OVERVIEW

Our Company was established as a joint stock limited company under the Company Law on September 20, 2010. Upon completion of the Reorganization (for details, see "History, Reorganization and Corporate Structure—The Reorganization" of this prospectus), BAIC Group, our sole Controlling Shareholder, owned approximately 55.22% of the total issued share capital of our Company. As of the Latest Practicable Date, BAIC Group was wholly owned by BSAMAC which is a PRC Governmental Body as defined under the Listing Rules. Upon completion of the Global Offering, BAIC Group will own approximately 45.61% of the total issued share capital of our Company (assuming the Over-allotment Option is not exercised) or approximately 44.41% of the total issued share capital of our Company (assuming the Over-allotment Option is exercised in full). BAIC Group will continue to be our sole Controlling Shareholder after the Listing.

I. THE BUSINESS OF OUR COMPANY

1. Focus on passenger vehicles

Since our establishment on September 20, 2010, our Company has been principally engaged in the manufacturing, marketing and distribution of passenger vehicles under Beijing brand, namely, Senova, BJ and Wevan; under Mercedes-Benz brand through Beijing Benz and under Hyundai brand through Beijing Hyundai. Each of these brands primarily targets customers within specific product segments, the details of which are set out below:

(A) Beijing brand: Senova, BJ and Wevan covering the economy and mid- to high-end categories.

			Sales volumes for			
			The year ended December 31, (units)			Six months ended June 30, (units)
Beijing brand	**Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)**	**Product Segment[1]**	**2011**	**2012**	**2013**	**2014**
Senova						
D70	139.8-215.8	Middle-size sedan (B)	—	—	10,032	2,072
D50	74.8-119.8	Compact Sedan (A)	—	—	—	8,202
BJ[2]						
E-Series	53.8-87.8	Small-size sedan (A0)	—	20,008	60,297	44,603
BJ40	146.8-186.8	Off-road passenger vehicle	—	—	—	4,923
Wevan[3]						
M20	43.8-63.8	MPV	—	—	12,933	37,598
307	44.8-51.8	CUV	—	—	2,226	4,089
306	31.8-46.8	CUV	10,016	46,368	82,838	31,450
206	32.3-40.8	CUV	—	—	1,350	329
205	29.8-35.8	CUV	—	—	30,927	20,074
New Energy[4]	—	—	—	644	1,677	390
Others[5]	—	—	14,399	10,541	—	—
		Total	**24,415**	**77,561**	**202,280**	**153,730**

(1) According to classification by ACMR.

(2) As part of an initiative to rebrand our proprietary brand passenger vehicles, our Company discontinued the BJ E-Series product line and rebranded the BJ E-Series facelift as Senova D20 in November 2014. The BJ40 off-road vehicle was launched in late December 2013. For more information about the manufacture and sale of BJ40, see "—III. Delineation of the Businesses between the Excluded Companies and Our Company—3. Off-road Vehicle Branch—Operational Independence."

(3) Our Company utilized BAIC Limited's production capacity to manufacture a limited number of Wevan 306 in the second half of 2014, and procured the whole vehicles for re-sale through our own distribution network by means of an exclusive sales agency arrangement. For more details, see "Business—Manufacturing Facilities and Process—Provisional Arrangement with BAIC Limited." During the Track Record Period, Wevan M20, Wevan 205 and Wevan 206 were manufactured by Yinxiang Motor, from which we purchased and resold. Our Zhuzhou Branch started to manufacture some M20 models in the third quarter of 2014. For more details, see "Business—Manufacturing Facilities and Process—Arrangement with Yinxiang Motor."

(4) In October 2013, we disposed of New Energy to BAIC Group. For details, see "History, Reorganization and Corporate Structure—Major Acquisitions and Disposals," "Relationship with BAIC Group—III. Delineation of the Businesses between the Excluded Companies and Our Company—5. New Energy" and "Connected Transactions—Continuing Connected Transactions Relating to BAIC Group and Its Associates—Non-exempt Continuing Connected Transactions—4. Products and Services Purchasing Framework Agreement—Arrangement of purchasing new energy vehicle components and related assembly services during the New Energy Transition Period" in this Prospectus.

(5) Others primarily include commercial vehicles and off-road vehicles, which were manufactured by BAIC Limited. We disposed of BAIC Limited to BAIC Group in November 2012.

(B) Mercedes-Benz brand, covering the premium categories

Joint Venture Brand[(1)]	Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)	Product Segment[(2)]	Sales volumes for: The year ended December 31, (units) 2011	2012	2013	Six months ended June 30, (units) 2014
E-Class (LWB version)	429.0-798.0	Middle- to-large-size sedan (C)	44,951	36,765	39,623	24,525
GLK	398.0-558.0	SUV	259	25,929	40,972	27,126
C-Class	315.0-468.0	Middle-size sedan (B)	32,585	30,970	35,411	12,843
Others[(3)]	—	—	15,582	9,781	—	—
		TOTAL	**93,377**	**103,445**	**116,006**	**64,494**

(C) Hyundai brand, covering the mid- to high-end categories

Joint Venture Brand	Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)	Product Segment[(2)]	Sales volumes for: The year ended December 31, (units) 2011	2012	2013	Six months ended June 30, (units) 2014
New Santa Fe	219.8-311.8	SUV	—	7,033	74,437	37,717
New ix35	169.8-242.8	SUV	103,023	108,241	156,876	71,167
New Tucson	165.8-203.8	SUV	51,188	56,184	52,692	17,333
Sonata 8th Generation	181.9-225.9	Middle-size sedan (B)	72,065	100,477	104,670	32,906
Sonata Ling Xiang[(4)]	155.0-228.0	Middle-size sedan (B)	11,741	1	—	—
Mistra	129.8-189.8	Middle-size sedan (B)	—	—	16,762	63,322
Sonata Moinca	116.8-139.8	Middle-size sedan (B)	29,546	16,903	13,954	4,905
Elantra Langdong	105.8-149.8	Compact sedan (A)	—	81,827	206,348	114,085
Elantra Yuedong	99.8-146.8	Compact sedan (A)	190,995	214,753	171,547	76,967
i30[(5)]	99.8-141.8	Compact sedan (A)	9,792	1,645	3	—
Elantra	89.8-98.8	Compact sedan (A)	113,368	64,368	34,454	20,241
Verna	73.9-106.9	Small-size sedan (A0)	138,525	204,963	198,667	114,327
Accent[(6)]	71.8-97.8	Small-size sedan (A0)	19,557	3,200	398	—
		TOTAL	**739,800**	**859,595**	**1,030,808**	**552,970**

(1) In 2011, 2012 and the period from January 1, 2013 to November 17, 2013, we did not consolidate Beijing Benz, and its sales volumes during these periods are intended for reference and comparison only.
(2) According to classification by ACMR.
(3) These passenger vehicles included the Mercedes-Benz E-Class, GLK, A-Class and B-Class, which were manufactured by Daimler AG and imported and sold by Beijing Benz in China in 2011 and 2012.
(4) The production of Sonata Ling Xiang was discontinued in 2012.
(5) The production of i30 was discontinued in 2013.
(6) The production of Accent was discontinued in 2013.

2. Maintain no less than 50% equity interest in each brand of our core businesses

With a view to strengthening our focus on the production and sale of passenger vehicles, it has always been our strategy to operate businesses over which the Company will be able to exercise sufficient control through no less than 50% shareholding in such businesses. Given this strategy, the Company's current brand portfolio consists of (i) Beijing brand, which is operated by companies that are wholly owned by our Company, and (ii) joint venture brands, namely Mercedes-Benz brand that is operated by Beijing Benz in which we own 51% equity interest, and Hyundai brand that is operated by Beijing Hyundai in which we own 50% equity interest.

