

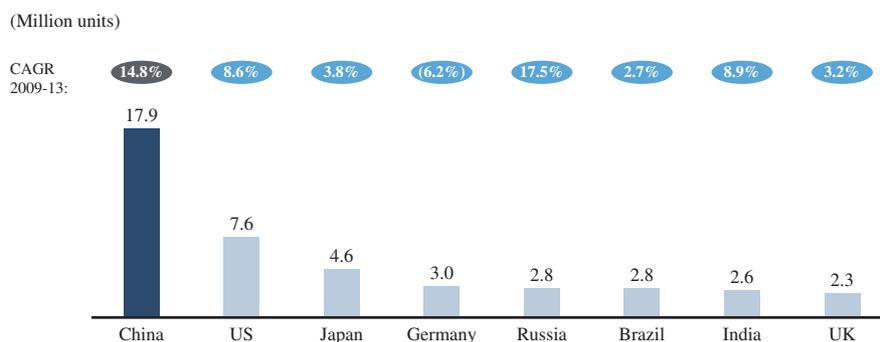
## INDUSTRY OVERVIEW

*The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by ACMR<sup>(1)</sup>, which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Joint Sponsors or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. We, the Joint Sponsors, and any of our or their respective directors, officers, affiliates, advisers or representatives, and any other party involved in the Global Offering make no representation as to the completeness, accuracy or fairness of such information.*

### OVERVIEW OF THE PRC PASSENGER VEHICLE INDUSTRY

In recent years, the PRC passenger vehicle industry has experienced rapid growth driven by significant expansion of the macro economy. According to ACMR, China is now the largest passenger vehicle market in the world. The sales volume<sup>(2)</sup> of passenger vehicles in China grew from 10.3 million units in 2009 to 17.9 million units in 2013, representing a CAGR of 14.8%.

The chart below sets forth the sales volumes and recent growth rates in selected key passenger vehicle markets in 2013.



Source: ACMR

(1) We commissioned ACMR, an independent market research consulting firm, to conduct a market analysis of, and produce a report (the “ACMR Report”) on, among others, the overview and analysis of China’s automotive industry and passenger vehicle market.

Established in 1992, ACMR mainly provides independent and objective services on data collection, industry research, market research and competition research. ACMR is the vice chairman member of the China Marketing Research Association, a member of the Society of Competitive Intelligence of China, and a member of the Association of European Society for Opinion and Marketing Research. ACMR has significant experience in industry research and has provided similar consulting services to various pre-listed companies in the PRC. The automotive industry is one of the industry focuses of ACMR.

The ACMR Report was produced by ACMR’s analysts with specific knowledge of the PRC automotive industry and the forecasts were based on ACMR’s analysis of historical data and trends. This information was obtained by ACMR from a variety of official industry sources, including relevant PRC government departments and established PRC industry organizations such as the National Bureau of Statistics, the China Association of Automobile Manufacturers and the China Automobile Dealers Association. ACMR has conducted interviews with market participants and industry experts in order to support, verify and cross check the consistency of the relevant data and estimates.

We pay a fee of RMB400,000 to ACMR for the ACMR Report. Except for this report, we did not commission any other customized research report in connection with the Listing or this prospectus.

(2) Sales volume in this section refers to the sales volume of passenger vehicles produced in China, including both domestic sales and export.

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## INDUSTRY OVERVIEW

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### FACTORS DRIVING THE PRC PASSENGER VEHICLE INDUSTRY

We believe that the following factors have contributed, and will continue to contribute, to the development of the PRC passenger vehicle industry:

#### **Rapid economic and disposable income growth**

The rapid growth of the PRC economy has, to a large extent, led to the rapid development of the PRC passenger vehicle market. The PRC's growing GDP has resulted in increased disposable income, urbanization and the improvement of living standards in the PRC, which has generated a strong increase in the demand for automobiles. According to the NBSC, from 2009 to 2013, China's nominal GDP increased from RMB34.1 trillion to RMB56.9 trillion, representing a CAGR of 13.7%; during the same period, the per capita annual disposable income of China's urban population increased from RMB17,175 to RMB26,955, representing a CAGR of 11.9%. We believe that the continuing growth of the PRC economy and disposable income will generate greater demand for passenger vehicles and related products, which will further accelerate the expansion of the PRC passenger vehicle industry.

