Subtotal</b> .....	—	1	3	6	7	7
<b>Total</b> .....	22	29	38	52	64	66

### **Our Existing Outlets**

The following table sets forth further details of our outlets that were in operation as of the Latest Practicable Date:

Outlet	Type	City	Province	Year of Commencement of Operation <sup>(1)</sup>	Expiry Date of Authorization <sup>(2)</sup>
<b>Luxury and Ultra-luxury Brands</b>					
<b>BMW<sup>(3)</sup> (21)</b>					
Shanghai Baozen .....	4S dealership	Shanghai	Shanghai	2005	December 2012
Shanghai Baozen Zhonghuan .....	4S dealership <sup>(4)</sup>	Shanghai	Shanghai	2008	December 2012
Wuxi Baozen .....	4S dealership	Wuxi	Jiangsu	2006	December 2012
Nantong Baozen .....	4S dealership	Nantong	Jiangsu	2007	December 2012
Jiangyin Baozen .....	4S dealership	Jiangyin	Jiangsu	2008	December 2012
Taicang Baozen .....	4S dealership	Taicang	Jiangsu	2010	December 2013
Kunshan Baozen .....	4S dealership	Kunshan	Jiangsu	2011	December 2014
Wenzhou Baozen .....	4S dealership	Wenzhou	Zhejiang	2009	December 2012
Taizhou Baozen .....	4S dealership	Taizhou	Zhejiang	2010	December 2013
Beijing Baozen Baiwang .....	4S dealership	Beijing	Beijing	2010	December 2013

## BUSINESS

Outlet	Type	City	Province	Year of Commencement of Operation <sup>(1)</sup>	Expiry Date of Authorization <sup>(2)</sup>
Taiyuan Baozen . . . . .	4S dealership	Taiyuan	Shanxi	2008	December 2012
Linfen Baozen . . . . .	4S dealership	Linfen	Shanxi	2009	December 2012
Changzhi Baozen Lufu . . . . .	4S dealership	Changzhi	Shanxi	2010	December 2013
Yancheng BMW-authorized Service Center <sup>(5)</sup> . . . . .	Manufacturer- authorized service center	Yancheng	Jiangsu	2009	March 2013
Wuxi BMW-authorized Service Center . . . . .	Manufacturer- authorized service center	Wuxi	Jiangsu	2011	April 2013
Yongjia BMW-authorized Service Center . . . . .	Manufacturer- authorized service center	Yongjia	Zhejiang	2010	April 2013
Linhai BMW-authorized Service Center . . . . .	Manufacturer- authorized service center	Linhai	Zhejiang	2010	March 2013
Yuncheng BMW-authorized Service Center . . . . .	Manufacturer- authorized service center	Yuncheng	Shanxi	2010	May 2013
Shanghai Yongda Dasha . . . . .	Showroom	Shanghai	Shanghai	2007	N/A <sup>(6)</sup>
Wuxi BMW Showroom . . . . .	Showroom	Wuxi	Jiangsu	2011	December 2012
Nantong BMW Showroom . . . . .	Showroom	Nantong	Jiangsu	2010	December 2012
<b>MINI (6)</b>					
Shanghai Putuo Baozen . . . . .	4S dealership	Shanghai	Shanghai	2010	December 2013
Shanghai MINI Showroom . . . . .	Showroom	Shanghai	Shanghai	2010	December 2013
Wuxi MINI Showroom . . . . .	Showroom	Wuxi	Jiangsu	2008	December 2012
Nantong MINI Showroom . . . . .	Showroom	Nantong	Jiangsu	2010	December 2013
Jiangyin MINI Showroom . . . . .	Showroom	Jiangyin	Jiangsu	2011	December 2014
Taiyuan MINI Showroom . . . . .	Showroom	Taiyuan	Shanxi	2009	December 2012
<b>Audi (3)</b>					
Shanghai Yongda Pudong . . . . .	4S dealership	Shanghai	Shanghai	2002	January 2014
Audi-authorized CPO Center . . . . .	Manufacturer- authorized CPO center	Shanghai	Shanghai	2009 <sup>(1)</sup>	January 2014
Shanghai Audi Lujiazui Showroom . . . . .	Showroom	Shanghai	Shanghai	2011	January 2014
<b>Porsche (2)</b>					
Hainan Mengfa . . . . .	4S dealership	Haikou	Hainan	2011	December 2013
Anhui Yongda Baoyi . . . . .	4S dealership	Hefei	Anhui	2012	December 2013
<b>Jaguar/Land Rover (3)</b>					
Shanghai Yongda Lujie . . . . .	4S dealership	Shanghai	Shanghai	2011	March 2014
Shanghai Zhangyang Showroom . . .	Showroom	Shanghai	Shanghai	2011	N/A <sup>(6)</sup>
Shanghai Jinmao Showroom . . . . .	Showroom	Shanghai	Shanghai	2011	N/A <sup>(6)</sup>
<b>Infiniti (3)</b>					
Shanghai Yongda Infiniti . . . . .	4S dealership	Shanghai	Shanghai	2007	N/A <sup>(7)</sup>
Shanghai Yongda Infiniti Qibao . . . .	4S dealership	Shanghai	Shanghai	2009	N/A <sup>(7)</sup>
Shaoxing Yongda Wuxian . . . . .	4S dealership	Shaoxing	Zhejiang	2011	N/A <sup>(7)</sup>
<b>Cadillac (1)</b>					
Shanghai Yongda Shenlong . . . . .	4S dealership	Shanghai	Shanghai	2007	March 2013
<b>Volvo (1)</b>					
Shanghai Yongda Dongwo . . . . .	4S dealership	Shanghai	Shanghai	2008	December 2012

## BUSINESS

Outlet	Type	City	Province	Year of Commencement of Operation <sup>(1)</sup>	Expiry Date of Authorization <sup>(2)</sup>
<b>Mid- to high-end Brands</b>					
<b><i>Buick (7)</i></b>					
Shanghai Yongda Automobile					
Trade	4S dealership	Shanghai	Shanghai	1999	March 2013
Shanghai Yongda Nanhui	4S dealership	Shanghai	Shanghai	2008	March 2014
Shanghai Yongda Songjiang	4S dealership	Shanghai	Shanghai	2003	March 2014
Shanghai Yongda Tongmei	4S dealership	Shanghai	Shanghai	2007	March 2014
Shanghai Yongda Puxi	4S dealership	Shanghai	Shanghai	2001	March 2014 <sup>(8)</sup>
Shanghai Yongda Qidong	4S dealership	Qidong	Jiangsu	2011	March 2013
Fuzhou Yongda	4S dealership	Fuzhou	Fujian	2005	March 2013
<b><i>Chevrolet (5)</i></b>					
Shanghai Yongda Baoyunlai	4S dealership	Shanghai	Shanghai	2006	March 2014
Shanghai Yongda Tongning	4S dealership	Shanghai	Shanghai	2009	March 2014
Shanghai Yongda Tongsheng	4S dealership	Shanghai	Shanghai	2009	March 2014
Shanghai Yongda Zhonghuan	4S dealership	Shanghai	Shanghai	2005	March 2013
Fujian Yongda	4S dealership	Fuqing	Fujian	2009	March 2013
<b><i>FAW-Volkswagen (2)</i></b>					
Shanghai Yongda Automobile Pudong					
Trade	4S dealership	Shanghai	Shanghai	2001	N/A <sup>(6)</sup>
Shanghai Yongda Haojie	4S dealership	Shanghai	Shanghai	2010	N/A <sup>(6)</sup>
<b><i>Shanghai-Volkswagen (2)</i></b>					
Shanghai Bashi Yongda <sup>(9)</sup>	4S dealership	Shanghai	Shanghai	2010	December 2011 <sup>(10)</sup>
Huzhou Yongda	4S dealership	Huzhou	Zhejiang	2011	December 2011 <sup>(10)</sup>
<b><i>FAW-Toyota (1)</i></b>					
Shanghai Yongda Toyota	4S dealership	Shanghai	Shanghai	2002	March 2013
<b><i>GAC-Toyota (1)</i></b>					
Shanghai Yongda Changrong <sup>(9)</sup>	4S dealership	Shanghai	Shanghai	2006	February 2013
<b><i>Dongfeng Honda (1)</i></b>					
Shanghai Yongda Xingtian	4S dealership	Shanghai	Shanghai	2006	N/A <sup>(7)</sup>
<b><i>GAC-Honda (2)</i></b>					
Shanghai Yongda Automobile					
Businesses and Services	4S dealership	Shanghai	Shanghai	1999	N/A <sup>(7)</sup>
Shanghai Yongda Guangshen	4S dealership	Shanghai	Shanghai	2007	N/A <sup>(7)</sup>
<b><i>Nissan (2)</i></b>					
Shanghai Yongda Fengdu <sup>(9)</sup>	4S dealership	Shanghai	Shanghai	2002	March 2013
Shanghai Qingpu Yongda	4S dealership	Shanghai	Shanghai	2010	March 2013
<b><i>Roewe (1)</i></b>					
Shanghai Yongda Weirong	4S dealership	Shanghai	Shanghai	2006	May 2013
<b><i>Chang'an Ford (1)</i></b>					
Shanghai Yongda Tongbao	4S dealership	Shanghai	Shanghai	2008	March 2014
<b><i>Skoda (1)</i></b>					
Shanghai Yongda Bashi	4S dealership	Shanghai	Shanghai	2012	June 2013

Notes:

- (1) Except for the Audi-authorized CPO center, year of commencement of operation in the above table refers to the year in which the dealership agreement or other authorization arrangement was entered into for the operation of the outlet. The year of commencement of the Audi-authorized CPO center refers to the year in which the outlet was established. We did not enter into any formal dealership agreement or other authorization arrangement with Audi in relation to the Audi-authorized CPO center. However, we have obtained a written confirmation from Audi, which confirms that we are authorized to engage in the CPO business for Audi.