3. Exclude vehicles not within core businesses carried on by the Company

- Taking into account, among others, our strategy to focus our core business on passenger vehicles, we do not and do not plan to manufacture commercial vehicles which are widely recognized in the automobile market in the PRC and worldwide as being differentiated from passenger vehicles.
- Due to certain PRC military confidentiality restriction (as detailed below), we excluded military off-road vehicles and the associated civilian off-road vehicles in preparation for the Pre-IPO Strategic Investment and the Global Offering. Additionally, off-road vehicles are a specialized type of passenger vehicle, which in general could be clearly distinguished from the other categories of passenger vehicles in the following respects:

  (a) Functions and technical specifications

  Off-road vehicles are designed for off-road uses. As compared to SUVs, off-road vehicles' technical specifications are significantly more stringent as off-road vehicles require a more rigid frame, a generally higher ground clearance and larger and wider wheelbase so as to reduce ground pressure and reduce risk of sinking into soft ground when going off road. As such, the production of off-road vehicles also requires certain spare parts, such as body frame, which are typically not used in the manufacturing of SUVs. Off-road vehicles are specifically designed for users that require driving in areas distant from pavement because of their versatility. To be able to drive off the pavement, apart from the characteristics of low ground pressure and high ground clearance above, off-road vehicles also possess the following characteristics: (i) they need to keep their wheels on the ground so as not to lose traction; (ii) they have a suitable balance of large or additional tires combined with tall and flexible suspension; (iii) they are fitted with especially low gearing, which would allow the operators to make the most of the engine's available power while moving slowly through challenging terrain, and (iv) they have four-wheel drive to keep traction on slippery surfaces.

  On the other hand, since SUVs are primarily aimed at family users, the ground clearance is generally lower than off-road vehicles. SUVs have similar exterior with off-road vehicles and station wagons but they are designed to drive on urban streets or highways, and the users usually will not drive SUVs in areas distant from pavement because of its technical specifications. SUVs are characterized by building on sedan chassis with less rigid frames, and are equipped with four-wheel or two-wheel drive with relatively higher gearing, which would allow the operators to drive more comfortably.

  (b) Distinct targeted customers

  Off-road vehicles are primarily targeted at a specialized group of customers, mainly focusing on military uses, governmental uses as well as off-road vehicle enthusiasts and professionals. The market share of off-road vehicles is much smaller compared to that of SUVs, where the target end customers for SUVs are mostly family users. While it is possible to have overlapping customers on both types of passenger vehicles, we believe most customers are able to differentiate SUVs from off-road vehicles and do not consider the two as alternatives when making a purchasing decision. From 2003 to 2013, the annual sales volume of China's domestically produced SUVs has increased at a CAGR of approximately 73.3% from 11,520 units to approximately 2.81 million units, as compared to the annual sales volume of China's domestically produced off-road vehicles increasing from 132,480 units to 179,325 units during the same period, representing a much lower CAGR of approximately 3.1%. In 2013, the total combined sales volume of China's domestically produced off-road vehicles and SUVs was approximately 3.0 million, of which approximately 6.0% were off-road vehicles and the remaining approximately 94.0% were SUVs. In 2013, according to ACMR, a total of 179,325 domestically produced off-road vehicles were sold in China, representing a market share of only approximately 1.0% of all passenger vehicles sold in China for the same period.

As of the Latest Practicable Date, Off-road Vehicle Branch has not commenced manufacturing or selling any off-road vehicles as part of the Transition Period Arrangement (as detailed below). To the best knowledge of our Company and after due and careful inquiries, among all the Excluded Companies (as defined below), only BAIC Limited manufactured and sold off-road vehicles as of the Latest Practicable Date. Additionally, our SUVs can also be distinguished from the off-road vehicles of BAIC Limited with respect to their respective sales volumes, price ranges and profit margins. For details of the exclusion of BAIC Limited from our Company, see "—III. Delineation of the Businesses between the Excluded Companies and our Company—4. BAIC Limited" below.

- As the technologies for electric passenger vehicles are not yet mature and the sales of electric passenger vehicles, to a certain extent, rely on the favorable policies and subsidies of the government, the trend of which will remain in the foreseeable future, we excluded electric passenger vehicles to avoid the uncertainty of the results and success of such particular category of passenger vehicle.
- Despite that Yinxiang Motor focuses on passenger vehicles, our Company would not consider acquiring Yinxiang Motor given that BAIC Group is not able to exert sufficient or effective control over Yinxiang Motor for its 26% (less than 50%) equity interests in Yinxiang Motor. Changhe Motor's key focus is the mini passenger vehicles (A00), which is neither within our current product portfolio nor represents our development direction; meanwhile, as of the Latest Practicable Date, Changhe Motor has not obtained proper land use right certificates and/or building ownership certificates for most of its plants which constitutes a substantial hurdle for any subsequent operations if Changhe Motor were considered being acquired by us.

II. THE POTENTIAL COMPETING BUSINESS OF BAIC GROUP IN VEHICLE MANUFACTURING

In addition to its shareholding in our Company, BAIC Group also manufactures vehicles through a number of its subsidiaries and associated companies (in which it holds more than 10% equity interest), including Foton, Yunnan Motor, Off-road Vehicle Branch, BAIC Limited, New Energy, Zhenjiang Motor, Yinxiang Motor and Changhe Motor (the "**Excluded Companies**").

The following table provides a summary description of the businesses operated by the Excluded Companies.

No.	Names of Excluded Companies	BAIC Group's shareholding (direct and indirect)	Principal operation areas	Principal reasons for exclusion
1	Foton	33.58%[(1)]	Commercial vehicles	Not directly competing with our passenger vehicle businesses
2	Yunnan Motor	70%	Expected to focus on commercial vehicles	Not yet in operation, and not expected to directly compete with our passenger vehicle businesses after it becomes operational
3	Off-road Vehicle Branch . . .	100%	Military and civilian off-road vehicles	Against relevant PRC military confidentiality policy to include Off-road Vehicle Branch in our Company, and Off-road Vehicle Branch is not directly competing with our passenger vehicle businesses
4	BAIC Limited	51%	Commercial vehicles and off-road vehicles	Not directly competing with our passenger vehicle businesses
5	New Energy	60%	Electric passenger vehicles	Technologies used in the new energy automobile industry have not yet matured and the prospect and profitability of electric passenger vehicles is difficult to predict
6	Zhenjiang Motor	85%	Expected to produce certain passenger vehicles (except sedans)	Not yet in operation
7	Yinxiang Motor	26%	Passenger vehicles	Lack of control (less than 50%) by BAIC Group, hence not in line with our strategy of maintaining no less than 50% equity interest
8	Changhe Motor	70%	Passenger vehicles	Clear distinction in terms of core business and product focus, and proper land use right certificates and building ownership certificates not yet obtained

(1) According to the 2013 annual report of Foton.

Among the above subsidiaries and associated companies of BAIC Group, our Directors are of the view that there would be considerably limited competition between the Excluded Companies and our Group for the reasons stated below.

III. DELINEATION OF THE BUSINESSES BETWEEN THE EXCLUDED COMPANIES AND OUR COMPANY

1. FOTON

Date of incorporation

Foton was incorporated on August 28, 1996 and its A shares listed on the Shanghai Stock Exchange on June 2, 1998 under the stock code 600166.

Ownership percentage by BAIC Group

As disclosed in the 2013 annual report of Foton, BAIC Group owned approximately 33.58% equity interest of Foton. The remaining equity interest of Foton was owned by various holders, which mainly included BSAMAC, a Shareholder of our Company (5.28%), Tangshan Jianlong Industrial Co., Ltd. (5.08%), and Shougang Company (1.42%), the controlling shareholder of Shougang Limited (one of our Substantial Shareholders).

Product focus

Commercial vehicles

Foton is a leading PRC commercial vehicle enterprise focusing on the production and sale of commercial vehicles. For the year ended December 31, 2013, according to the 2013 annual report of Foton, Foton sold 656,620 commercial vehicles, which made it No.1 commercial vehicle manufacturer in the PRC for the year 2013 in terms of sales volumes according to ACMR with a domestic market share of approximately 16.2%. As disclosed in Foton's trading update dated December 4, 2014, the sales volume of "other vehicles" (which include MPVs) by Foton in the period from January 2014 to November 2014 was only 6,725, which represented a small fraction of approximately 1.33% of Foton's total sales volume in the same period. To the best knowledge of our Company and after due and careful inquiries, Foton's business focus would stay on commercial vehicles going forward, and the competition between the Group and Foton in terms of passenger vehicles would be very limited.