#### **Increased urbanization**

Urbanization in the PRC has created significant opportunities for the passenger vehicle industry as urban residents desire greater mobility and alternative modes of transportation. The urbanization rate in the PRC has increased rapidly over the years. According to the NBSC, from 2009 to 2013, the urbanization rate increased from 48.3% to 53.7%, with an urban resident population of approximately 731.1 million in 2013. Pursuant to the National New Urbanization Plan (2014~2020) issued in March 2014, the PRC government set the target of raising the urbanization rate (as measured by urban resident population divided by total population) to approximately 60% by 2020. Small and medium-size cities and towns in the central and western areas of China are projected to grow at a rate faster than the national average.

#### **Increased investment in transportation infrastructure**

The substantial investment in the construction of transportation infrastructure has also fueled demand for automobiles in the PRC. From 2009 to 2013, the total length of China's highways has grown from approximately 3.9 million kilometers to 4.4 million kilometers, with a CAGR of 3.1%. Further highway extensions are expected to promote increasing use of automobiles. The increase in the length of highways further facilitates inter-city travel, which in turn has boosted passenger vehicle sales.

### KEY FEATURES OF THE PASSENGER VEHICLE MARKET IN CHINA

#### **Low penetration rate implies long-term growth potential**

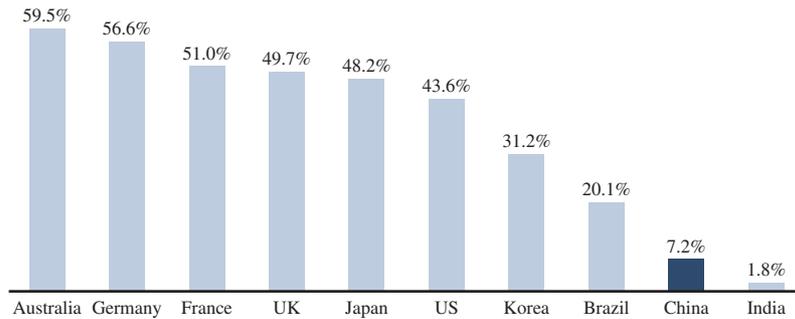
Although China's passenger vehicle market is the largest in the world, the penetration rate of passenger vehicles as a proportion of its population was still relatively low at 7.2% in 2013. The penetration rate of more mature economies typically ranges from 30% to 60%, which indicates significant growth potential for the passenger vehicle market in China.

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The chart below sets forth the passenger vehicle penetration rates in some major countries in 2013:



Source: ACMR

### Declining R-ratio set to drive further near-term market growth

As is demonstrated in international passenger vehicle markets, the R-ratio is the key factor in determining the mid- to long-term development of a nation's passenger vehicle market. The R-ratio equals passenger vehicle prices divided by GDP per capita. It has been demonstrated in other markets that when the R-ratio is between 2 to 3, the penetration rate of passenger vehicles increases significantly. From 2009 to 2012, the R-ratio in China decreased from 4.1 to 3.1, which implies the potential for a period of accelerated growth in China's passenger vehicle market. The average R-ratio of China's central and western provinces has been higher than that of the eastern coastal provinces.

### Higher sales growth rates in central and western provinces driven by low penetration rates

Passenger vehicle demand in central and western inland provinces, such as Henan, Sichuan, Chongqing, Anhui, Hubei, Jiangxi and Hunan, has been growing at faster rates than the national average. Between 2009 and 2013 passenger vehicle market (excluding CUVs) in inland provinces grew at a CAGR of 13.9%, as compared to 11.2% in coastal provinces. This outperformance is driven by first-time vehicle buyers and supported by robust economic growth, rising purchasing power and lower vehicle penetration rates. Inland provinces are expected to continue to be a key growth driver in the Chinese passenger vehicle market. In particular, such demand could stimulate the expansion of the market share of economy passenger vehicles, which are currently more suited to the budgets of consumers in these regions.