## BUSINESS

- (2) We have entered into a dealership agreement for each of our 4S dealerships. Manufacturer's authorizations for the other types of outlets, including showrooms, manufacturer-authorized service centers and manufacturer-authorized CPO center, may differ in form, e.g., service agreement, letter of authorization or written notice.
- (3) As BMW requires that corporate names of its dealers must contain the Chinese character “宝 (Bao)”, we chose “Baozen (宝诚)” as part of the corporate names of our subsidiaries operating BMW dealerships and include “Baozen (宝诚)” brand as a sub-brand of our “Yongda (永达)” corporate brand in our sales and marketing activities.
- (4) The 4S dealership has been revamped according to BMW's latest 5S standards.
- (5) This outlet may be closed following the opening of Yancheng Baozen in the same city subject to BMW's final determination.
- (6) No expiry date is provided in the agreement entered into with the manufacturer in relation to this outlet.
- (7) The agreement will be automatically renewed unless either party indicates otherwise prior to the expiry date.
- (8) Shanghai Yongda Puxi was formerly operated by Shanghai Yongda Automobile Puxi Sales and Services Co., Ltd. (上海永達汽車浦西銷售服務有限公司), an indirect wholly owned subsidiary of the Group. According to the renewed dealership agreement dated March 31, 2012 for Shanghai Yongda Puxi, the legal entity operating this dealership has been changed from Shanghai Yongda Automobile Puxi Sales and Services Co., Ltd. to Shanghai Yongda Tongtu Automobile Sales and Services Co., Ltd. (上海永達通途汽車銷售服務有限公司), an indirect wholly owned subsidiary of the Group. For more information relating to Shanghai Yongda Tongtu Automobile Sales and Services Co., Ltd., see “Our History and Reorganization—Shareholding and Group Structure.” Shanghai Yongda Tongtu Automobile Sales and Services Co., Ltd. has commenced the registration and filing procedures in relation to the automobile dealer with SAIC and local administration of industry and commerce.
- (9) The 4S dealership is 50% owned by us whose revenue and sales volume are not included in our combined revenues and sales volume.
- (10) We are currently in the process of renewing this dealership agreement and have obtained the respective manufacturer's written confirmation for the renewal.

### Network Expansion

In terms of brand diversity, we expect to increase significantly the number and proportion of luxury and ultra-luxury brand 4S dealerships in our network. As of the Latest Practicable Date, we had received manufacturer's authorizations to open another 19 4S dealerships, 18 of which would be dedicated to luxury and ultra-luxury brands, including four BMW 4S dealerships, four Jaguar/Land Rover 4S dealerships, four Audi 4S dealerships, two Cadillac 4S dealerships and one 4S dealership for each of Porsche, MINI, Infiniti and Volvo. In terms of geographic coverage, 23 out of our 25 new outlets will be established in Shanghai and the other provinces in East China, and the other two will be located in Henan. According to Roland Berger, the sales volume of new passenger vehicles in China in the luxury and ultra-luxury segments is expected to grow at a CAGR of 16.4% and 19.8%, respectively, between 2011 and 2015. Based on such market information and our internal market assessment and business analysis, we believe our network expansion plan for these 25 new outlets is feasible and will be supported by sufficient demand, even under our projected worst scenario situation that assumes certain slowdown in the PRC passenger vehicle market.

The following table sets forth a breakdown of the new outlets which we had been authorized to open as of the Latest Practicable Date:

Outlet	Type	City	Province	Expected Year of Commencement of Operation <sup>(1)</sup>
<b>Luxury and Ultra-luxury brand</b>				
<b>BMW (6)</b>				
Jiangyin Xiangyue Baozen <sup>(2)</sup> . . . . .	4S dealership	Jiangyin	Jiangsu	2012
Yancheng Baozen <sup>(3)</sup> . . . . .	4S dealership	Yancheng	Jiangsu	2012
Shengzhou Baozen <sup>(3)</sup> . . . . .	4S dealership	Shengzhou	Zhejiang	2012
Shanghai Baozen Shenjiang <sup>(3)</sup> . . . . .	4S dealership	Shanghai	Shanghai	2013
Shanghai Puxi Showroom <sup>(3)</sup> . . . . .	Showroom	Shanghai	Shanghai	2012
Shanghai Baozen Zunyue <sup>(3)</sup> . . . . .	Manufacturer-authorized CPO center	Shanghai	Shanghai	2012
<b>MINI (2)</b>				
Wuxi Yicheng <sup>(3)</sup> . . . . .	4S dealership	Wuxi	Jiangsu	2012
Taizhou MINI Showroom <sup>(3)</sup> . . . . .	Showroom	Taizhou	Zhejiang	2012



## BUSINESS

Outlet	Type	City	Province	Expected Year of Commencement of Operation <sup>(1)</sup>
<b>Audi (4)</b>				
Shanghai Yongda Aocheng <sup>(3)</sup> .....	4S dealership	Shanghai	Shanghai	2012
Shanghai Yongda Aocheng Zhonghuan <sup>(3)</sup> .....	4S dealership	Shanghai	Shanghai	2012
Huzhou Yongda Aocheng <sup>(3)</sup> .....	4S dealership	Huzhou	Zhejiang	2012
Taizhou Audi <sup>(3)</sup> .....	4S dealership	Taizhou	Zhejiang	2012
<b>Porsche (1)</b>				
Wuxi Yongda Oriental <sup>(4)</sup> .....	4S dealership	Wuxi	Jiangsu	2012
<b>Jaguar/Land Rover (7)</b>				
Huzhou Yongda Lubao <sup>(3)</sup> .....	4S dealership	Huzhou	Zhejiang	2012
Wenzhou Yongda Lujie <sup>(3)</sup> .....	4S dealership	Wenzhou	Zhejiang	2012
Zhengzhou Yongda Hexie <sup>(4)</sup> .....	4S dealership	Zhengzhou	Henan	2012
Shanghai Yongda Lusheng <sup>(3)</sup> .....	4S dealership	Shanghai	Shanghai	2014
Huzhou Jaguar/Land Rover Showroom <sup>(3)(5)</sup> .....	Showroom	Huzhou	Zhejiang	2012
Wenzhou Jaguar/Land Rover Showroom <sup>(3)(5)</sup> .....	Showroom	Wenzhou	Zhejiang	2012
Zhengzhou Jaguar/Land Rover Showroom <sup>(3)(5)</sup> .....	Showroom	Zhengzhou	Henan	2012
<b>Infiniti (1)</b>				
Yangzhou Yongda Infiniti <sup>(3)</sup> .....	4S dealership	Yangzhou	Jiangsu	2012
<b>Cadillac (2)</b>				
Ganzhou Yongda <sup>(3)</sup> .....	4S dealership	Ganzhou	Jiangxi	2012
Ningbo Yongda Cadillac <sup>(3)</sup> .....	4S dealership	Ningbo	Zhejiang	2013
<b>Volvo (1)</b>				
Shanghai Shenjiang Volvo <sup>(3)</sup> .....	4S dealership	Shanghai	Shanghai	2012
<b>Mid- to high-end Brands</b>				
<b>Chevrolet (1)</b>				
Ningbo Yongda Chevrolet <sup>(3)</sup> .....	4S dealership	Ningbo	Zhejiang	2012

Notes:

- (1) Based on our estimate, subject to changes according to the progress of outlet construction.
- (2) We had acquired the land use rights for this new outlet.
- (3) We are considering whether to purchase or lease the premise for this outlet.
- (4) We had entered into a lease agreement for this new outlet as of the Latest Practicable Date.
- (5) We have not entered into a formal letter of intent with Jaguar and Land Rover in relation to the opening of this new outlet. However, Jaguar and Land Rover has provided us with a written confirmation to confirm that (i) we have been authorized to open this new outlet; and (ii) the formal letter of intent is going through internal procedures of Jaguar and Land Rover and will be signed as soon as these internal procedures are completed.

As of the Latest Practicable Date, we had duly incorporated legal entities for 13 of the 25 new outlets. In addition to complying with the registration and filing requirements with SAIC and the relevant local administration of industry and commerce, our new 4S dealerships and manufacturer-authorized service center must obtain the Road Transport License from the local transport authorities before they can engage in the provision of repair and maintenance services. Our new outlets that engage in the distribution of automobile insurance products must also obtain the License for Concurrent-Business Insurance Agency issued by the CIRC. For more information, see “Regulatory Overview—Regulations Relating to the PRC Passenger Vehicle Industry.” We will start applying for these licenses for a new outlet, if applicable, after its dealership agreement is entered into and the registration and filing with SAIC and local administration of industry and commerce are completed. We are in the process of securing premises for the 25 new outlets. As of the Latest Practicable Date, we secured premises for three of these new outlets as disclosed in the table above, and will determine whether to purchase or lease premises for the remaining 22 in due course, taking into account of land availability and other specific circumstances in the local area and our business needs.

---

## BUSINESS

---

We estimate that our capital expenditures for establishing the 19 new 4S dealerships will generally range between RMB25 million to RMB154 million per outlet, depending on location and other factors, such as whether the dealership will be located on a purchased or leased premise. We expect most of our capital expenditures associated with opening these 4S dealerships will be for: (i) the acquisition of related land use rights; (ii) property construction or renovation; and (iii) purchases of equipment and fittings.

We estimate that our capital expenditures for establishing the five new showrooms and the new manufacturer authorized CPO center will range between RMB3 million to RMB20 million per outlet, the majority of which will be used for renovation.

Our total budgeted capital expenditures for establishing the 25 new outlets were RMB998 million as of the Latest Practicable Date. As of December 31, 2011, we had incurred capital expenditures of approximately RMB178 million and expected to incur an additional capital expenditures of approximately RMB820 million. We currently intend to use approximately 50% of our total estimated net proceeds from the Global Offering, or approximately HK\$1,236 million based on the mid-point of the stated Offer Price range, to finance the capital expenditures required in connection with our opening of new outlets and any shortfall is expected to be funded with cash generated from operating activities and proceeds from bank loans and other borrowings.

Based on our previous experience in expanding our network, we have developed a well-established internal procedure for site selection. We select new outlet locations by taking into account manufacturers' expansion plans, which identify their target markets for new outlets. Other major factors affecting our decision-making include the level of economic development, growth potential, consumption patterns, the passenger vehicle penetration rate, the competitive landscape, transportation convenience and the availability and price of land for outlet construction. When a target location is identified, our project development department will conduct site visits and extensive statistical analysis of the target location based on a set of criteria including, among other things, convenience and ease of access, traffic flow and parking availability. Based on the site visits and statistical analysis, a preliminary business proposal will be prepared and submitted to our senior management for discussion. If our assessment and analysis is favorable, an outlet proposal will be submitted to the relevant automobile manufacturer for approval. Following the manufacturer's acceptance of our new outlet proposal, we will start construction in accordance with the manufacturer's standards and requirements. We are typically required to complete the construction and build-out of the outlet within the agreed-upon period of time and if we fail to do so, the manufacturer may revoke its authorization and refuse to enter into dealership agreement with us. Each completed outlet must pass the manufacturer's inspection before it commences operation.