Product/customer differentiation

The differentiation between commercial vehicles and passenger vehicles is widely accepted in the automobile market in the PRC as well as worldwide. According to ACMR, passenger vehicles are primarily used to carry passengers and their carry-on luggage, and/or to carry items for temporary occasions, with a capacity of no more than nine seats including a driver's seat. Furthermore, passenger vehicles are commonly regarded as consumer products.

By contrast, commercial vehicles are primarily designed to transport people and cargo, and are usually regarded as productive assets. Commercial vehicles, which may be classified as passenger carriages, freight wagons, semi-trailers, and all other vehicles used for transporting cargoes.

Financial performance

Based on Foton's annual reports:

- The total assets of Foton were approximately RMB28.12 billion, RMB33.05 billion and RMB32.43 billion as of December 31, 2011, 2012 and 2013, respectively.

- The revenues of Foton were approximately RMB51.65 billion, RMB40.97 billion and RMB34.15 billion for the years ended December 31, 2011, 2012 and 2013, respectively.
- The net profits of Foton were approximately RMB1.15 billion, RMB1.40 billion and RMB0.75 billion for the years ended December 31, 2011, 2012 and 2013, respectively.

Management independence

According to the 2013 annual report of Foton, the current board of directors of Foton comprises 17 directors, the current board of supervisors comprises seven supervisors and its senior management comprises eight members. Among Foton's 17 directors, there are four non-executive or independent non-executive directors who are either non-executive Directors or independent non-executive Directors of our Company, namely Mr. Xu Heyi, Mr. Zhang Xiyong, Mr. Bao Robert Xiaochen and Mr. Qiu Yinfu. Among the seven supervisors of Foton, Mr. Yin Weijie also holds a Supervisor position in our Company. In addition, none of Foton's eight senior management members holds any Director, Supervisor or senior management position within our Company. Therefore, there is no overlapping of Foton's executive directors or senior management with the core management team of our Company.

Financial independence

Foton operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between Foton and our Company.

Operational independence

Foton operates independently from our Company. In particular:

Production facilities and research and development facilities

Foton has its own independent production facilities and research and development facilities. Foton and our Company do not, and currently do not expect to, share production facilities or research and development facilities with each other.

Distribution network

Given Foton primarily manufactures and sells commercial vehicles, there is no reliance from us on Foton for the distribution of our passenger vehicles. Foton also has its own independent distribution network and does not rely on our distribution network for distribution of its commercial vehicles.

No continuing connected transactions

Our Company does not expect there would be any continuing connected transactions between Foton and our Group after the Listing.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

Given that the core businesses of our Company are the manufacturing, marketing and distribution of passenger vehicles whereas Foton focuses on the manufacturing, marketing and distribution of commercial vehicles, our Directors are of the view that the core businesses of Foton can be sufficiently delineated from those of our Company and our Directors do not consider that it is in the best interests of our Company and our Shareholders to acquire Foton.

The directors of Foton, as an A share listed company, shall seek independent shareholders' approval on certain matters, including decisions on whether or not to inject any business into our Company and whether or not to compete with our Company. Therefore, it is impracticable to obtain any undertaking made by BAIC Group with respect to the inclusion of the business of Foton into our Company or any non-competition undertaking by Foton. For this purpose, the Non-Competition Undertaking expressly carves out the compliance of the non-competition undertaking by BAIC Group with respect to Foton (see "—Non-Competition Undertaking" below for details).

2. YUNNAN MOTOR

Date of incorporation

Yunnan Motor was incorporated on December 20, 2013.

Ownership percentage by BAIC Group

BAIC Group currently owns a 70% equity interest in Yunnan Motor, of which 40% is directly owned by BAIC Group and 30% is indirectly held by BAIC Group through BAIC International (a wholly owned subsidiary of BAIC Group), with the remaining 30% held by Yunnan Jingcheng Group Co., Ltd., which is an Independent Third Party.

Product focus

Commercial vehicles

According to its preliminary construction and business operation plan, Yunnan Motor will focus on the manufacture of commercial vehicles.

Product/customer differentiation

See above "—1.Foton—Product/customer differentiation" for differentiation between commercial vehicles and passenger vehicles.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

Given that the core businesses of our Company are the manufacturing, marketing and distribution of passenger vehicles whereas (i) Yunnan Motor has not yet commenced its operations, (ii) even after its operations commence, Yunnan Motor is expected to focus on the manufacturing, marketing and distribution of commercial vehicles, and (iii) Yunnan Motor is subject to the Non-Competition Undertaking, our Directors are of the view that there is clear delineation of the business of Yunnan Motor and our Company and, as such, it is in the best interests of our Company and Shareholders to exclude Yunnan Motor from our Company.

3. OFF-ROAD VEHICLE BRANCH

Date of incorporation

Off-road Vehicle Branch was incorporated on May 29, 2013.

Ownership percentage by BAIC Group

As a branch of BAIC Group, Off-road Vehicle Branch is wholly owned by BAIC Group as of the Latest Practicable Date.

Product focus

Off-road vehicles

As of the Latest Practicable Date, Off-road Vehicle Branch has not yet commenced its operations. Even after it commences operation, Off-road Vehicle Branch is expected to focus on manufacturing and sales of military off-road vehicles and civilian off-road vehicles.

Product/customer differentiation

Off-road vehicles are a specialized type of passenger vehicle, which in general could be clearly distinguished from the other categories of passenger vehicles for the following reasons:

(a) Functions and technical specifications

Off-road vehicles are designed for off-road uses. As compared to SUVs, off-road vehicles' technical specifications are significantly more stringent as off-road vehicles require a more rigid frame, a generally higher ground clearance and larger and wider wheelbase so as to reduce ground pressure and reduce risk of sinking into soft ground when going off road. As such, the production of off-road vehicles also requires certain spare parts, such as body frame, which are typically not used in the manufacturing of SUVs. Off-road vehicles are specifically designed for users that require driving in areas distant from pavement because of their versatility. To be able to drive off the pavement, apart from the characteristics of low ground pressure and high ground clearance above, off-road vehicles also possess the following characteristics: (i) they need to keep their wheels on the ground so as not to lose traction; (ii) they have a suitable balance of large or additional tires combined with tall and flexible suspension; (iii) they are fitted with especially low gearing, which would allow the operators to make the most of the engine's available power while moving slowly through challenging terrain, and (iv) they have four-wheel drive to keep traction on slippery surfaces.

On the other hand, since SUVs are primarily aimed at family users, the ground clearance is generally lower than off-road vehicles. SUVs have similar exterior with off-road vehicles and station wagons but they are designed to drive on urban streets or highways, and the users usually will not drive SUVs in areas distant from pavement because of its technical specifications. SUVs are characterized by building on sedan chassis with less rigid frames, and are equipped with four-wheel or two-wheel drive with relatively higher gearing, which would allow the operators to drive more comfortably.

(b) Distinct targeted customers

Off-road vehicles are primarily targeted at a specialized group of customers, mainly focusing on military uses, governmental uses as well as off-road vehicle enthusiasts and professionals. The market share of off-road vehicles is much smaller compared to that of SUVs, where the target end customers for SUVs are mostly family users. While it is possible to have overlapping customers on both types of passenger vehicles, we believe most customers are able to differentiate SUVs from off-road vehicles and do not consider the two as alternatives when making a purchasing decision. From 2003 to 2013, the annual sales volume of China's domestically produced SUVs has increased at a CAGR of approximately 73.3% from 11,520 units to approximately 2.81 million units, as compared to the annual sales volume of China's domestically produced off-road vehicles increasing from 132,480 units to 179,325 units during the same period, representing a much lower CAGR of approximately 3.1%. In 2013, the total combined sales volume of China's domestically produced off-road vehicles and SUVs was approximately 3.0 million, of which approximately 6.0% were off-road vehicles and the remaining approximately 94.0% were SUVs. In 2013, according to ACMR, a total of 179,325 domestically produced off-road vehicles were sold in China, representing a market share of only approximately 1.0% of all passenger vehicles sold in China for the same period.