### Sales of SUVs are growing faster than the overall market

The market for domestically-produced SUVs has recently been the fastest growing segment of the Chinese passenger vehicle market, with unit sales exhibiting a CAGR of 45.9% between 2009 and 2013, according to ACMR. Their share of the overall domestically-produced passenger vehicle market has grown from 6.4% in 2009 to 16.7% in 2013. According to ACMR, the growth in market share is expected to continue, driven by various factors including Chinese consumers' preference for larger vehicles, the expected upgrade of vehicles bought by consumers whose purchasing power has since expanded, and the growth of families with more than one child. According to ACMR, SUV sales in the PRC market are forecast to grow from approximately 3.5 million in 2014 to approximately 5.0 million in 2017, representing a CAGR of 12.1%, and the market share of SUVs in China's passenger vehicle market is forecast to grow from 17.9% in 2014 to 20.0% in 2017.

## INDUSTRY OVERVIEW

### LARGEST AUTOMOTIVE MANUFACTURING GROUPS IN CHINA

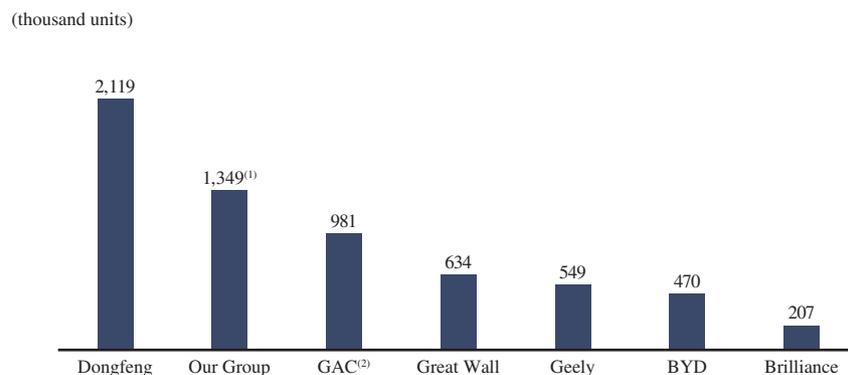
In 2013, the top five automobile groups in the PRC accounted for approximately 68.2% of the total passenger vehicle sales volume.

The table below sets forth information on the top five PRC automobile groups in terms of passenger vehicle sales for 2011, 2012 and 2013:

Name	2011		2012		2013	
	Sales volume (units in million)	Market share (%)	Sales volume (units in million)	Market share (%)	Sales volume (units in million)	Market share (%)
Shanghai Automobile Industry Corporation (Group) (“SAIC”) . . . . .	2.7	18.3	3.0	19.3	4.0	22.1
China FAW Group Corporation (“FAW”) . . . . .	2.3	15.6	2.4	15.3	2.6	14.7
Dongfeng Motor Group (“Dongfeng”) . . . . .	1.6	11.4	1.7	11.2	2.1	11.8
Chang’an Automobile Group (“Chang’an”) . . . . .	1.7	11.5	1.7	10.9	2.1	11.4
<b>Beijing Automotive Group Co., Ltd. (“BAIC Group”) . . . . .</b>	<b>0.9</b>	<b>5.9</b>	<b>1.0</b>	<b>6.8</b>	<b>1.5</b>	<b>8.2</b>

Source: China Automotive Industry Yearbook, the China Association of Automobile Manufacturers, annual reports made by listed companies, announcements made by listed companies, ACMR

The chart below sets forth the passenger vehicle sales volume in 2013 of automobile manufacturers listed on the Hong Kong Stock Exchange and our Group:



Source: Annual reports made by listed companies, announcements made by listed companies, ACMR

(1) Including sales volume of Beijing Hyundai.

(2) Guangzhou Automobile Group Co., Ltd..

For a detailed analysis of our competitive advantages, see “Business—Competitive Strengths.”