We believe that the rapid expansion of our network benefits from our standardized operation model. We follow our established standardized procedures for the purposes of (i) construction and operation of new outlets; (ii) internal control; (iii) procurement and inventory management; (iv) financial management and budgeting; (v) selection of supplier and quality control; (vi) service standards; (vii) brand building and marketing initiatives; and (viii) staffing, training and career planning as applicable. Each of our new outlets will receive support and guidance from a mature outlet, which is designated to assist with the initial business development of the new one to supervise its execution of our internal policies and procedures. These standardized procedures enable us to quickly replicate ourselves in new markets and maintain consistent sales performance and service quality as we continue to expand.

**Awards**

Our 4S dealerships have received numerous awards and accolades from manufacturers, industry trade associations and media. In particular, we have obtained the followings major awards from manufacturers of luxury and ultra-luxury passenger vehicle brands:

- Wuxi Baozen, Shanghai Baozen and Shanghai Baozen Zhonghuan were ranked second, third and sixth, respectively, in the “2009 Best Dealership Quality Awards” of BMW.
- Our Audi 4S dealership was awarded the “Best Sales Performance 2010 Award” and the “Best Dealer 2009 Award” of Audi.
- Shanghai Yongda Infiniti was awarded the “2010 Excellent Dealership Award” of Infiniti.
- Wuxi Baozen and Taiyuan Baozen were awarded the “2010 Top Dealer Management Awards” of BMW.
- Shanghai Baozen was awarded the “2010 Top Sales Performance Award” of BMW.
- Taicang Baozen was awarded the “2010 Best Implementation Golden Award” of BMW.

In addition, a number of our employees have received awards and honors from automobile manufacturers. For example, the general manager of Wuxi Baozen was ranked among the top 3 in the “Customer Orientation” category of “Excellence in Sales 2010,” which was the global dealer competition of the BMW Group. The general manager of our Audi 4S dealership received the “2010 National Best Audi General Manager Award.” Other major awards and honors received by our employees include, among others, the “Gold Award” and the title of “Service Elite” in the “1<sup>st</sup> Jaguar Land Rover China Service Advisor Competency Grand Prix (2012),” the “Comprehensive Final Champion” in the “Second BMW National Sales Competition of Excellence (2011)” and “BMW Top 10 Internal Technical Trainers (2010).”

## BUSINESS

### Sale of New Passenger Vehicles

We generate the majority of our revenue from the sale of new passenger vehicles. For the years ended December 31, 2009, 2010 and 2011, revenue from passenger vehicle sales, which primarily consisted of new passenger vehicle sales, accounted for approximately 90.3%, 92.1% and 91.6% of our total revenue, respectively. The following table sets forth the volume and revenue breakdown by brand of our passenger vehicle sales during the Track Record Period:

	Year Ended December 31,								
	2009			2010			2011		
	Revenue			Revenue			Revenue		
	Sales Volume	Amount	% of Total	Sales Volume	Amount	% of Total	Sales Volume	Amount	% of Total
(units)	(RMB in thousands)	(%)	(units)	(RMB in thousands)	(%)	(units)	(RMB in thousands)	(%)	
<b>Luxury and ultra-luxury brands</b>									
BMW/MINI	7,040	3,866,993	47.0	13,936	7,229,059	52.3	20,586	10,041,284	54.0
Audi	2,181	838,328	10.2	3,092	1,307,533	9.5	3,500	1,422,569	7.6
Porsche	—	—	—	—	—	—	150	189,452	1.0
Jaguar/Land Rover	—	—	—	157	134,983	1.0	1,374	1,157,027	6.2
Infiniti	604	348,772	4.2	1,297	586,728	4.2	1,682	815,986	4.4
Cadillac	232	97,669	1.2	512	258,134	1.9	887	375,820	2.0
Volvo	512	187,365	2.3	483	202,375	1.5	942	303,560	1.6
<b>Subtotal</b>	<b>10,569</b>	<b>5,339,127</b>	<b>65.0</b>	<b>19,477</b>	<b>9,718,812</b>	<b>70.3</b>	<b>29,121</b>	<b>14,305,698</b>	<b>76.9</b>
<b>Mid- to high-end brands</b>									
Buick	7,372	1,137,097	13.8	11,925	1,893,414	13.7	12,351	1,950,862	10.5
Volkswagen	1,421	208,918	2.5	1,858	282,886	2.0	2,980	455,293	2.4
Toyota	1,356	291,657	3.5	1,170	260,241	1.9	1,214	244,025	1.3
Honda	2,781	433,549	5.3	2,780	453,930	3.3	2,740	435,745	2.3
Others <sup>(1)</sup>	8,220	808,767	9.8	12,204	1,220,782	8.8	12,823	1,215,017	6.5
<b>Subtotal</b>	<b>21,150</b>	<b>2,879,988</b>	<b>35.0</b>	<b>29,937</b>	<b>4,111,253</b>	<b>29.7</b>	<b>32,108</b>	<b>4,300,942</b>	<b>23.1</b>
<b>Total</b>	<b>31,719</b>	<b>8,219,115</b>	<b>100.0</b>	<b>49,414</b>	<b>13,830,065</b>	<b>100.0</b>	<b>61,229</b>	<b>18,606,640</b>	<b>100.0</b>

Note:

(1) Including Chevrolet, Nissan, Ford, Roewe and Skoda.

Pricing for a particular new passenger vehicle is generally based on a variety of factors, including the manufacturer's suggested retail price ("MSRP"), market demand for a particular model and the number of passenger vehicles of the same model in inventory. Despite the MSRP, we retain some flexibility in determining the retail prices of our new passenger vehicles, which allows us to adjust our pricing strategy according to the market environment. We enter into written contracts with our customers for the sale of new passenger vehicles. Upon signing sales contracts with us, our customers are typically required to pay a deposit or advance, the amount of which primarily depends on the brands and models. During the Track Record Period, we did not provide guarantees to any banks or other financial institutions against loans extended to our customers for vehicle purchases.

As a common market practice, the manufacturers often provide us with incentive rebates, which are generally determined with reference to our purchase volume, sales volume, customer satisfaction and other performance indicators set by the relevant automobile manufacturers, depending on their policies. In 2009, 2010 and 2011, the incentive rebates reduced our cost of sales and services by

approximately RMB586.2 million, RMB826.5 million and RMB1,108.2 million, respectively. As a market practice, instead of providing the incentive rebate rates in the dealership agreements, the automobile manufacturers generally determine their annual rebate policies and practices and inform us their basis for determining rebate amounts before each calendar year. From time to time, automobile manufacturers also offer special incentive rebates for particular models of passenger vehicles, the details of which are provided to us in advance. These rebate amounts are settled from time to time, typically on a quarterly or annual basis, according to the practices of different automobile manufacturers. A majority of our incentive rebates during the Track Record Period were paid in cash, while the balance was settled by deducting the amounts from the aggregate purchase price payable by us for subsequent passenger vehicle orders. For more information, see “Risk Factors—Risks Relating to Our Business—Our business and operations are subject to restrictions imposed by, and significant influence from, automobile manufacturers and we depend on their support and cooperation in many different aspects of our operations.”

### **After-sales Services**

Our 4S dealerships provide comprehensive after-sales services to our customers. These services primarily consist of (i) repair and maintenance; (ii) sale of spare parts and accessories; and (iii) detailing services. To expand the geographical coverage of our after-sales services, we have opened five BMW-authorized service centers in select cities in Jiangsu, Zhejiang and Shanxi provinces, which are adjacent to the cities where our 4S dealerships are located. Services offered in these BMW-authorized service centers are the same as our BMW 4S dealerships.

Many of our after-sales service customers have previously purchased new passenger vehicles from our dealerships. We focus on providing high quality after-sales services to achieve a high degree of customer satisfaction. We believe this approach encourages customer retention and repeat purchases, as well as attracts new customers through referrals, particularly in the luxury and ultra-luxury segment. The quality of our repair and maintenance services is also a factor considered by manufacturers in determining whether to enter into a new dealership agreement or to renew our existing dealership agreements. For more information, see “Key Terms of Our Dealership Agreements” below.

We plan to expand our service network by opening more manufacturer-authorized service centers, particularly in locations close to residential areas with high concentration of owners of luxury and ultra-luxury passenger vehicles. Most of these new service centers will be dedicated to servicing luxury and ultra-luxury passenger vehicles. We envisage that this will attract a group of new customers, including those who did not purchase their vehicles from us but require convenient access to quality after-sales services. We have commenced preliminary negotiations with BMW to open four additional BMW-authorized service centers. Subject to BMW’s approval, we expect to open these four service centers in 2013. These four planned service centers will differ in terms of scale of operations according to the car parc in the areas they will be located. We estimate that our capital expenditures for establishing these four planned manufacturer-authorized service centers will be approximately RMB3 million per outlet, exclusive of land cost. As of the Latest Practicable Date, we had not incurred any capital expenditures relating to the four planned manufacturer-authorized service centers. When market conditions mature, we also plan to establish our “永达 (Yongda)” branded repair and maintenance centers. While our existing 4S dealerships are typically dedicated to the sale of and services for one particular automobile brand, our “永达 (Yongda)” branded repair and maintenance centers will not be subject to such limitations and will provide after-sales services to a broad range of

---

## BUSINESS

---

luxury and ultra-luxury passenger vehicles. We are evaluating the feasibility and business prospects of opening this type of new repair and maintenance centers. Since our plan for opening our “永达 (Yongda)” branded repair and maintenance centers is at a preliminary stage, we have not developed any detailed plan for capital expenditures in this regard.

In addition, we are seeking to further strengthen our cooperation with insurance companies to bring more referrals to us, particularly for post-collision repair services. We have entered into cooperation agreements with leading insurance companies in China, including PICC Property and Casualty Company Limited (PICC), Ping An Property & Casualty Insurance Company of China, Ltd. (Ping An Insurance) and China Pacific Property Insurance Co., Ltd. (China Pacific Insurance). As part of these cooperation arrangements, these insurance companies will recommend our repair services to their automobile insurance policy holders. See “Sales and Marketing” below. We are seeking to further increase the referral rate of these three insurance companies.