Despite the differentiations above, to the best knowledge of our Company, a separate class of driving license is not generally required for off-road vehicles.

As of the Latest Practicable Date, Off-road Vehicle Branch has not commenced manufacturing or selling any off-road vehicles as part of the Transition Period Arrangement (as detailed below).

Financial performance

Off-road Vehicle Branch was incorporated on May 29, 2013. Based on the financial statements of Off-road Vehicle Branch:

- The total assets of Off-road Vehicle Branch was approximately RMB394.9 million as of December 31, 2013.
- Off-road Vehicle Branch did not generate any revenue for the year ended December 31, 2013.
- The net loss of Off-road Vehicle Branch was approximately RMB4.6 million for the year ended December 31, 2013.

Management independence

Given that Off-road Vehicle Branch was established as a branch of BAIC Group, it is managed by a senior management team without a board of directors or supervisors. Among the members of Off-road Vehicle Branch's senior management team, no one holds any Director, Supervisor or senior management position in our Company. Therefore, our Directors are of the view that Off-road Vehicle Branch has sufficient managerial independence and is able to manage itself independently of our Company.

Financial independence

Off-road Vehicle Branch operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between Off-road Vehicle Branch and our Company.

Operational independence

Production facilities and research and development facilities

Along with the disposal of assets related to off-road vehicles from our Company to BAIC Group, technology and certain manufacturing equipment relating to BJ40 (a civilian off-road vehicle) were disposed of by us to BAIC Group in October 2013.

The Ministry of Industry and Information Technology together with other relevant regulatory authorities implement categorization management for the automobile industry. It is expected that BAIC Group will obtain the relevant authorization to manufacture and sell BJ40 within one year after the Listing Date (the "**Transition Period**"). As discussed and agreed between BAIC Group and us, during the Transition Period, our Company would be in charge of the manufacturing and sale of BJ40 (the "**Transition Period Arrangement**"). The Transition Period Arrangement was part of the disposal of assets related to off-road vehicles from our Company to BAIC Group as a step of Reorganization. The consideration of such disposal was determined on the basis of the asset evaluation report issued by an independent valuator and the asset valuation report has taken into account the Transition Period Arrangement. Taking into account that, among others, (i) the Transition Period Arrangement is of a provisional nature and such arrangement is put in place in response to the authorization application process; and (ii) the sales volume of BJ40 was 4,923 units for the six months ended June 30, 2014, which amounted to only 3.2% of the sales volume of Beijing Motor during the same period, the Company takes the view that the Transition Period Arrangement would not lead to undue competition between the Company and BAIC Group.

As part of the Transition Period Arrangement, BAIC Group and our Company entered into (1) a leaseback agreement, pursuant to which, our Company would be allowed to utilize certain manufacturing equipment of BJ40 owned by BAIC Group, and (2) a technology licensing agreement, pursuant to which our Company would be allowed to access BAIC Group's research and development related assets of BJ40.

As of the Latest Practicable Date, no manufacture or sale arrangement in relation to BJ40 after the Transition Period has been officially determined. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) with respect to any manufacture and sale arrangements in relation to BJ40 after the Transition Period.

Distribution network

On the one hand, given Off-road Vehicle Branch plans to primarily manufacture and sell off-road vehicles, we do not expect there will be reliance from us on Off-road Vehicle Branch in terms of the distribution of our passenger vehicles.

On the other hand, pursuant to the Transition Period Arrangement set out above, our Company would be in charge of the distribution of BJ40 during the Transition Period. As of the Latest Practicable Date, no distribution arrangement in relation to BJ40 after the Transition Period has been officially determined. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) with respect to any distribution arrangement of BJ40 after the Transition Period.

Continuing connected transactions

For details of the aforementioned connected transactions during the Transition Period, see "Connected Transactions" of this prospectus.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

As confirmed by our PRC legal advisers, it is against relevant PRC military confidentiality policy to have enterprises with foreign investment being involved in conducting research and development, manufacturing and/or sale of military off-road vehicles. Therefore, in October 2013, our Company disposed of assets related to off-road vehicles to BAIC Group in preparation for the Pre-IPO Strategic Investment and the Global Offering (see "History, Reorganization and Corporate Structure—Major Acquisitions and Disposals" of this prospectus for details). The associated civilian off-road vehicles were excluded from our Company as well because civilian off-road vehicles are derived from military models and the military and its associated civilian off-road vehicles share the same research and development team and production line. Hence, it would be cost inefficient to retain the business of associated civilian off-road vehicles within our Company.

As off-road vehicles are not within the core businesses carried on by the Company, it is the intention of the Company and BAIC Group not to include off-road vehicles as part of the Restrained Businesses in the Non-Competition Undertaking (both as defined in "Relationship with BAIC Group—Non-Competition Undertaking" below). However, as reasoned above, off-road vehicles, as a specialized type of passenger vehicles, can be clearly differentiated from other types of passenger vehicles. Our Directors thus believe that Off-road Vehicle Branch does not directly compete with our passenger vehicle businesses.

4. BAIC LIMITED

Date of incorporation

BAIC Limited was incorporated on January 1, 1983.

Ownership percentage by BAIC Group

BAIC Group currently owns a 51% equity interest in BAIC Limited. To our best knowledge, the other shareholder of BAIC Limited is an Independent Third Party.

Product focus

Off-road vehicles and commercial vehicles

BAIC Limited has been primarily focused on the production and sales of commercial vehicles and off-road vehicles during the Track Record Period.

Product/customer differentiation

As set out in the paragraphs above clarifying the differentiation of product focuses between Foton, Off-road Vehicle Branch and the Company, commercial vehicles and off-road vehicles, which have been the product focuses of BAIC Limited during the Track Record Period, are distinctly distinguished from our Company's business focus for the following reasons.

(i) Commercial vehicles versus passenger vehicles

The differentiation between commercial vehicles and passenger vehicles is widely accepted in the automobile market in the PRC as well as worldwide. According to ACMR, passenger vehicles are primarily used to carry passengers and their carry-on luggage, and/or to carry items for temporary occasions, with a capacity of no more than nine seats including a driver seat. Furthermore, passenger vehicles, which can be classified into sedans, CUVs, SUVs, MPVs and off-road vehicles, are commonly regarded as consumer products.

By contrast, commercial vehicles are primarily designed to transport people and cargo, and are usually regarded as productive assets. Commercial vehicles, which may be classified as passenger carriages, freight wagons, semitrailers, and all other vehicles used for transporting cargo.

(ii) Off-road vehicles versus passenger vehicles

To the best knowledge of our Company and after due and careful inquiries, drivers in the PRC who drive light commercial vehicles and passenger vehicles, including SUVs, off-road vehicles, MPVs, CUVs as well as sedans, all use the same categories of driving licenses. Off-road vehicles are a specialized type of passenger vehicle, which in general could be clearly distinguished from the other categories of passenger vehicles in the following respects:

(a) Functions and technical specifications

Off-road vehicles are designed for off-road uses. As compared to SUVs, off-road vehicles' technical specifications are significantly more stringent as off-road vehicles require a more rigid frame, a generally higher ground clearance and larger and wider wheelbase so as to reduce ground pressure and reduce risk of sinking into soft ground when going off road. As such, the production of off-road vehicles also requires certain spare parts, such as body frame, which are typically not used in the manufacturing of SUVs. Off-road vehicles are specifically designed for users that require driving in areas distant from pavement because of their versatility. To be able to drive off the pavement, apart from the characteristics of low ground pressure and high ground clearance above, off-road vehicles also possess the following characteristics: (i) they need to keep their wheels on the ground so as not to lose traction; (ii) they have a suitable balance of large or additional tires combined with tall and flexible suspension; (iii) they are fitted with especially low gearing, which would allow the operators to make the most of the engine's available power while moving slowly through challenging terrain, and (iv) they have four-wheel drive to keep traction on slippery surfaces.

On the other hand, since SUVs are primarily aimed at family users, the ground clearance is generally lower than off-road vehicles. SUVs have similar exterior with off-road vehicles and station wagons but they are designed to drive on urban streets or highways, and the users usually will not drive SUVs in areas distant from pavement because of its technical specifications. SUVs are characterized by building on sedan chassis with less rigid frames, and are equipped with four-wheel or two-wheel drive with relatively higher gearing, which would allow the operators to drive more comfortably.