## INDUSTRY OVERVIEW

### CLASSIFICATION OF PASSENGER VEHICLE BRANDS

According to ACMR, and consistent with the classifications commonly adopted in the automotive industry, the PRC passenger vehicle market can be generally segmented into five categories, based primarily on brand position and price range, as follows:

Segment	Examples of Brands	Indicative Price Range (in 2013)
<b>Foreign Brands<sup>(1)</sup></b>		
Premium	Mercedes-Benz, BMW, Audi, Cadillac, Volvo, Land Rover, Jaguar	Above RMB300,000
Mid- to High-end	Hyundai, Nissan, Buick, Toyota, Honda, Volkswagen	RMB100,000 – RMB300,000
Economy	Suzuki, Isuzu	Below RMB100,000
<b>Proprietary Brands</b>		
Mid- to High-end	Senova, MG, Roewe, Benteng, Hongqi	RMB90,000 – RMB300,000
Economy	BJ, Wevan, Wuling, BYD, Chang'an	Below RMB90,000

(1) Including domestically produced and imported models.

According to the vehicle categorization commonly used in the industry, passenger vehicles are divided into sedans, SUVs, MPVs and CUVs, which accounted for 67.0%, 16.7%, 7.2% and 9.1% of total passenger vehicles sales in 2013, respectively.

Within the sedan and SUV sub-categories, models can be further categorized into large-size, mid- to large-size, mid-size, compact, small-size and mini models based on parameters such as wheelbase, vehicle length and engine displacement.

The table below sets forth the key criteria for the categorization of sedans in terms of size and engine displacement:

	Wheelbase (millimeter)	Vehicle length (millimeter)	Engine displacement (liter) (excluding turbo)
<b>Mini (A00)<sup>(1)</sup></b> .....	2,000 – 2,300	Below 4,000	Below 1.0
<b>Small-size (A0)<sup>(1)</sup></b> .....	2,300 – 2,500	4,000 – 4,300	1.0 – 1.5
<b>Compact (A)<sup>(1)</sup></b> .....	2,500 – 2,700	4,200 – 4,600	1.6 – 2.0
<b>Mid-size (B)<sup>(1)</sup></b> .....	2,700 – 2,900	4,500 – 4,900	1.8 – 2.4
<b>Mid- to large-size (C)<sup>(1)</sup></b> .....	2,800 – 3,000	4,800 – 5,000	Above 2.4
<b>Large-size (D)<sup>(1)</sup></b> .....	Above 3,000	Above 5,000	Above 3.0

Source: ACMR

(1) Electric vehicles will also be categorized based on wheelbase and length of vehicles.

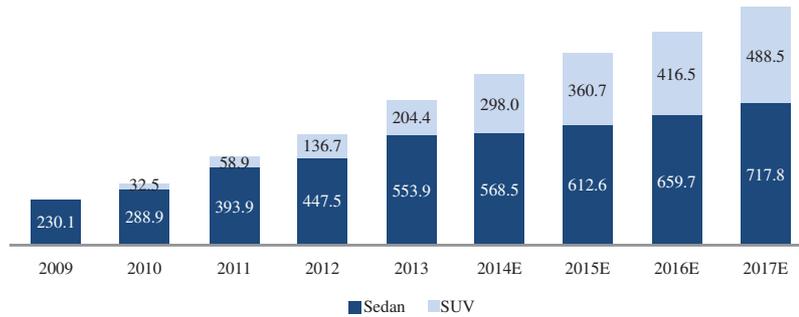
### OVERVIEW OF THE PREMIUM PASSENGER VEHICLE MARKET IN CHINA

The market for premium passenger vehicles in China has been growing faster than the overall passenger vehicle market in China in recent years. From 2009 to 2013, the sales volume of premium passenger vehicles in China grew at a CAGR of 38.3%, compared to 15.5% for the overall passenger vehicle market (including imports) in China. The market share of premium passenger vehicles in the passenger vehicle market (including imports) in China grew from 3.1% in 2006 to 8.0% in 2013, and is forecast to grow from 8.6% in 2014 to 9.2% in 2015. In comparison, in 2013, the market share of premium passenger vehicles in Germany, the United Kingdom and the United States was 28.5%, 24.6% and 11.7%, respectively. The continuing increase of high net worth individuals and wealthy families in China and Chinese consumers' attraction to premium international brands suggests that premium passenger vehicles will continue to outperform the market.