We will continue to attract, train and retain experienced service representatives and technicians to implement the best service standards. To maintain sufficient and quality technician forces, we work together with manufacturers and local educational institutions to recruit and train automotive technicians. See “Employees” below.

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

### *Repair and maintenance*

Repair and maintenance services are an integral part of our “one-stop shop” service offerings. Our maintenance and repair services are generally charged based on the prices of the spare parts and accessories used, if any, and the hourly rates of our technicians. The spare parts and accessories we sell or use for our repair and maintenance services are priced according to the manufacturers’ pricing guidelines and the hourly rates of our technicians which are determined by the manufacturers’ pricing guidelines and the applicable regulations issued by the local government authorities.

We are not required to provide any warranty with respect to the new passenger vehicles, CPOs, spare parts and other products that we sell. However, under applicable PRC laws, we are required to provide a service warranty for the repair services that we perform. The warranty period commences from the date on which the automobile leaves our outlet. Under the relevant PRC laws and regulations, automobile repairs are divided into several categories and the mandatory warranty period for each repair varies from the shorter of 10 days or 2,000 kilometers (in the case of basic repairs) to the shorter of 100 days or 20,000 kilometers (in the case of major repairs). During the Track Record Period, warranty claims made by our after-sales service customers against us were of immaterial amounts and, accordingly, no provision has been made with respect to such warranty claims.

### *In-warranty repair*

We provide repair services under the warranties offered by manufacturers. Warranty terms differ among various manufacturers and the warranty period is predetermined by the relevant manufacturer. For new passenger vehicles produced by our manufacturer partners, the warranty periods range from the lesser of two years or 60,000 kilometers to the lesser of four years or 100,000 kilometers. The period typically begins on the date when the passenger vehicle is delivered to the customer. New passenger vehicle warranties typically only cover defects in materials or workmanship.

Accordingly, we examine each passenger vehicle brought to our dealerships to determine the cause of the problem as well as any hidden defects before commencing repairs. Each of our 4S dealerships is typically staffed with one to two technicians who have received the manufacturer's training to assess whether the defects fall within its warranty coverage or not. The manufacturers pay for the warranty services that we provide. Repairs covered by warranties are typically reimbursed by manufacturers within approximately two to three months following the submission of a claim form. The total amount of reimbursement received by us from automobile manufacturers in relation to in-warranty repair services and product recalls was RMB78.9 million, RMB113.5 million and RMB141.4 million for the three years ended December 31, 2009, 2010 and 2011, respectively. Such amounts included reimbursement for the in-warranty repair jobs, services rendered in connection with any automobile recalls and other services.

#### *Out-of-warranty repair*

We also provide out-of-warranty repair services, including the replacement of parts due to wear or the repair of damages resulting from collisions or other accidents. Out-of-warranty repair services are paid by the customers. As part of our cooperation arrangements with the leading insurance companies in China, namely PICC, Ping An Insurance and China Pacific Insurance, we are one of the recommended repair service providers for the automobile insurance policy holders of these insurance companies. See "Sales and Marketing" below.

#### *Maintenance*

Our maintenance services primarily include motor oil change, replacement of spark plugs and air filters, tire rotation and other routine inspections. According to the manufacturers' maintenance manuals, vehicle owners are typically recommended to schedule a maintenance check at each 5,000 to 10,000 kilometers or three months to half-year intervals depending on the brand and model. Based on the manufacturers' maintenance guidance and our customer records, we send periodic reminders of upcoming scheduled maintenance checks to our customers.

Some manufacturers offer customers the initial maintenance check or motor oil change after purchase free of charge, the cost of which is borne by the relevant manufacturer. The subsequent regular maintenance is usually not covered under manufacturers' warranties and has to be paid by the customers.

#### *Sale of spare parts and accessories*

Our 4S dealerships and manufacturer-authorized service centers sell spare parts and accessories mostly as part of our repair and maintenance services. We also sell these products directly to our customers. According to manufacturers' requirements, we source substantially all of our spare parts and accessories from the manufacturers or their authorized suppliers.

#### *Detailing services*

Our 4S dealerships and manufacturer-authorized service centers provide detailing services to satisfy our customers' personalized needs and increase our revenue streams. Our detailing services mainly include lacquer coating and window tinting.

---

## BUSINESS

---

### **Automobile Rental Services**

We operate automobile rental business through Shanghai Yongda Automobile Leasing Co., Ltd., which provides primarily long-term rental services of six months or more as well as a relatively small portion of short-term rental services. As of the Latest Practicable Date, we had five rental outlets in Shanghai and a fleet of over 1,300 vehicles available for rental. We plan to further enlarge our fleet size in 2012 to support our growing rental service business.

Our long-term rental services primarily serve corporate customers, particularly multinational corporations, who typically have long-term rental needs for daily business use and require a luxury and well-maintained fleet of passenger vehicles. Our customers for these long-term rental services include the affiliates of many Fortune 500 enterprises that operate in Shanghai, such as General Motors (China) Investment Co., Ltd., Ford China Co., Ltd. and Honeywell China Co., Ltd. Our short-term automobile rental services are mainly used by customers for short business trips, conventions and tourist activities. In 2005, our automobile rental services passed ISO 9001:2000 certification.

### **Other Automobile-Related Businesses**

As a “one-stop shop” service provider, we offer our customers all the services they need in connection with passenger vehicle purchase and usage. We engage in a broad range of other automobile-related businesses, including (i) pre-owned vehicle business; (ii) distribution of automobile insurance products; and (iii) vehicle inspection services.

#### *Pre-owned vehicle business*

Our pre-owned vehicle business primarily consists of: (i) sale of CPOs; (ii) pre-owned vehicle agency services; and (iii) title transfer and registration services. We believe that our pre-owned vehicle business will continue to grow with the increase in our new passenger vehicle sales. We seek to further develop our pre-owned vehicle business both independently and through cooperation with manufacturers.

#### *Sale of CPOs*

We sell CPOs for BMW and Audi, which are the only two manufacturers among our luxury and ultra-luxury brands to engage in the CPO business. We offer BMW CPOs through our BMW 4S dealerships and our BMW-authorized service center in Wuxi and Audi CPOs through our Audi 4S dealerships and an Audi-authorized CPO Center in Shanghai, which is dedicated to the sale of Audi CPOs. Most of the BMW and Audi CPOs we sell were used by the manufacturers for marketing and promotion activities or sponsorship of meetings, conferences and public events and were sourced through their respective CPO program, namely, the BMW Premium Selection and Audi Approved Used programs. For the three years ended December 31, 2009, 2010 and 2011, we sold a total of 359, 692 and 1,815 CPOs, respectively, most of which were BMW CPOs. According to BMW’s internal statistics, Shanghai Baozen and Shanghai Baozen Zhonghuan were the largest and second largest 4S dealerships in terms of sales volume of BMW CPOs under the BMW Premium Selection program in China in 2011. We have also obtained BMW’s authorizations to open a BMW Premium Selection sales center in China, which we expect to commence operations in the second half of 2012. Sales of CPOs



---

## BUSINESS

---

are conducted in the same manner as sales of new passenger vehicles: we enter into written contracts for our sale of CPOs, upon which our customers are typically required to pay a deposit or advance.

### *Pre-owned vehicle agency services*

We search and identify potential buyers for customers who intend to trade-in their pre-owned vehicles and charge a commission for every successful transaction. Our customers may display their pre-owned vehicles and the related information in our outlets.

### *Title transfer and registration services*

We established a pre-owned vehicle market, which is one of the few trading venues and registration agencies for pre-owned vehicles licensed by the Shanghai government. Through our pre-owned vehicle market, we provide title transfer, registration and tax payment services to our customers. In 2009, 2010 and 2011, our pre-owned vehicle market completed approximately 51,600, 61,500 and 61,400 title registrations and transfers for pre-owned vehicles.

### *Distribution of automobile insurance products*

We work with leading insurance companies in China, such as PICC, Ping An Insurance and China Pacific Insurance, to distribute their automobile insurance products through our network. We receive a commission for the insurance policies sold at our outlets. See “Sales and Marketing” below.

### *Vehicle inspection services*

Our vehicle safety inspection center is an essential part of our “one-stop shop” service strategy. We operate a vehicle safety inspection center through a subsidiary that has been certified by Shanghai Municipal Bureau of Quality and Technical Supervision (上海市質量技術監督局) as an accredited professional vehicle inspection institution. Under PRC laws and regulations, every passenger vehicle must pass safety inspections conducted by an accredited professional vehicle safety inspection institution regularly, depending on the age of the passenger vehicle. For the years ended December 31, 2009, 2010 and 2011, our automobile safety inspection center conducted 68,405, 106,409 and 188,120 inspections, respectively.

## **Surveys**

Our large customer base is a valuable source of market intelligence. We conduct customer surveys to obtain feedback on our customer service and collect market information. The results of our customer surveys are processed, reviewed and sent to the relevant departments for market analysis and service improvement. We also provide select market information, such as market trends and customer preferences, to our manufacturer partners for their market research purposes. Some manufacturers provide their own questionnaires for us to distribute and collect in our network. Results of these surveys are usually inputted and stored in databases to which the relevant manufacturers have access.

## **Vehicle Recall**

Our 4S dealerships and manufacturer-authorized service centers may be required to assist manufacturers in handling vehicle recalls. We are not liable under PRC laws and regulations for any cost associated with vehicle recalls and are compensated by the manufacturers for providing our

---

## BUSINESS

---

assistance. Manufacturers usually notify us prior to the commencement of a recall with, among other things, instructions for remedial repairs and responses to customer queries. After being notified of a recall, we typically contact affected customers and arrange for their vehicles to be inspected and repaired in our outlets according to the manufacturer’s instructions. We also service affected vehicles purchased from other dealership groups. Affected new passenger vehicles in our inventories will also be inspected and repaired prior to their sale. We were reimbursed by the relevant automobile manufacturers for our costs relating to vehicle recalls during the Track Record Period and these costs were generally reimbursed by the manufacturers within two to three months following the end of the vehicle recalls. As of the Latest Practicable Date, none of the vehicle recalls which we had assisted with involved any return of vehicles by the affected customers, refund of purchase price by us or personal injury claims against us by the affected customers. During the Track Record Period, we did not receive any customer complaints in connection with vehicle recalls that would have a material adverse effect on our business and operations, and we were not subject to any legal, regulatory or administrative proceedings as a result of any vehicle recalls. See “Risk Factors—Risks Relating to Our Business—Product defects and vehicle recalls could materially and adversely affect our business” and “Regulatory Overview—Regulations relating to the PRC Passenger Vehicle Industry—Automobile Recalls.”