(b) Distinct targeted customers

Off-road vehicles are primarily targeted at a specialized group of customers, mainly focusing on military uses, governmental uses as well as off-road vehicle enthusiasts and professionals. The market share of off-road vehicles is much smaller compared to that of SUVs, where the target end customers for SUVs are mostly family users. While it is possible to have overlapping customers on both types of passenger vehicles, we believe most customers are able to differentiate SUVs from off-road vehicles and do not consider the two as alternatives when making a purchasing decision. From 2003 to 2013, the annual sales volume of China's domestically produced SUVs has increased at a CAGR of approximately 73.3% from 11,520 units to approximately 2.81 million units, as compared to the annual sales volume of China's domestically produced off-road vehicles increasing from 132,480 units to 179,325 units during the same period, representing a much lower

CAGR of approximately 3.1%. In 2013, the total combined sales volume of China's domestically produced off-road vehicles and SUVs was approximately 3.0 million, of which approximately 6.0% were off-road vehicles and the remaining approximately 94.0% were SUVs. In 2013, according to ACMR, a total of 179,325 domestically produced off-road vehicles were sold in China, representing a market share of only approximately 1.0% of all passenger vehicles sold in China for the same period.

Despite that SUVs and off-road vehicles may be overlapping, to a limited extent, in terms of functions and technical specifications and/or customers, based on the differentiations above, our Directors and the Joint Sponsors are of the view that there is very limited competition between BAIC Limited and us. This view is further supported by the significantly higher market shares of Beijing Benz and Beijing Hyundai in China's combined SUV and off-road vehicle segment during the Track Record Period. As of the Latest Practicable Date, Beijing Motor did not manufacture or sell SUVs. A comparison of the market shares of the SUVs sold by Beijing Benz and Beijing Hyundai and the off-road vehicles sold by BAIC Limited is set out below:

Brand	Year ended December 31, (units, except for sales revenue)			Six months ended June 30, (units, except for sales revenue)
	2011	2012	2013	2014
Mercedes Benz—GLK	259	25,929	40,972	27,126
Hyundai—New Tucson	51,188	56,184	52,692	17,333
Hyundai—New ix35	103,023	108,241	156,876	71,167
Hyundai—New Santa Fe	—	7,033	74,437	37,717
Total SUVs sold by our Company	154,470	197,387	324,977	153,343
Sales revenue from SUVs sold by Beijing Benz and Beijing Hyundai (RMB in millions)	21,173.5	29,602.1	52,772.4	26,107.6
Combined sales volume for SUVs and off-road vehicles in China	1,593,714	2,000,410	2,988,758	1,823,423
Total SUVs sold by Beijing Benz and Beijing Hyundai as percentage of the combined sales volume for SUVs and off-road vehicles in China	9.69%	9.87%	10.87%	8.41%
Beijing—Yusheng 007 (域勝 007)	1,790	1,676	1,090	150
Beijing—New Warrior (新勇士)	3,076	3,219	1,700	393
Beijing—New Knight (新騎士)	141	161	124	0
Beijing—Luba (陸霸)	984	418	318	22
Total off-road vehicles sold by BAIC Limited	5,991	5,474	3,232	565
Sales revenue from off-road vehicles sold by BAIC Limited(1) (RMB in millions)	471.2	422.5	200.2	29.9
Total off-road vehicles sold by BAIC Limited as percentage of the combined sales volume for SUVs and off-road vehicles in China	0.38%	0.27%	0.11%	0.03%

Source: ACMR

(1) According to the unaudited accounts of BAIC Limited.

The prices of passenger vehicles (including SUVs and off-road vehicles) depend on various factors, such as brand, model, specification, packages and accessories. As of the Latest Practicable Date, the manufacturer's suggested retail price range for the SUVs sold by Beijing Benz and Beijing Hyundai was from approximately RMB165,800 to RMB558,000, while the manufacturer's suggested retail price range for the off-road vehicles sold by BAIC Limited was from approximately RMB55,200 to RMB217,000 according to ACMR. To the best knowledge of our Company and after due and careful inquiries, the gross profit margin for SUVs manufactured and sold by us for the year ended

December 31, 2013 was generally higher than that of the off-road vehicles manufactured and sold by BAIC Limited for the same period.

As of the Latest Practicable Date, our SUVs have been manufactured under Mercedes-Benz brand and Hyundai brand, which clearly differs from the off-road vehicles of BAIC Limited manufactured under BAIC Group's Beijing brand. BAIC Limited is not allowed to manufacture any vehicles under Mercedes-Benz brand or Hyundai brand, while we have no plan to manufacture SUVs under our BJ product series in the foreseeable future. Additionally, the logos used in BAIC Limited for its off-road vehicles are distinct from the logos used on our SUVs. By way of the Non-Competition Undertaking, it is the mutual understanding of both BAIC Group and us that a particular brand will not be applied by either party to the same or similar category of passenger vehicle as the other party is or may be manufacturing. For the purpose of, among other things, enhancing transparency and minimizing potential competition between our SUVs and BAIC Limited's off-road vehicles, we will disclose the annual sales volumes of our SUVs and BAIC Limited's off-road vehicles in our annual reports after the Listing.

Financial performance

Based on the statutory audited accounts of BAIC Limited:

- The total assets of BAIC Limited were approximately RMB2.11 billion, RMB3.90 billion and RMB3.74 billion as of December 31, 2011, 2012 and 2013, respectively.
- The revenues of BAIC Limited were approximately RMB2.30 billion, RMB1.94 billion and RMB1.50 billion for the years ended December 31, 2011, 2012 and 2013, respectively.
- The net losses of BAIC Limited were approximately RMB225.6 million, RMB153.2 million and RMB579.3 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Management independence

BAIC Limited's current board of directors is comprised of seven directors, its board of supervisors is comprised of three supervisors and its senior management is comprised of eleven members. Among BAIC Limited's seven directors, only one director, namely Mr. Liang Guofeng, holds a senior management position within our Company. Among BAIC Limited's three supervisors, only one supervisor, namely Mr. Yin Weijie, holds a Supervisor position within our Company. No senior management members of BAIC Limited holds any Director, Supervisor or senior management position within our Company. Therefore, there is limited overlap in the management teams of BAIC Limited and our Company. Our Directors are of the view that BAIC Limited has sufficient managerial independence and therefore is able to manage itself independently of our Company.

Financial independence

BAIC Limited operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between BAIC Limited and our Company.

Operational independence

BAIC Limited operates independently from our Company. Specifically with respect to:

Production facilities and research and development facilities

BAIC Limited has its own independent production facilities and research and development facilities. As of the Latest Practicable Date, we and BAIC Limited do not expect to share the production facilities or research and development facilities with each other after the Listing.

Distribution network

BAIC Limited primarily manufactures and sells commercial vehicles and off-road vehicles, there is no reliance from us on BAIC Limited in terms of the distribution of our passenger vehicles. As an industry norm, we primarily distribute our passenger vehicles (including SUVs) through dealers, which, we understand, does not significantly deviate from the distribution method adopted by BAIC Limited for its off-road vehicles. Meanwhile, BAIC Limited has its own independent distribution network and does not rely on our distribution network for distribution of its commercial vehicles and off-road vehicles.

Provisional arrangement with BAIC Limited

In an attempt to optimize our production capacity and further strengthen cost control, we entered into a provisional arrangement with BAIC Limited in June 2014, pursuant to which we utilized BAIC Limited's production capacity to manufacture a limited number of Wevan 306, and procured the whole vehicles for our exclusive re-sale through our own distribution network while commencing to utilize our Zhuzhou Branch's production capacity to manufacture Wevan M20, a higher-end passenger vehicle with higher popularity. As of the date of this prospectus, we have reassessed our production capacity and found that our Zhuzhou Branch has sufficient capacity to manufacture both Wevan M20 and Wevan 306, as a result of which, our Directors plan to discontinue the provisional arrangement with BAIC Limited after the Listing.