## INDUSTRY OVERVIEW

The following chart sets forth the historical and forecast market size of premium sedans and SUVs in China:

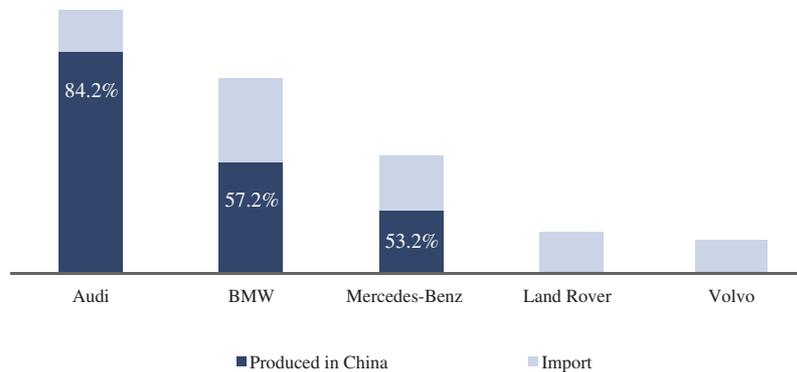
(thousand units)



Source: ACMR

The market for premium passenger vehicles in China comprises the joint venture premium passenger vehicle segment and the imported premium passenger vehicle segment. The joint venture premium passenger vehicle segment includes products manufactured by joint venture production plants established in China by premium passenger vehicle manufacturers, such as FAW Audi, Brilliance BMW, Beijing Benz, Shanghai GM Cadillac and Chang'an Volvo. The imported premium passenger vehicle segment comprises premium passenger vehicles imported to China, including premium brands that have not yet started production in China, such as Lexus, Infiniti and Acura, and models that joint venture premium passenger vehicle assembly plants have not yet started to produce in China, such as Audi A8, BMW 7 Series and Mercedes-Benz S-Class.

The following table sets forth the percentage of leading premium brand sales in China that are produced domestically under joint ventures in 2013:



Source: ACMR

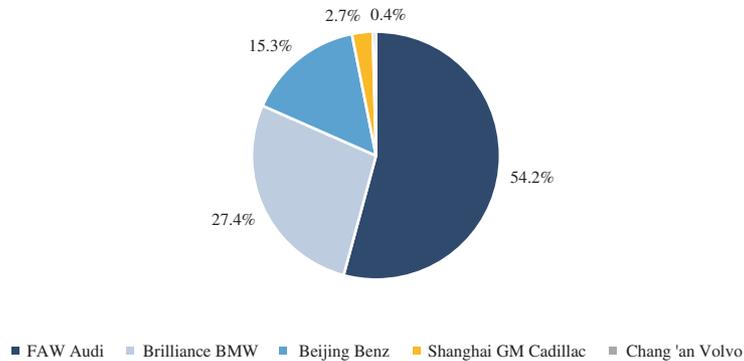
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## INDUSTRY OVERVIEW

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The following chart sets forth the five largest joint venture premium passenger vehicle manufacturers in China in 2013. Beijing Benz was the third largest joint venture premium passenger vehicle brand in China in terms of sales volume.

### China joint venture premium passenger vehicles market share (for 2013)

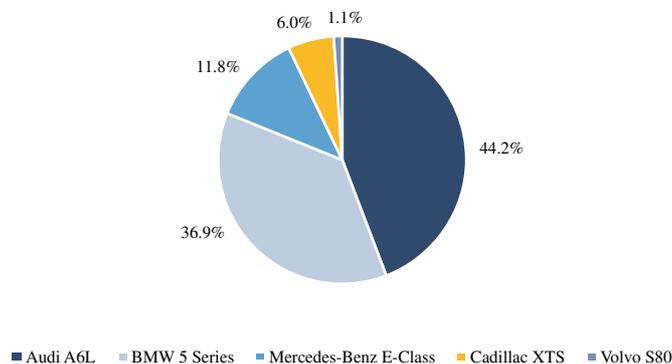


Source: China Automotive Industry Yearbook, ACMR

The joint venture premium passenger vehicle market in China comprises mainly premium sedans and premium SUVs. Mid- to large-sized sedans and mid-size sedans are the largest segments within the premium passenger vehicle market.