The following table sets forth the major recalls that affected the passenger vehicles we sold during the Track Record Period:

Brand	Model	Date	Affected Components
BMW	Series 6 manufactured between September 2003 and July 2010	March 2012	Battery cable cover inside the trunk
BMW	Series 6 Convertible manufactured between December 2003 to July 2010	March 2012	Battery cable cover inside the trunk
BMW	Series 5 manufactured between March 2003 and September 2010	March 2012	Battery cable cover inside the trunk
BMW	Series 7 manufactured in 2010	October 2010	Vacuum pump
BMW	BMW X5 manufactured in 2010	November 2010	Commutator of fuel pump
BMW	GT manufactured in 2010	July 2010	Float arm of fuel sensor
BMW	Series 7 manufactured in 2009	June 2009	Oil tank
MINI	R5X and R60 manufactured between March 7, 2006 and January 18, 2011	February 2012	Water pump
Porsche	Cayenne, Cayenne S, Cayenne S Hybrid and Cayenne Turbo manufactured between 2011 and 2012	February 2012	Locking device for front head lamp
Buick	Enclave manufactured between May 1, 2009 and May 20, 2010	August 2010	Safety belts of back car seats
Buick	Regal manufactured between September 18, 2008 and October 14, 2010	February 2011	Fuel pipe adapter
Buick	LaCROSSE manufactured between April 20, 2009 and October 14, 2010	February 2011	Fuel pipe adapter
Chevrolet	CAPTIVA manufactured between 2008 and 2010	March 2012	Brake fluid

## BUSINESS

Brand	Model	Date	Affected Components
GAC-Honda	Honda Fit (09-10 model) manufactured between January 7, 2008 and January 29, 2010	February 2011	Lost motion spring
GAC-Honda	City (09-10 model) manufactured between April 29, 2008 and January 26, 2010	February 2011	Lost motion spring
Dongfeng Honda	CRV manufactured between September 2011 and November 2011	January 2012	Head lamp
GAC-Toyota	Camry manufactured between May 15, 2006 and March 3, 2008	April 2009	Brake vacuum booster
GAC-Toyota	Camry manufactured between May 15, 2006 and December 31, 2008	August 2009	Power window switch
GAC-Toyota	Yaris manufactured between May 15, 2006 and December 31, 2008	August 2009	Power window switch
Infiniti	G35 manufactured between April 19, 2007 and June 4, 2007	June 2010	Switch of turn signal
Infiniti	QX56 manufactured between September 1, 2009 and November 19, 2011	March 2012	Fuel rail sensor
Nissan	Teana manufactured between July 1, 2004 and April 18, 2008	June 2009	Engine air pipes
Nissan	Sunny manufactured between February 9, 2006 and September 30, 2006	March 2009	Cantilever
Nissan	Qashqai manufactured between February 18, 2008 and May 22, 2009	October 2009	Screw nut
Nissan	X-trial manufactured between March 31, 2008 and August 26, 2009	October 2009	Screw nut
Nissan	Sylphy manufactured between January 20, 2006 and July 24, 2008	May 2010	CVT
Nissan	Qashqai manufactured between August 24, 2007 and July 24, 2008	May 2010	CVT
Nissan	TIIDA manufactured between November 17, 2004 and May 22, 2006	November 2010	Engine ignition
Nissan	TIIDA manufactured between April 19, 2011 and December 28, 2011	March 2012	Fuel sensor
Nissan	Sylphy manufactured between March 30, 2006 and July 27, 2006	November 2010	Engine ignition
FAW-Toyota	HIACE TRH213 (imported) manufactured between March 31, 2005 and December 14, 2007	November 2010	Drive shaft
FAW-Toyota	HIACE TRH223 (imported) manufactured between May 6, 2005 and June 9, 2010	November 2010	Drive shaft
FAW-Toyota	Prado (domestic) manufactured between August 1, 2007 and November 30, 2007	March 2009	CSC radiator
FAW-Toyota	Prius (domestic) manufactured between November 17, 2005 and August 31, 2007	December 2010	HV electronic water pump
FAW-Toyota	RAV4 (domestic) manufactured between March 19, 2009 and January 25, 2010	February 2010	Accelerator pedal

---

## BUSINESS

---

Brand	Model	Date	Affected Components
FAW-Toyota	Vios manufactured between May 17, 2007 and December 25, 2008	August 2009	Power window switch
FAW-Toyota	Corolla manufactured between May 17, 2007 and December 25, 2008	August 2009	Power window switch
FAW-Toyota	Previa (imported) as specified by the manufacturer	December 2009	Pipes
FAW-Toyota	Crown manufactured between February 21, 2005 and December 31, 2006	October 2010	Brake cylinder
FAW-Toyota	Reiz manufactured between October 18, 2005 and December 31, 2006	October 2010	Brake cylinder
FAW-Toyota	Crown manufactured between February 21, 2005 and February 28, 2006	October 2010	Master brake cylinder
FAW-Toyota	Reiz manufactured between October 18, 2005 and February 28, 2006	October 2010	Master brake cylinder
Chang'an Ford	Focus manufactured between August 2008 and May 28, 2010	May 2010	Throttle
Chang'an Ford	Mondeo 2.0T manufactured between February 14, 2011 and April 16, 2011	May 2011	PTC air conditioner heater power cable
Chang'an Ford	Mondeo 2.0T manufactured between February 14, 2011 and April 29, 2011	May 2011	Engine undercarriage
Volvo	S80L manufactured on March 1, 2011	March 2012	Badge
Volvo	S60 and XC60 manufactured on January 1, 2012	March 2012	Harness below the front seats
Volvo	S60 manufactured on January 2, 2012	March 2012	Chassis fuel hose
Cadillac	CTS manufactured between 2003 and 2007	April 2010	Brake fluid pipe
Cadillac	CTS manufactured between 2008 and 2009	June 2010	Wiper heating components
Cadillac	Escalade manufactured between 2007 and 2009	June 2010	Wiper heating components
Cadillac	CTS manufactured between 2005 and 2007	February 2011	Induction pads of copilot seats
Cadillac	CTS manufactured in 2009	March 2011	Rear tie rod
Cadillac	SRX manufactured in 2010	October 2010	Power steering hose

## SALES AND MARKETING

Our outlets are staffed with passenger vehicle sales professionals with strong communication skills and extensive sales experience. Through regular training, they have developed in-depth knowledge of the latest market trends and models and good capabilities of communicating with customers. To ensure the best shopping experience, our 4S dealerships have dedicated sales professionals responsible for driving demonstration and technical consultations. Some of our sales professionals have received awards and accolades from the manufacturers, including, among others, the Comprehensive Final Champion in the Second BMW National Sales Competition of Excellence in 2011, in recognition of their sales skills. For the retention and development of government and

---

## BUSINESS

---

corporate customers, we also assigned dedicated sales teams, who pay regular visits to these customers to understand their needs, preferences and purchase plans.

We market and promote our passenger vehicles through a variety of channels, such as marketing brochures and flyers, newsletters, new model shows and seminars on automobile-related topics. Some of our marketing events are sponsored by automobile manufacturers. Our marketing efforts are well recognized by the manufacturers. For example, three of our BMW 4S dealerships were awarded the “Top Marketing Performance Award” in 2011.

We are also committed to developing innovative marketing channels through our cooperation with leading insurance companies, Bank of Communications (BoCom), Oriental CJ and Tmall.com.

### *Cooperation with Insurance Companies*

In 2011 and 2012, we entered into cooperation agreements with leading insurance companies in China, such as PICC, Ping An Insurance and China Pacific Insurance for an initial term of one or two years. As part of our cooperation arrangements, these insurance companies will recommend our repair services to their automobile insurance policy holders while in return, we will promote their insurance products in our outlets and, subject to the separate agency agreements entered into by individual outlets, participate in the distribution of their products.

### *Launch of BoCom-Yongda Co-branded Credit Card*

Through our cooperation with BoCom, we launched the BoCom-Yongda co-branded credit card in 2008, which we believe was one of the first credit cards issued by a leading state-owned bank and a 4S dealership group in China. Our “永达 (Yongda)” brand appears on the front side of this credit card and cardholders are entitled to our discounts, roadside and breakdown assistance and other privileges. As part of our cooperation with BoCom, we are required to organize marketing activities and events jointly with BoCom to promote this credit card. Our cooperation with BoCom is for an initial term of five years, subject to automatic renewal for another two years.

### *Marketing through TV Shopping Channel*

In 2009, we and Oriental CJ established a joint venture, Shanghai Oriental Yongda Automobile Sales Co., Ltd. (上海東方永達汽車銷售有限公司) (Shanghai Oriental Yongda), which was the first such entity focusing on automobile sales through television in China, according to Roland Berger. We hold 49% equity interests in this joint venture and our joint venture contract with Oriental CJ is for a term of 30 years. For Oriental CJ’s TV shopping channel, we are the exclusive supplier of passenger vehicles that we are authorized to sell for the entire term of the joint venture contract. Oriental CJ produces and broadcasts television shopping shows designed for our passenger vehicles, particularly new models available for sale in our 4S dealerships. Members of TV audience can order these models from home through Oriental CJ’s shopping hotline. Following the receipt of these orders, Oriental CJ’s staff will collect deposit or advance payment and instruct customers to sign sales contracts for the vehicles so ordered and pay the balance of the purchase price in one of our 4S dealerships located in the city where they live. These sales contracts were entered into between the customers and the relevant 4S dealerships.

Since Shanghai Oriental Yongda is a marketing and promotion entity rather than a separate dealership, we did not enter into any dealership agreement with the manufacturers for the

---

## BUSINESS

---

establishment of Shanghai Oriental Yongda. As such, nor did we obtain any consent from the manufacturers for our marketing and promotional activities through Oriental CJ's TV shopping channel. Since Oriental CJ's TV shopping services are only available to customers residing in the regions where our 4S dealerships are located, such TV shopping services would not cause any material issues in respect of cross-region sales. Our joint venture contract with Oriental CJ and the cooperation agreement in respect of Shanghai Oriental Yongda provide that (i) we are required to provide passenger vehicles to Shanghai Oriental Yongda at purchase cost; and (ii) in the event that Shanghai Oriental Yongda has to sell these passenger vehicles to its customers below cost, we will be required to pay a promotional fee to Shanghai Oriental Yongda calculated based on the shortfall. In practice, our dealerships enter into sales contracts directly with the customers procured through Oriental CJ's TV shopping channel and Shanghai Oriental Yongda receives a marketing commission of approximately 1% of the selling price from us for every passenger vehicle sold through Oriental CJ's TV shopping channel.