Continuing connected transactions

Our Company does not expect there would be any continuing connected transactions between BAIC Limited and our Group after the Listing.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

BAIC Limited has been primarily focused on the production and sales of commercial vehicles and off-road vehicles during the Track Record Period which are distinctly distinguishable from our Company's business focus. The differentiation between commercial vehicles and passenger vehicles is widely accepted in the automobile market in the PRC as well as worldwide. Meanwhile, off-road vehicles are a specialized type of passenger vehicle, which are, as detailed above, clearly distinguishable from the other categories of passenger vehicles in terms of functions and technical specifications as well as targeted customers. Additionally, our SUVs can also be distinguished from the off-road vehicles of BAIC Limited with respect to their respective sales volumes, price ranges and profit margins. To the best knowledge of our Company and after due and careful inquiries, we are not aware of any plan of BAIC Limited to manufacture passenger vehicles which would lead to competition between BAIC Limited and our Company. In addition to the above, considering (i) the insignificance of BAIC Limited in terms of sales volume and revenue contribution and (ii) that BAIC Limited is subject to the Non-Competition Undertaking, our Directors are of the view that it is neither appropriate nor commercially justifiable to include the business of BAIC Limited into our Company at this stage.

5. New Energy

Date of incorporation

New Energy was incorporated on October 23, 2009.

Ownership percentage by BAIC Group

BAIC Group currently owns a 60% equity interest in New Energy, and the remaining equity interests in New Energy are owned 25% by Industrial Company, 10% by BSAMAC and 5% by Beijing Electronics Holding Co., Ltd.

Product focus

Focus on electric passenger vehicles

New Energy only engages in provision of parts and components and related assembly services of electric passenger vehicles. In July 2013, BAIC Group, SK Group and Beijing Electronics Holding Co., Ltd. entered into an agreement to establish a sino-foreign joint venture which plans to manufacture battery packs to be used in electric vehicles. New Energy entered into a share purchase agreement in January 2014 pursuant to which it purchased a 25.02% equity interest in Atieva, Inc., a company that is headquartered in Silicon Valley, the U.S. and is mainly engaged in the research and development and production of core engine systems of electric vehicles. The key products of Atieva, Inc. include battery systems and charging devices of electric vehicles. In April 2014, New Energy and Siemens AG also entered into an agreement to establish a sino-foreign joint venture which plans to develop and produce an electric motor and inverter to be used in new energy vehicles.

Compared with diesel passenger vehicles, electric passenger vehicles mainly use rechargeable batteries as a power source and do not emit any waste gas which would contribute to air pollution. However, the popularization of electric passenger vehicles in the PRC faces many obstacles and restrictions, including relatively high pricing of electric passenger vehicles due to high cost of batteries, insufficient recharging infrastructures and limitations in travelling distance/scope of most of existing electric passenger vehicles. Compared with traditional fuel passenger vehicles, the development of electric passenger vehicles is still at its early stage in the PRC, and a large amount of capital investment and government subsidies are needed in the manufacturing, sales and purchasing of electric passenger vehicles.

Product/customer differentiation

Due to the limitations set out above, the sales of electric passenger vehicles represent only a limited share in the total sales of passenger vehicles in the PRC. Electric passenger vehicles are usually purchased by governmental institutions, public transportation companies and environmentally friendly buyers who prefer environmental protection rather than relatively better performance of traditional fuel passenger vehicles. As a result, the Company believes that ultimate customers of electric passenger vehicles are usually different from our target customers. The following table sets forth the market size and market share of the new energy vehicles (including electric automobiles) in the PRC for the years ended December 31, 2011, 2012 and 2013:

	2011	2012	2013
Total sales of automobiles (units'000)	18,489	19,306	21,984
—Sales volume of traditional fuel automobiles (units'000)	18,481	19,293	21,966
—Sales volume of new energy vehicles (units'000)	8.159	12.791	17.642
Market share of traditional fuel automobiles (%)	99.96%	99.93%	99.92%
Market share of new energy vehicles (%)	0.04%	0.07%	0.08%

Source: ACMR

Financial performance

Based on the statutory accounts of New Energy:

- The total assets of New Energy were approximately RMB0.55 billion, RMB0.60 billion and RMB0.98 billion as of December 31, 2011, 2012 and 2013, respectively.
- The revenues of New Energy were approximately RMB35.9 million, RMB103.6 million and RMB311.7 million for the years ended December 31, 2011, 2012 and 2013, respectively.
- The losses of New Energy were approximately RMB29.6 million, RMB33.6 million and RMB52.8 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Management independence

New Energy's current board of directors is comprised of nine directors, its board of supervisors is comprised of six supervisors and its senior management is comprised of ten members. Among the nine directors of New Energy, only three directors, namely Mr. Xu Heyi, Mr. Zhu Zhenghua and Ms. Wang Jing, serve as non-executive Directors and Supervisors of the Company. Remaining directors, six supervisors and the ten senior management members do not hold any Director, Supervisor or senior management position within the Company. Therefore, there is a limited overlap in the management teams of New Energy and the Company. As a result, our Directors are of the view that New Energy has sufficient managerial independence and therefore is able to manage itself independently of our Company.

Financial independence

New Energy operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between New Energy and our Company.

Operational independence

New Energy operates independently from our Company. Specifically with respect to:

Production facilities and research and development facilities

Ministry of Industry and Information Technology and other relevant regulatory authorities have implemented categorization management for the automobile industry. It is expected that BAIC Group will obtain the related authorization to manufacture and sell electric passenger vehicles within one year after the Listing Date (the "**New Energy Transition Period**"). Based on the discussions and negotiations between BAIC Group and us, our Company shall be responsible for the production and sales of electric passenger vehicles during the New Energy Transition Period (the "**New Energy Transition Period Arrangement**").

As part of the New Energy Transition Period Arrangement, we and New Energy entered into an arrangement in respect of our procurement of automobile parts and components and related assembly services from New Energy. During the production process, we will supply semi-finished vehicles to New Energy, it will then assemble power units and components (including batteries, electronic controlling systems and seats) into such semi-finished vehicles and subsequently deliver the fully assembled electric passenger vehicles to us for sale to end customers. We will pay New Energy a total sum representing (a) the procurement costs of such power units and components and (b) a service fee for providing such assembling services to us. For further details, see "Connected Transactions—Continuing Connected Transaction Relating to BAIC Group and Its Associates—Non-exempt Continuing Connected Transactions—4. Products and Services Purchasing Framework Agreement—Arrangement of purchasing new energy vehicle components and related assembly services during the New Energy Transition Period" in this prospectus.

As of the Latest Practicable Date, no research and development and production arrangements in relation to electric passenger vehicles after the New Energy Transition Period have been officially determined. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) with respect to any research and development and production arrangements in relation to electric passenger vehicles after the New Energy Transition Period.

Distribution network

Pursuant to the New Energy Transition Period Arrangement set out above, our Company shall be responsible for the sales of electric passenger vehicles during the New Energy Transition Period. As of the Latest Practicable Date, no sales arrangement in relation to electric passenger vehicles after the New Energy Transition Period has been officially determined. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) with respect to any sales arrangement in relation to electric passenger vehicles after the New Energy Transition Period.

Continuing connected transactions

For details of the aforementioned connected transactions during the New Energy Transition Period, see "Connected Transactions" of this prospectus.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

Our Directors are of the view that there are sufficient reasons for BAIC Group to retain New Energy at this stage. Technologies used by New Energy in automobiles are not yet mature and the sales of electric passenger vehicles, to a certain extent, rely on the favorable policies and subsidies of the government. This trend will remain in the foreseeable future. Therefore, the results and success of new energy vehicles will be subject to various uncertainties, many of which cannot be controlled by the Company. As a result, it is hard (if not impossible) to predict the future prospect and profitability of electric passenger vehicles in the foreseeable future.

Notwithstanding the aforementioned, our Directors do not exclude the possibility that our Company might consider acquiring New Energy after the Listing when opportunities became mature, such acquisition would be subject to full compliance with relevant requirements of the Listing Rules (including Chapter 14 and 14A of the Listing Rules) and the corporate governance measures adopted by our Company including procedures set out in the Non-Competition Undertaking as described below.