The mid- to large-size premium joint venture sedan sales volume grew from 147,678 units in 2009 to 335,456 units in 2013, representing a CAGR of 22.8%. The chart below sets forth the top five mid- to large-size premium joint venture sedan models in 2013:

### Mid- to large-size premium joint venture sedan market share (for 2013)



Source: China Automotive Industry Yearbook, ACMR

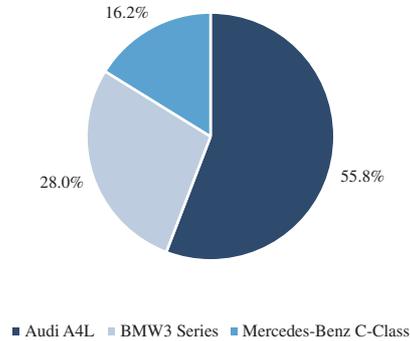
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The mid-size premium joint venture sedan sales volume grew from 76,294 units in 2009 to 218,428 units in 2013, representing a CAGR of 30.1%. The chart below sets forth the top three mid-size premium joint venture sedan models in 2013:

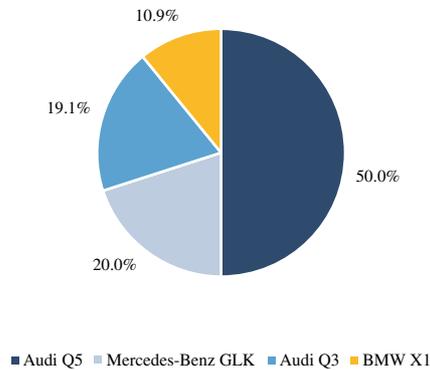
**Mid-size premium joint venture sedan market share (for 2013)**



Source: China Automotive Industry Yearbook, ACMR

The joint venture premium SUV sales volume grew from 32,483 units in 2010 to 204,403 units in 2013, representing a CAGR of 84.6%. The chart below sets forth the top four joint venture premium SUV models in 2013:

**Joint venture premium SUV market share (for 2013)**



Source: China Automotive Industry Yearbook, ACMR

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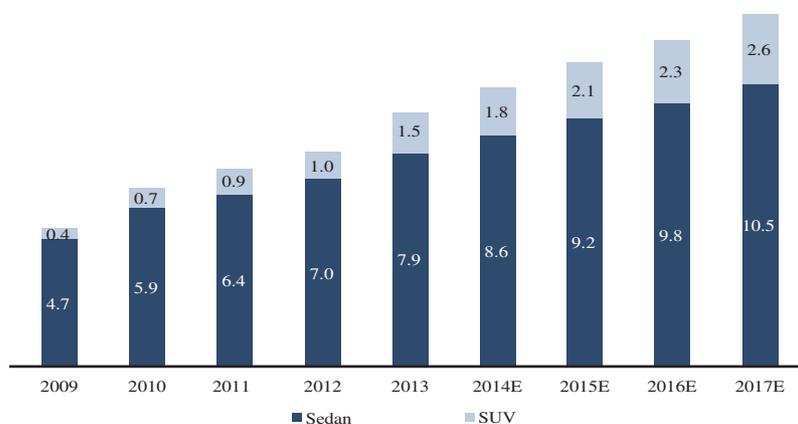
## INDUSTRY OVERVIEW

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### OVERVIEW OF THE MID- TO HIGH-END JOINT VENTURE BRAND PASSENGER VEHICLE MARKET IN CHINA

The mid- to high-end joint venture passenger vehicle market represents the largest segment of China's passenger vehicle market. The major mid- to high-end joint venture brand passenger vehicle manufacturers are Beijing Hyundai, Shanghai GM, Shanghai Volkswagen, Dongfeng Nissan, FAW Volkswagen, Chang'an Ford, GAC Honda and GAC Toyota. At present, demand for mid- to high-end joint venture passenger vehicles is mainly driven by first-time buyer needs in the central and western areas and upgrade needs in the eastern coastal areas. The chart below shows the historical and forecast size of markets of mid- to high-end joint venture sedans and mid- to high-end joint venture SUVs:

(Million units)



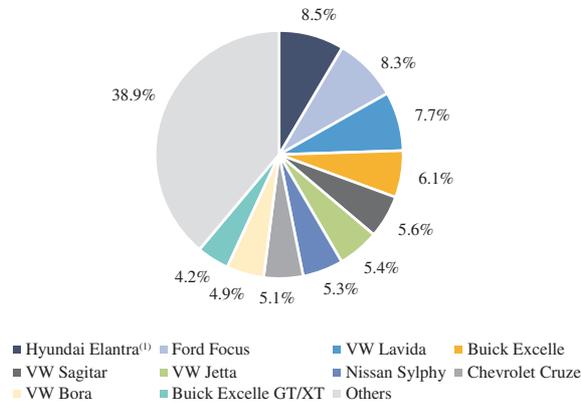
Source: ACMR

Mid- to high-end joint venture brand passenger vehicles mainly comprise mid- to high-end sedans, mid- to high-end SUVs and mid- to high-end MPVs. The largest sub-categories of the mid- to high-end sedan are the compact sedan and the mid-size sedan, which accounted for 61.3% and 22.9%, respectively, of the overall sales volume of mid- to high-end joint venture sedans in 2013.

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The sales volume of compact mid- to high-end joint venture sedans grew from 2.6 million units in 2009 to 4.9 million units in 2013, representing a CAGR of 17.3%. The chart below sets forth the top ten compact mid- to high-end sedan models in terms of sales volume in 2013:

**Market share of compact mid- to high-end joint venture sedans (for 2013)**

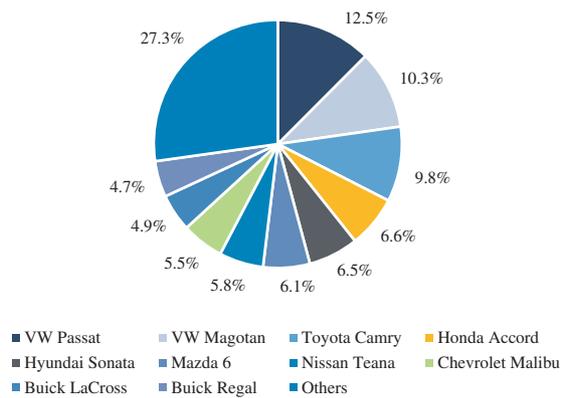


Source: China Automotive Industry Yearbook, ACRM

(1) Including Elantra, Elantra Yuedong and Elantra Langdong.

Mid-size mid- to high-end joint venture brand sedan sales volume grew from 1.3 million units in 2009 to 1.8 million units in 2013, representing a CAGR of 9.1%. The chart below sets forth the top ten mid-size mid- to high-end sedan models in terms of sales volume in 2013:

**Market share of mid-size mid- to high-end joint venture sedans (for 2013)**

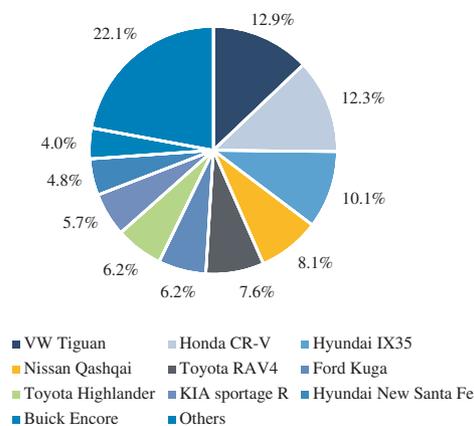


Source: China Automotive Industry Yearbook, ACRM

## INDUSTRY OVERVIEW

Sales volumes of mid- to high-end joint venture SUVs grew from 397,412 units in 2009 to 1.5 million units in 2013, representing a CAGR of 40.4%. The table below sets forth the top ten mid- to high-end joint venture brand SUV models in terms of sales volume in 2013:

### Market share of mid- to high-end joint venture SUVs (for 2013)



Source: China Automotive Industry Yearbook, ACMR

## OVERVIEW OF THE PROPRIETARY BRAND PASSENGER VEHICLE MARKET IN CHINA

Proprietary brand passenger vehicles in China include proprietary brand sedans, proprietary SUVs, proprietary MPVs, and proprietary CUVs. According to ACMR, the size of the market for proprietary brand passenger vehicles in China grew from 2.2 million units in 2006 to 7.3 million units in 2013, and proprietary brands represent 40.9% of China's passenger vehicles market in 2013. Driven in particular by economic growth in the country's inner provinces and the increasing quality and recognition of proprietary brands, this trend is expected to continue.

The sales volume of proprietary brand sedans grew from 2.3 million units in 2009 to 3.4 million units in 2013, representing a CAGR of 9.7%.

### *Proprietary brand economy sedan market*

In terms of sales volume, the proprietary brand economy sedan market accounted for 17.1% of the total passenger vehicles market in the PRC in 2013. From 2009 to 2013, the sales volume of proprietary brand economy sedans increased from 2.2 million units to 3.1 million units, representing a CAGR of 9.2%. The major manufacturers of the proprietary brand economy sedans include Geely Auto, Great Wall Motors, BYD, Chery Auto, Chang'an Auto, among others. Demand for proprietary brand economy sedans is mainly driven by first-time buyers in tier-three and tier-four cities.

The compact economy sedan makes up the principal category of the proprietary brand economy sedan market, with a sales volume accounting for 61.1% of the overall proprietary brand economy sedan market. The sales volume of the proprietary brand compact economy sedan grew from 845,058 units in 2009 to 1.9 million units in 2013, representing a CAGR of 22.0%.

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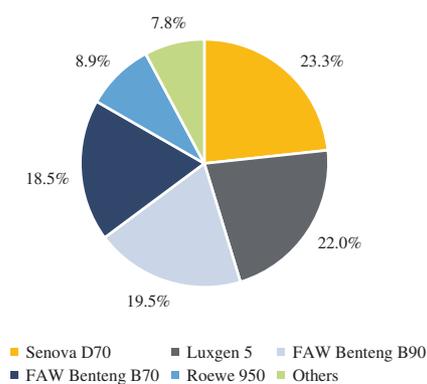
## INDUSTRY OVERVIEW

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### *Proprietary brand mid- to high-end sedan market*

The major manufacturers of mid- to high-end domestic passenger vehicles are FAW, SAIC and our Group. The sales volume of proprietary brand mid- to high-end sedans grew from 179,267 units in 2009 to 321,959 units in 2013, representing a CAGR of 15.8%. Demand for proprietary brand mid- to high-end sedans is mainly driven by government and public service needs and upgrade needs. The proprietary brand mid- to high-end sedans consist mainly of compact, small-size and mid-size vehicles, the sales volume of which accounted for 71.6%, 14.1% and 13.3%, respectively, of the total sales volume of proprietary brand mid- to high-end sedans in 2013. The table below sets forth the top five proprietary brand mid- to high-end sedans in terms of sales volume in 2013:

**Market share of mid-size  
mid- to high-end proprietary brand sedans (for 2013)**



Source: China Automotive Industry Yearbook, ACMR

The sales volume of Senova D70 was more than 10,000 units in 2013, making Senova D70 the best-selling mid-size mid- to high-end proprietary brand sedan in China during that period.

According to ACMR, the markets for proprietary mid- to high-end sedans and SUVs are projected to exhibit CAGR of 14.7% and 19.5%, respectively, between 2014 and 2017, a faster growth rate than the joint venture mid- to high-end brand segment.

### *Proprietary brand CUV market*

CUV refers to passenger vehicles with no more than nine seats. The sales volume of proprietary brand CUVs was 1.6 million units in 2013, representing a CAGR of 10.7% from 2003 to 2013, and representing 9.1% of the total sales volume of passenger vehicles in China. In addition to us, the largest CUV manufacturers in China are SAIC, Chang'an, Dongfeng and FAW.