Based on the fact that Oriental CJ is the controlling shareholder of Shanghai Oriental Yongda and that Shanghai Oriental Yongda has issued a written confirmation (i) acknowledging the difference between our actual practice and the terms of the joint venture contract and the cooperation agreement; and (ii) confirming that, based on its enquires with Oriental CJ, Oriental CJ does not have any disputes over such practice, our PRC legal advisor, Commerce & Finance Law Offices, is of the view that the chance of Oriental CJ or Shanghai Oriental Yongda taking legal actions against us for breach of the two agreements is remote.

### *Cooperation with Tmall.com*

In 2011, we established a cooperative relationship with Tmall.com, a leading business-to-customer online shopping platform in China, to sell passenger vehicles and accessories over the Internet. Our service agreement with Tmall.com is for an indefinite term subject to the occurrence of certain termination events specified in the agreement or further agreement between the parties.

On the basis that our customers purchasing passenger vehicles through Oriental CJ or Tmall.com are required to enter into sales contracts with our 4S dealerships which are located in the regions where such customers reside, our PRC legal advisor, Commerce & Finance Law Offices, advises us that our cooperation with Oriental CJ and Tmall.com is in compliance with the terms of the respective dealership agreements with the relevant automobile manufacturers and that no consent is required from the automobile manufacturers.

## BRAND MANAGEMENT

We have successfully established and developed our corporate brand, namely “永达 (Yongda).” Our “永达 (Yongda)” brand has been designated as a “China Famous Trademark” by the Trademark Office of the SAIC. To promote and reinforce our brand image, we commissioned professional corporate image design companies to develop our brand image identification system, which consists of our logo, slogan, promotional literature and designated color scheme. Our brand image identification system has been consistently applied in our operation, in particular, to our sales and marketing as well as customer service efforts. To unify our brand image, the majority of our outlets were named with “永达 (Yongda)” as part of their names. To increase our brand awareness, we advertise our brand and slogan on television, by broadcasting and through outdoor advertising. Billboards for our “永达 (Yongda)” brand have been placed along select main highways in Shanghai. We also sponsor

---

## BUSINESS

---

influential public events in the name of “永达(Yongda).” For example, we obtained the naming rights for the first “Shanghai Pudong-Yongda Automobile Global Carnival” in Shanghai in 2003 and the “Yongda Night-Shanghai International Musical Fireworks Festival” for three consecutive years from 2009 to 2011. We believe that our brand management differentiates us from our competitors and our high degree of brand awareness has become an important factor considered by our customers in their purchase of passenger vehicles and selection of after-sales service providers as well as by the manufacturers in selecting dealers.

### **CUSTOMER SERVICE**

We are committed to providing quality customer service and support, which we believe is the key to cultivating long-term customer relationships and attracting new customers.

#### **“96818” Service Network**

We have implemented an integrated and multi-channel customer service strategy through our “40080-96818” call center, our “106296818” short message service center and the website [www.96818.com.cn](http://www.96818.com.cn). Our nationwide 40080-96818 service network has become an important channel for providing targeted information on our products and services to existing and potential customers in addition to processing their inquiries, calls for emergency assistance and feedback. To maintain our service standards, we have a team of full-time employees dedicated to the operation and management of our “40080-96818” service network. Our “40080-96818” call center handled approximately 215,000 calls in 2011.

Our “40080-96818” service network has received many awards and accolades for its outstanding service. In 2006, our “40080-96818” call center was named one of “China Best Contact Center” by the China Federation of IT Promotion, China Call-Center & CRM Association and China Communication Center Standards Committee. In 2007, our “40080-96818” service network was named “China Best Contact Center” by the China Call-Center & CRM Association, the Call Center Standards Steering Committee of the Ministry of Information Industry of China and CCMWorld Group. In addition, the website [www.96818.com.cn](http://www.96818.com.cn) was named the “Most Popular Website for Passenger Vehicle Dealership” by National Business Daily in 2007.

#### **Customer Relationship Management**

We have established a dedicated customer relationship department. To customize services for individual customers, we provide our customer relationship managers with access to our customer database that tracks their purchase patterns and preferences for services. We typically make courtesy calls to customers to remind them of their regular maintenance, expiry and renewal of insurance and automobile safety inspections and conduct satisfaction surveys by telephone after their initial purchase, maintenance and repair. We have also introduced a VIP program to provide our high-value customers with privileges relating to vehicle purchase and services. For example, our VIP customers enjoy express service channels and VIP lounges in our 4S dealerships. They also receive birthday gifts and invitations to the marketing events organized or sponsored by us, such as automobile-related seminars and new automobile shows.

---

## BUSINESS

---

### CUSTOMERS

Our customers mainly include individuals, corporations and government-entities. Due to the retail nature of our passenger vehicle dealership business, we do not have any single major customer and we believe that our top five customers only accounted for less than 3% of our total revenue during the Track Record Period.

When placing orders, our customers are typically required to pay a deposit or advance, the amount of which primarily depends on the brands and models, and in most cases the balance due must be settled in cash or secured by an approved automobile financing loan before the automobile is collected by or delivered to the customer. The time required before we can deliver the automobile to the customer typically ranges from two to three weeks to, in extreme cases, four months depending on a number of factors, including primarily the current inventory level of the relevant outlet and the availability of the specific model. We do not offer any credit to our individual customers for purchases of passenger vehicles, but provide a credit term of typically no more than 90 days to certain corporate customers. We generally provide a credit term of two to three months to automobile manufacturers for the reimbursement of our costs relating to the in-warranty repair services that we perform. Customers must pay for out-of-warranty repairs. As agreed between certain insurance companies and us, we do not require payment from customers whose out-of-warranty repair costs are expected to be covered by a valid insurance policy and will instead seek reimbursement directly from the relevant insurance company. Such reimbursement claims are usually settled by such insurance companies within two to three months. Other insurance companies require their insurance policy holders to pay for our repair services first and then claim against them for the costs. We do not provide any credit term for out-of-warranty repairs that are not covered by insurance. For automobile rental services, we typically allow a credit term of 30 to 60 days to our corporate customers. We do not accept product returns and did not experience any significant product returns from our customers during the Track Record Period.

### KEY TERMS OF OUR DEALERSHIP AGREEMENTS

We entered into a dealership agreement for each of our 49 existing 4S dealerships with the relevant manufacturer. Each 4S dealership generally sells one brand of passenger vehicle and is typically only permitted to conduct sales within a designated region. The operations of each of our 4S dealerships are governed primarily by its dealership agreement with the relevant manufacturer.

Under our dealership agreements, we are:

- prohibited from retailing passenger vehicle brands other than those authorized under the dealership agreement;
- required to provide designated services to customers, including sale of new passenger vehicles and spare parts and after-sales services;
- required to meet the layout and design standards for our 4S dealerships and adopt relevant accounting and information technology systems designated by the manufacturer;
- required to follow annual sales plans that are set by or pre-negotiated with the manufacturer; however, our dealership agreements typically do not provide any minimum purchase or sales requirements;



---

## BUSINESS

---

- entitled to use the trade names, trademarks and other forms of branding, in a manner consistent with the standards set by the manufacturer, to promote the brand awareness of passenger vehicles sold through our 4S dealerships;
- prohibited from knowingly selling passenger vehicles to any customer whose intention is to resell or export them outside the PRC;
- responsible for arranging training for our employees; and
- required to prepare and submit periodically financial, sales and market research reports to the relevant manufacturers.

Our dealership agreements are non-exclusive and typically have a term of one to three years, subject to renewal. Under these agreements, manufacturers may define and adjust the geographic coverage within which our 4S dealerships operate as well as recommend price guidelines for new passenger vehicles and after-sales services; however, we are not subject to any minimum purchase requirements under these agreements. Manufacturers also have the right to conduct site visits to evaluate performance and confirm compliance with applicable agreements. Manufacturers may also conduct random site visits and consider whether to renew their agreements with us. Moreover, manufacturers have the right to terminate our agreements by written notice for a variety of reasons, including, among other things, failure to rectify deficiencies, failure to abide by the agreements in any material aspect, unapproved business relationships with other automobile manufactures, loss of control over the site and facilities necessary for our operation of the dealerships and unauthorized changes in our ownership or management structure that impair our ability to meet our contractual obligations. The notice period required to terminate a dealership agreement varies for different agreements according to the policies of different manufacturers and ranges from nil (namely, a termination notice that takes immediate effect) to 90 days. During the Track Record Period, none of our dealership agreements were terminated by any manufacturer, nor did any manufacturer refuse to renew any of our dealership agreements. There was no material adverse change in the terms of our dealership agreements as of the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we have not received any notice or complaint of breach of or noncompliance with our obligations under our dealership agreements from any manufacturer.

A number of our dealership agreements provide that the manufacturer bears responsibility for any defects in the design or production of the automobiles, while we bear responsibility for any defects caused by us while the automobiles are in the possession of our dealerships. We have been advised by our PRC legal advisor, Commerce & Finance Law Offices, that the product liability for automobiles sold in China is governed by mandatory provisions of PRC laws and regulations. Under the Product Quality Law (產品質量法), any consumer who purchased a defective product may seek compensation from either the manufacturer or the retailer. The retailer may seek reimbursement from the manufacturer where the defect is attributable to the manufacturer unless any agreement between the manufacturer and the retailer provides otherwise. For more information, see “Regulatory Overview—Product Quality.”

We usually start our discussions with the manufacturers to renew a dealership agreement around a month before its expiry date. We are currently in the process of renewing two of our dealership agreements, each with an expiry date in December 2011. We have obtained the manufacturer’s written confirmations to renew both of them to December 2013. Our PRC legal advisor, Commerce & Finance Law Offices, has advised that the continuing operations of these two 4S dealerships during the renewal period is in compliance with the relevant PRC laws and regulations.