In addition, BAIC Group granted options for acquisitions and pre-emptive rights to the Company under the Non-Competition Undertaking as described below, through which the Company will benefit from the development of new energy vehicles. Therefore, our Directors are of the view that the exclusion of New Energy from the Company is in the best interest of our Company and its Shareholders at this stage.

6. ZHENJIANG MOTOR

Date of incorporation

Zhenjiang Motor was incorporated on September 25, 2013.

Ownership percentage by BAIC Group

BAIC Group currently owns an 85% equity interest in Zhenjiang Motor, with the remaining 15% equity interests held by Zhenjiang Motor Industry Investment Company Limited which is an Independent Third Party.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

As of the Latest Practicable Date, Zhenjiang Motor has not launched any production of vehicles. In the event that Zhenjiang Motor will produce any vehicles which directly or indirectly compete with us, it would be subject to the Non-Competition Undertaking and our Group is entitled to exercise an option to acquire Zhenjiang Motor (See "—Non-Competition Undertaking" below for more details). Therefore, our Directors believe that there would be very limited competition between Zhenjiang Motor and our Company.

7. YINXIANG MOTOR

Date of incorporation

Yinxiang Motor was incorporated on January 21, 2011.

Ownership percentage by BAIC Group

BAIC Group currently owns a 26% equity interest in Yinxiang Motor with the remaining equity interests held 25% by Chongqing Yinxiang Industry Group, 24.5% by Chongqing Yinxiang Investment Development Company Limited and 24.5% by Chongqing Yinxiang Trading Company Limited. To our best knowledge, the remaining shareholders of Yinxiang Motor are all Independent Third Parties.

Product focus

Yinxiang Motor is primarily engaged in the manufacturing of CUVs, MPVs, a small volume of SUVs and commercial vehicles.

Product/customer differentiation

As of the Latest Practicable Date, Yinxiang Motor does not possess its own distribution network of CUVs and MPVs; all the CUVs and MPVs produced by Yinxiang Motor were and are currently expected to continue to be distributed by BAIC Sales (a wholly-owned subsidiary of our Company) pursuant to the exclusive sales agency agreement (as detailed in "Business" in this prospectus), see the paragraph headed "—Distribution network" below for more details.

Financial performance

Based on the statutory audited accounts of Yinxiang Motor:

- The total assets of Yinxiang Motor were approximately RMB0.82 billion, RMB1.59 billion and RMB3.56 billion as of December 31, 2011, 2012 and 2013, respectively.
- The revenues of Yinxiang Motor were approximately nil, RMB16.9 million and RMB1,510.7 million for the years ended December 31, 2011, 2012 and 2013, respectively.
- The net losses of Yinxiang Motor were approximately RMB11.6 million, RMB68.7 million and RMB62.4 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Management independence

The current board of directors of Yinxiang Motor is comprised of five directors. It has one supervisor and its senior management is comprised of eight members. No directors, supervisors or senior management members of Yinxiang Motor hold any Director, Supervisor or senior management position in our Company. Therefore, there is no overlap in the management teams of Yinxiang Motor and our Company. Our Directors are of the view that Yinxiang Motor has sufficient managerial independence and thus is able to manage itself independently of our Company.

Financial independence

Yinxiang Motor operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between Yinxiang Motor and our Company.

Operational independence

Production facilities and research and development facilities

Yinxiang Motor has its own independent production facilities and research and development facilities. Save as disclosed in this prospectus, Yinxiang Motor and our Company currently do not expect to share the production facilities or research and development facilities with each other.

Distribution network

As mentioned above, as of the Latest Practicable Date, Yinxiang Motor does not possess its own distribution network of CUVs and MPVs. Pursuant to the exclusive sales agency agreement entered into between our Company and Yinxiang Motor, all of the CUVs and MPVs manufactured by Yinxiang Motor will be sold to us and branded by us under the Wevan product series for re-sale through our own distribution network (see "Business" in this prospectus for more details). Our Zhuzhou branch started to manufacture Wevan M20 in the third quarter of 2014. We plan to let Yinxiang Motor continue to produce a certain volume of Wevan M20, and we will continue to purchase and distribute Wevan M20 manufactured by Yinxiang Motor. See "Business—Manufacturing facilities and process—Arrangement with Yinxiang Motor" in this prospectus for details.

The following table sets out details of the CUVs and MPVs manufactured by Yinxiang Motor and distributed by us pursuant to the exclusive sales agency agreement during the Track Record Period:

			Sales volume for			
			the year ended December 31, (units)			six months ended June 30, (units)
Model	**Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)**	**Product Segment[(1)]**	**2011**	**2012**	**2013**	**2014**
Wevan (威旺) M20	43.8-63.8	MPV	—	—	12,933	37,598
Wevan (威旺) 206	32.3-38.3	CUV	—	—	1,350	329
Wevan (威旺) 205	29.8-35.8	CUV	—	—	30,927	20,074
		TOTAL	—	—	**45,210**	**58,001**

(1) According to classification by ACMR.

No continuing connected transactions

Given BAIC Group owns only 26% of Yinxiang Motor, Yinxiang Motor is not a connected person of our Company and therefore transactions between Yinxiang Motor and our Company will not be classified as connected transactions under the Listing Rules. The material transactions between our Group and Yinxiang Motor will primarily be under the exclusive sales agency agreement as mentioned above.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

In addition to Yinxiang Motor's reliance upon our distribution network which would effectively eliminate competition with our Company, the primary reason for its exclusion from our Company is that our Company would not consider acquiring Yinxiang Motor given that BAIC Group is not able to exert sufficient or effective control over Yinxiang Motor for its 26% (less than 50%) equity interests in Yinxiang Motor. Given the limited interest of BAIC Group in Yinxiang Motor and the latter does not constitute an associate of BAIC Group, Yinxiang Motor is not subject to the Non-Competition Undertaking.

8. CHANGHE MOTOR

Date of incorporation

Changhe Motor was incorporated on September 17, 2008.

Ownership percentage by BAIC Group

BAIC Group owns a 70% equity interest of Changhe Motor, with the remaining 30% owned by Jiangxi Provincial State-Owned Enterprise Assets Management (Holdings) Co., Ltd., an Independent Third Party.

Product focus

Mini passenger vehicles (A00)

Changhe Motor is mainly involved in the manufacturing of passenger vehicles, which include sedans, CUVs, SUVs and MPVs. Though there is an overlap of the core businesses of Changhe Motor and our Company, there is a clear distinction in terms of product focus between Changhe Motor and our Company. Set out below is a summary of the vehicles manufactured and sold by Changhe Motor for the years ended December 31, 2011, 2012 and 2013:

Model	Manufacturer's suggested retail price range as of the Latest Practicable Date (RMB'000)	Product Segment[1]	Sales volume for The year ended December 31, (units) 2011	2012	2013
Liana (利亞納) A6	55.9-80.9	Small-size sedan (A0)	—	—	—
Splash (派喜)	50.0	Small-size sedan (A0)	459	2,344	1,102
Liana a+ (利亞納 a+)	57.9-61.9	Small-size sedan (A0)	18,510	7,451	9,190
Ideal (愛迪爾)	34.9-36.9	Mini car (A00)	3,809	3,470	1,902
Plough (北斗星)	44.8-53.9	Mini car (A00)	58,158	70,886	71,735
Landy (浪迪)	49.8-50.8	CUV	4,956	2,753	1,882
Furuida (福瑞達)	28.8-47.8	CUV	32,700	24,224	11,383
Fuyun (福運)	43.8-45.8	CUV	1,366	2,337	1,470
		TOTAL	**119,958**	**113,465**	**98,664**

Source: ACMR

1 According to classification by ACMR.

As set out in the table above, Changhe Motor's key focus is the mini passenger vehicles (A00), which is clearly distinct from passenger vehicles of other categories in terms of appearance, size and targeted customers. The sales volume of Plough (北斗星) amounted to 58,158, 70,886 and 71,735 for the three years ended December 31, 2011, 2012 and 2013, representing approximately 48.5%, 62.5% and 72.7% of the vehicles sold by Changhe Motor during the same periods. By contrast, our Company, as of the Latest Practicable Date, does not manufacture vehicles within grade A00 segment. Therefore, there is a clear delineation of the core business focus between Changhe Motor and our Company.