---

## BUSINESS

---

As of the Latest Practicable Date, 13 of our dealership agreements will expire by the end of 2012 and we expect to be able to renew all of these dealership agreements before they expire. We were able to renew all of our dealership agreements which expired during the Track Record Period.

### SUPPLIERS AND PROCUREMENT

#### Suppliers

A predominant portion of our cost base relates to the purchase of passenger vehicles for our dealership business. In 2009, 2010 and 2011, costs incurred in relation to passenger vehicle sales were approximately RMB7,822.8 million, RMB13,080.9 million and RMB17,651.8 million, respectively, accounting for 93.0%, 94.5% and 94.4% of our total cost of sales and services, respectively.

Our top five suppliers are manufacturers of new passenger vehicles and spare parts. In 2009, 2010 and 2011, purchases from our top five suppliers accounted for 83.7%, 81.0% and 80.7% of our total purchases, respectively, and purchases from our single largest supplier accounted for 28.4%, 33.4% and 35.6% of our total purchases, respectively.

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

#### Procurement of New Passenger Vehicles, Spare Parts and Accessories

We procure new passenger vehicles directly from automobile manufacturers. The automobile manufacturers set annual sales targets, customer satisfaction rates and other performance indicators for each of their authorized outlets. Achievement of these targets will be taken into account when the relevant automobile manufacturer assesses the dealership's performance and decides the allocation of new passenger vehicles for future sales.

Manufacturers often require full payment of the purchase price before delivery. Certain manufacturers may also require a deposit calculated as a fixed amount or a percentage of the purchase price upon placing the order. According to our dealership agreements with the manufacturers, risks associated with the new passenger vehicles and spare parts are transferred to us upon shipment or delivery. Certain of our suppliers for spare parts and accessories granted a credit period of up to 90 days to us.

All of the passenger vehicles that we sell are purchased in the PRC, regardless of whether they are imported or manufactured locally. Since we do not import passenger vehicles from overseas directly, we are not required to pay any import or custom duties or tariffs for our passenger vehicles. The lead time required for delivery of the new passenger vehicles we sell ranges from two to three weeks to, in extreme cases, four months, depending on whether the passenger vehicles are manufactured in China or overseas. We have not been involved in the parallel import of passenger vehicles into the PRC.

The place of manufacture of a passenger vehicle sold by us depends on the specific vehicle model. Each of the manufacturers we deal with has its own policies of whether locally manufactured or imported products should be supplied for a specific model in China. For example, some manufacturers, such as BMW and Audi, sell imported products for certain of their models and domestically

---

## BUSINESS

---

manufactured ones for the others. Other manufacturers like Porsche, Infiniti and Jaguar and Land Rover sell 100% imported products in China. For all the passenger vehicle brands that we have been authorized to distribute, there is generally no overlapping between locally manufactured and imported products for the same model.

For spare parts and accessories, most of our manufacturers have specific requirements on the source of supply. As such, we source substantially all of our spare parts and accessories from automobile manufacturers or their authorized suppliers.

We are entitled to return passenger vehicles and spare parts with manufacturing defects to the suppliers. If the defects were caused during transport, we will usually claim damages from the logistics and transport companies. During the Track Record Period, we had no significant purchase returns for passenger vehicles or spare parts.

### INVENTORY MANAGEMENT

We actively monitor our inventories of passenger vehicles, spare parts and accessories at our dealerships to ensure cost efficiency, quality control and timely distribution. Our average inventory turnover days were 32.9 days, 25.6 days and 31.3 days in 2009 and 2010 and 2011, respectively. We strive to maintain optimal inventory levels to meet customer demand while managing our working capital requirements to finance our inventories.

We set inventory targets to guide our dealerships' procurement and sales plan and we closely monitor the inventory level and turnover of each dealership. The general managers of our 4S dealerships are responsible for monitoring the inventory levels of passenger vehicles and spare parts on a daily basis. Our ERP system provides to our headquarters in Shanghai up-to-date inventory information at 4S dealerships. Based on the information provided by our dealerships, our senior management evaluate and plan for procurement and sales on a weekly basis and propose strategic suggestions on the improvement of inventory turnover. When a dealership's inventory level exceeds our targets, each month our headquarters may issue a notice of warning, requesting a proposal for improvement or a reduction in procurement, depending on the extent of overstocking. Subject to the consent of automobile manufacturers, we may transfer passenger vehicles from one outlet to another to rebalance inventory levels. Our inventory management work with our sales and marketing team to develop advertising and sales campaigns to promote the sale of specific vehicle models in our inventories. In addition, some of the manufacturers set a minimum inventory level of new passenger vehicles, spare parts or accessories that we must maintain to respond to customer demand in a timely fashion.

### INFORMATION TECHNOLOGY

Most of our dealerships are required to use the designated information technology systems developed and provided by various automobile manufacturers, which apply to all dealerships authorized by the same manufacturer. In addition, we have internally developed an ERP system to control our business operations and improve efficiency in procurement, sales, inventory management, financial management and other administrative functions. We also use our ERP system to collect and update information about potential and existing customers, such as their personal information, number of visits to our dealerships, attendance record at our sales and marketing events and spending in our dealerships. We review and analyze this information to better understand our customers' preferences and consumption patterns and to guide our business decision making. We can also monitor our key

---

## BUSINESS

---

performance indicators such as turnover of our inventories of new passenger vehicles, cash flow and accounts through our ERP system. We are currently in the process of upgrading our ERP system to cover more management functions, including after-sales services, human resource management, budgeting and evaluation, which we intend to further improve the productivity of our personnel and our performance.

### EMPLOYEES

We are committed to recruiting, training and retaining skilled and experienced people throughout our operations. We intend to achieve this by offering competitive remuneration packages as well as by focusing on training and career development.

As of December 31, 2011, we had a total of 6,429 full-time employees and other personnel. In addition, as of the same date, we had 967 personnel engaged through third-party labor agencies, most of whom were drivers for our long-term rental services and cleaners. The following table sets forth the total number of our full-time employees by function as of December 31, 2011:

<u>Functions</u>	<u>Number of Employees</u>	<u>% of Total</u>
		(%)
After-sales Operations .....	3,018	46.9
Sales and Marketing .....	2,333	36.3
Administrative and Other Automobile-related Services .....	530	8.2
Finance and Accounting .....	448	7.0
Management .....	<u>100</u>	<u>1.6</u>
<b>Total</b> .....	<u><u>6,429</u></u>	<u><u>100.0</u></u>

In respect of the personnel engaged through third-party agencies, as advised by our PRC legal advisor, Commerce & Finance Law Offices, the agencies hold the relevant valid permits and the agreements entered into between our Group and the agencies and those between the agencies and the relevant personnel in relation to the engagement are legal, valid and binding and are in compliance with the applicable PRC laws, rules and regulations. According to the Employment Contract Law (勞動合同法) which was promulgated on June 29, 2007 and became effective on January 1, 2008, our Group may be jointly and severally liable for the employment agencies' failure to comply with any applicable labor laws, rules or regulations, which results in any damage suffered by the relevant personnel. As advised by our PRC legal advisor, Commerce & Finance Law Offices, if we are required by the relevant personnel to provide compensation, we are entitled to claim against the relevant agencies for the portion for which they are responsible pursuant to our agreements with them. During the Track Record Period, we did not receive any material claim in connection with the personnel engaged by third-party employment agencies.

We are required under PRC laws and regulations to make mandatory contributions to the housing provident fund for our employees who are eligible for these benefits. As of the Latest Practicable Date, we had duly made all the required mandatory contributions for our employees following the opening of their housing provident fund accounts. However, certain of our PRC subsidiaries opened the housing provident fund accounts and commenced making the required mandatory contributions for their employees at a time later than the stipulated time under the relevant PRC laws and regulations, which may be regarded as having failed to make housing provident fund contributions in a timely fashion. Our PRC legal advisor, Commerce & Finance Law Offices, has

---

## BUSINESS

---

advised that the relevant local housing provident fund authorities have the power to require these PRC subsidiaries to pay the outstanding contributions accrued prior to the opening of the housing provident accounts. However, no legal penalties for the late opening of housing provident fund accounts are provided in the relevant PRC laws and regulations. Our PRC legal advisor, Commerce & Finance Law Offices and the Joint Sponsors' PRC legal advisor, Grandall Law Firm (Shanghai), are of the view that late opening of housing provident fund accounts is common in the PRC. Based on their interviews with the relevant local housing provident fund authorities having jurisdiction over these PRC subsidiaries, they are of the view that the chance of these PRC subsidiaries being required by the local housing provident fund authorities to pay the outstanding contributions incurred prior to the opening of the accounts is slim. Cheung Tak On and Asset Link jointly and severally agree and undertake to indemnify us against all payments in connection with any outstanding contributions accrued prior to the opening of the housing provident accounts should we or any of these PRC subsidiaries be required to pay the same by the relevant housing provident fund authorities. Meanwhile, we have implemented internal procedures to ensure strict compliance with the requirements in relation to housing provident funds.

We believe that we have good relations with our employees. During the Track Record Period, we did not experience any strikes, work stoppages or significant labor disputes, nor did we experience any significant difficulties in recruiting or retaining qualified staff. We believe that we have also maintained a stable workforce and high level of employee loyalty. As of December 31, 2011, the majority of our full-time employees that were employed by us five years ago were still with us.

We provide competitive compensation packages and benefits to attract talented people and contribute a part of our revenues to internal funds under our "Employee Care" program. We evaluate the our employees' performance on a regular basis. The evaluation results are linked to compensation and promotion. To incentivize our after-sales and sales and marketing personnel, we provide them with bonuses based on various performance criteria, including whether their individual sales targets have been met and customer feedback on the quality of their service. We review our staff remuneration packages from time to time.

We have devised and successfully implemented an in-house program to train and develop our dealership managers, who are crucial to the success of our 4S dealerships. Our customer-facing employees are trained through our internal training courses as well as training seminars provided by manufacturers on new vehicle models and their management, sales and service standards. We also work together with manufacturers and local educational institutions to train automotive technicians. For example, we have, in cooperation with Shanghai Donghui Vocational and Technical School and Wuxi Automobile Engineering School, jointly trained specialized after-sales technicians to join our repair and maintenance services team. We, together with Wuxi Automobile Engineering School, have also established the "Yangtze River Delta Yongda Educational Institutions and Enterprise Federation," which comprises vocational institutes in the Yangtze River Delta Region to collaborate in recruiting and cultivating talent in the markets in which our dealerships are located. In addition, we are cooperating with BMW to provide training to our trainees in Wuxi Automobile Engineering School in accordance with BMW's technical standards.

We believe we are able to achieve a high rate of employee retention in the face of intense competition for human resources. One reason for our high rate of employee retention is the motivation of employees through our policy of promotion from within. Further, our large operating scale enables

---

## BUSINESS

---


us to offer our employees a variety of opportunities to work with different passenger vehicle brands in several regions in China, as well as several other incentives and competitive remuneration packages.

### COMPETITION

Our industry is highly competitive and fragmented. According to Roland Berger, the top five multiple OEM brand dealership groups in the luxury and ultra-luxury segments accounted for approximately 12% of total sales volume in 2011. We believe the key success factors in this industry include network coverage, the relationship with automobile manufacturers, brand recognition, customer services, operational management, cost control, sales expertise, the attraction and retention of talent and pricing strategy. We compete against other dealership groups for dealership authorization rights, prime outlet locations, capital to finance expansion, customers of passenger vehicles and after-sales services and human capital. We also compete with independent repair shops and auto parts retail centers in after-sales services and spare part sales. Our dealership business is also affected by competition among the automobile manufacturers and their brands in terms of quality, design and price.

### INTELLECTUAL PROPERTY RIGHTS

Under a typical dealership agreement, we are entitled to use a manufacturer's trade names, trademarks and other branding material in our promotional activities provided it is in a manner consistent with the standards set by the manufacturer. Our Group has also entered into the Trademark and Domain Name License Agreements with Yongda CLS pursuant to which Yongda CLS agreed to license certain trademarks and domain names registered under its name in the PRC and Hong Kong for our use in connection with our operations. For more information, see "Connected Transactions—Exempt Continuing Connected Transactions—Trademark and Domain Name License Agreements."

Such trademarks and domain names include our corporate brand “永达 (Yongda)”, our logo  and the domain names for our websites “www.ydauto.com.cn” and “www.96818.com.cn”. In addition, as BMW requires that corporate names of its dealers must contain the Chinese character “宝” (Bao), we chose “Baozen (宝诚)” as part of the corporate names of our subsidiaries operating BMW dealerships and include “Baozen (宝诚)” brand as a sub-brand of our “永达 (Yongda)” corporate brand in our sales and marketing activities. We are licensed by Yongda CLS to use its trademark 宝诚 registered in the PRC and Hong Kong. As of the Latest Practicable Date, we have no material patents. In order to defend our intellectual property rights and the intellectual rights that we are licensed to use, we monitor whether there is any infringement of our brand by conducting internet searches including the websites of the administration and industry commerce authorities regularly. For more information of our intellectual property rights, see “Appendix IV—Statutory and General Information—Further Information about Our Business—Intellectual Property Rights.”

### PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and they principally include the premises of our outlets, as well as certain ancillary buildings and garages located in Shanghai, Jiangsu, Zhejiang, Shanxi, Fujian, Beijing and Hainan. As of the Latest Practicable Date, we occupied a total of 60 properties with an aggregate gross floor area (“GFA”) of 251,535.51 square meters, each ranging from a GFA of 40 square meters to 23,395.14 square meters.

## BUSINESS

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that as of December 31, 2011, each of our properties has a carrying amount below 15% of our consolidated total assets.

### Our Owned Properties

As of the Latest Practicable Date, we owned a total of eight properties with an aggregate GFA of 25,728 square meters. Our owned properties accounted for 10.2% of the aggregate GFA of those properties occupied by us.

We have obtained the building ownership certificates for all of these owned properties. Accordingly, our PRC legal advisor, Commerce & Finance Law Offices, has advised us that we have legal and valid ownership interests in all of these properties.

Among these owned properties, two of them are considered material by our Group as they are used as our outlets and contributed a significant portion of our revenue during the Track Record Period. Such properties are located in Jiangsu and their details are set out below:

No.	Owned Properties	Gross floor area (sq.m.)	Registered Owners
1.	No. 77, Chengyang Road, Jiangsu (江蘇澄陽路77號) <sup>(1)</sup>	8,767.00	Jiangyin Baozen
2.	No. 277, Qingnian Road East, Nantong City, Jiangsu (江蘇南通市青年東路277號) <sup>(2)</sup>	13,772.30	Nantong Baozen

Notes:

(1) Pledged to China Minsheng Bank, Shanghai Branch for a facility up to RMB20,000,000 on February 9, 2012.

(2) Pledged to China Minsheng Bank, Shanghai Branch for a facility up to RMB30,000,000 on February 24, 2012.

### Our Leased Properties

As of the Latest Practicable Date, we leased a total of 52 properties with an aggregate GFA of 225,807.5 square meters. Our leased properties accounted for 89.8% of the aggregate GFA of those properties occupied by us. Among these leased properties, two of them are considered material by our Group as they are used as our outlets and contributed a significant portion of our revenue during the Track Record Period. Such properties are located in Shanghai and their details are set out below:

No.	Leased Properties	Gross floor area (sq.m.)	Lessees	Expiry dates of the leases
1.	138/9 Qiu, Dazhong Village, Tang Town, Shanghai (上海唐鎮大眾村138/9丘)	3,428.30	Shanghai Baozen	December 31, 2014 <sup>(1)</sup>
2.	8/1 Qiu, No. 19 Street, Beicai Town, Shanghai (上海北蔡鎮19街8/1丘)	7,759.00	Shanghai Yongda Pudong	December 31, 2014 <sup>(1)</sup>

Note:

(1) See "Connected Transactions—Non-exempt Continuing Connected Transactions—Properties Leasing Agreement" for details.

---

## BUSINESS

---

The expiry dates of our leased properties range from November 2012 to June 2013. During the Track Record Period, we have not experienced any difficulty or failure of renewing our lease agreements, and there was not any closure of our dealership as a result.

As of the Latest Practicable Date, our leasehold interests in 28 leased properties with an aggregate GFA of 134,031.45 square meters, which accounted for 59.3% of the aggregate GFA of our leased properties, were subject to certain defects as follows:

- We leased nine properties built on collectively owned land or state-owned allocated land with an aggregate GFA of 42,946 square meters, which accounted for approximately 19% of the aggregate GFA of our leased properties. Pursuant to PRC laws and regulations, no collectively owned land or state-owned allocated land may be leased by the relevant owner or land use right holder to any third party for commercial purposes. We operate an outlet on each of these nine properties.
- We leased 19 properties (including the properties leased by Shanghai Baozen and Shanghai Yongda Pudong) with an aggregate GFA of 91,085.42 square meters, which accounted for approximately 40.3% of the aggregate GFA of our leased properties, from lessors who had not obtained the building ownership certificates for these properties. A lessor's failure to duly obtain property title may preclude us from enforcing our rights under the relevant lease agreement. We operate an outlet on each of these 19 properties.

In 2009, 2010 and 2011, revenue generated from our operations on these 28 leased properties with defects was RMB4,534.1 million, RMB8,317.4 million and RMB10,949.9 million, respectively, which accounted for 49.8%, 55.4% and 53.9% of our total revenue, respectively.

As of the Latest Practicable Date, we had not been subject to any material claim arising from or in connection with any defect in our leasehold interest in any of our leased properties. In addition, our Company did not close any dealership outlet during the Track Record Period.

Our Directors are of the view that these defects in our leased properties would not have any material and adverse impact on our business and operations because (i) we can find comparable properties to relocate the relevant outlets, if necessary; (ii) we do not anticipate any material practical difficulties in relocating the relevant outlets; and (iii) based on the current available information, the estimated total costs and expenses for relocating our businesses located on properties with defective titles are not expected to exceed RMB30 million. In addition, because we are required to submit to an automobile manufacturer documents relating to our ownership or lease of the premises for our outlet prior to the execution of any dealership agreement, including the related title documents, automobile manufacturers were aware of title defects of these 28 leased properties before they entered into dealership agreements with us. As such, we believe, and our PRC legal advisor, Commerce & Finance Law Offices, has advised, that the existing title defects of these 28 leased properties would not constitute a material breach of the relevant dealership agreements or trigger any termination by the relevant automobile manufacturers.

Each of Cheung Tak On and Asset Link has jointly and severally agreed to indemnify us against any costs, expenses and losses which we may suffer as a result of any dispute as to our rights to lease and use any of these properties for our business operations. For more details of the deed of indemnity, see "Appendix IV—Statutory and General Information—Other Information—Tax and



---

## **BUSINESS**

---

Other Indemnities.” We have implemented internal control measures pursuant to which our legal advisers will review our lease agreements and advise us of the relevant risks with respect to our leased properties and to ensure that we have adequate rights to claim against the relevant landlords in the event of any defects arising from our leased properties.

### **INSURANCE**

We carry insurance covering risks, including loss, theft and damage of property, such as our fixed assets and inventories in most of our dealerships, and losses due to fire, flood and a broad range of other natural disasters excluding earthquakes and tsunamis. We also carry public liability insurance covering potential liabilities for damages customer may suffer in our 4S dealerships. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business, nor do we maintain any insurance coverage for business interruption due to the limited coverage of any business interruption insurance in China. We consider our insurance coverage to be adequate and in line with industry practices in China.

In addition, for our automobile rental business we may be responsible for personal injury or death and property damage as a result of passenger vehicle accidents involving passenger vehicles rented by our customers or third-party drivers. We purchase motor vehicle damage insurance, third-party liability insurance, compulsory traffic accident insurance and other insurance coverage that our management considers adequate to protect our assets and rental business, although there can be no assurance that such coverage will be sufficient or adequate.

For more information, see “Risk Factors—Risks Relating to Our Business—Our insurance coverage may be inadequate to protect us from all potential losses.”

### **LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE**

We are not a party to, and we are not aware of any threat of any legal, arbitral or administrative proceedings, which, in the opinion of our management, is likely to have a material adverse effect on our business, financial conditions or results of operations. However, we may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that, during the Track Record Period and up to the Latest Practicable Date, we had complied with applicable PRC laws and regulations, including, without limitation, environmental, labor and safety laws and regulations, in all material respects, and that we have obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China. In addition, Commerce & Finance Law Offices has advised us that there are no applicable requirements under environmental-related laws and regulations that are material to our operation and financial condition.