Limited competition in small-size sedans and CUVs

Changhe Motor competes with us primarily in our small-size sedans (A0) and CUVs. Set out below is a comparison of the sales volumes of small-size sedans (A0) and CUVs sold by us and Changhe Motor for the years ended December 31, 2011, 2012 and 2013.

	Sales volumes for The year ended December 31, (units)		
	2011	**2012**	**2013**
Beijing Motor	10,016	67,020	179,248
Beijing Hyundai	158,082	208,163	199,065
Total	**168,098**	**275,183**	**378,313**
Changhe Motor	57,991	39,109	25,027

Source: ACMR and the Company

As illustrated above, in terms of sales volume of small-size sedans (A0) and CUVs, our Beijing Motor together with Hyundai brands significantly outnumbered Changhe Motor for the years ended December 31, 2011, 2012 and 2013. Therefore, we believe that there is only limited competition between Changhe Motor and our Company even in the A0 segment and CUVs.

Financial performance

Based on the statutory audited accounts of Changhe Motor:

- The total assets of Changhe Motor were approximately RMB5.21 billion, RMB5.03 billion and RMB3.86 billion as of December 31, 2011, 2012 and 2013, respectively.

- The revenues of Changhe Motor were approximately RMB5.37 billion, RMB4.38 billion and RMB3.90 billion for the years ended December 31, 2011, 2012 and 2013, respectively.

- Changhe Motor generated a net profit of approximately RMB5.2 million, and a net loss of approximately RMB91.6 million and RMB154.8 million, for the years ended December 31, 2011, 2012 and 2013, respectively.

Management independence

Changhe Motor's current board of directors is comprised of seven directors, its board of supervisors is comprised of four supervisors and its senior management is comprised of eight members. Among Changhe Motor's seven directors, only Mr. Xu Heyi, who acts as the chairman of the board of Changhe Motor, holds chairman of the Board and non-executive Director positions within our Company. No supervisors or senior management members of Changhe Motor holds any Director, Supervisor or senior management position within our Company. Therefore, there is limited overlap in the management teams of Changhe Motor and our Company. Our Directors are of the view that Changhe Motor has sufficient managerial independence and therefore is able to manage itself independently of our Company.

Financial independence

Changhe Motor operates independently from our Company. There are currently no outstanding borrowings or any other non-trade payables or receivables between Changhe Motor and our Company.

Operational independence

Changhe Motor operates independently from our Company. Specifically with respect to:

Production facilities and research and development facilities

Changhe Motor has its own independent production facilities and research and development facilities. We currently do not expect to share the production facilities or research and development facilities with each other.

Distribution network

Changhe Motor has established its own independent distribution network for the sale of their passenger vehicles. Changhe Motor therefore does not rely on us for the distribution of its passenger vehicles. We also do not rely on Changhe Motor to distribute any of our passenger vehicles.

No continuing connected transactions

Our Company does not expect there will be any continuing connected transactions with Changhe Motor after the Listing.

Particular reasons for exclusion and whether within scope of the Non-Competition Undertaking

As stated above, our Directors are of the view that there is only limited competition between Changhe Motor's A0 segment and CUVs and ours, given the significant difference in volume of production and sales and the clear distinction from our core business and product focus of passenger vehicles in terms of appearance, size and targeted customers. Meanwhile, our Directors are of the view that the products we offer to consumers are more popular with potential customers as reflected in the significantly higher sales volume of our Company in terms of the A0 segment and CUVs.

In addition, to our best knowledge and after due and careful inquiries, as of the Latest Practicable Date, Changhe Motor has not obtained proper land use right certificates and/or building ownership certificates for most of its plants. In light of the above reasons, there would be substantial hurdles for any subsequent operations if Changhe Motor were considered being acquired by our Company as part of the Reorganization.

In view of the above, our Directors believe that at this stage it is neither feasible nor commercially advisable to include the business of Changhe Motor into our Company.

Although engaged in competing businesses to a limited degree as disclosed above, Changhe Motor is within the scope of the Non-Competition Undertaking. Our Directors do not exclude the possibility that our Company might consider acquiring Changhe Motor after the Listing when the land and property defects are rectified and other opportunities became mature, however, such acquisition would be subject to full compliance with relevant requirements of the Listing Rules (including Chapter 14 and 14A of the Listing Rules) and the corporate governance measures adopted by our Company including procedures set out in the Non-Competition Undertaking as described below.

COMPETING INTERESTS OF DIRECTORS

Other than the positions in BAIC Group and the Excluded Companies held by our Directors as further disclosed in this prospectus, our Directors have confirmed that they do not have any interests in any business, which directly or indirectly competes or is likely to compete with our core businesses as of the Latest Practicable Date.

NON-COMPETITION UNDERTAKING

To avoid any actual or potential competition between the business of BAIC Group and our Company, BAIC Group undertakes on December 2, 2014 ("**Non-Competition Undertaking**") that, subject to certain exceptions and except as disclosed in this prospectus, BAIC Group shall not, and shall procure that its associates (other than Foton and members of our Group) not to engage in any business which directly or indirectly competes with the core businesses (design, research and development, manufacture and sale of passenger vehicles and provision of related services) carried on by the Company ("**Restrained Businesses**") within the period during which (a) the H Shares of our Group are listed on the Stock Exchange, and (b) BAIC Group and its associates are entitled to possess no less than 30% voting power or deemed to be the Controlling Shareholder of our Group ("**Restrained Period**").

The Non-Competition Undertaking above does not apply to the following circumstances:

- BAIC Group having interests in the shares of any member of our Group;
- BAIC Group having interests in the shares of a company other than our Group *provided that*:
  - (i) any Restrained Businesses conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of our Group's consolidated revenues and consolidated assets as shown in our Group's latest audited accounts;
  - (ii) BAIC Group and its associates are not entitled to appoint a majority of the directors of that company. In addition, that company shall at any time have at least one shareholder whose shareholding is more than the shareholding in aggregate owned by BAIC Group and its associates or that company is controlled by a third party; and
  - (iii) BAIC Group and its associates are not in control of the board of directors of that company.

Option for New Business Opportunities

BAIC Group has undertaken in the Non-Competition Undertaking that:

within the Restrained Period, if BAIC Group and its associates (other than Foton and members of our Group) become aware of, notice, are recommended or provided with a new business opportunity which will directly or indirectly compete with the Restrained Businesses, including but not limited to the opportunities which are the same with or similar to the Restrained Businesses ("**New Business Opportunities**"), BAIC Group shall and shall procure its associates (other than Foton and members of our Group) to refer or recommend the New Business Opportunities to our Group subject to relevant laws, requirements or contractual arrangements with third parties:

(i) BAIC Group shall provide our Group with a written notification which includes all reasonable and necessary information known by the BAIC Group and/or its associates (including the nature of the New Business Opportunities and necessary information relating to the cost of relevant investment or acquisition) for our Group to consider (a) whether the New Business Opportunities constitute competition or potential competition to the Restrained Businesses; and (b) whether engaging in such New Business Opportunities would be in the best interests of our Group (the "**Offer Notice**"); and

(ii) our Group shall respond to BAIC Group and/or its associates (other than Foton and members of our Group) within 30 days upon receipt of the Offer Notice. If our Group fails to reply to BAIC Group and/or its associates (other than Foton and members of our Group) within the above period, it shall be deemed to have abandoned the New Business Opportunities. If our Group determines to take up the New Business Opportunities, BAIC Group and/or its associates (other than Foton and members of our Group) would be obligated to offer such New Business Opportunities to our Group.

Pre-emptive Rights

BAIC Group has undertaken that:

within the Restrained Period, if it and/or its associates (other than Foton and members of our Group) intend(s) to transfer, sell, lease or license loyalties to a third party any businesses engaged by BAIC Group and/or its associates (other than Foton and members of our Group) which competes or potentially competes with the Restrained Businesses or any other businesses which would cause direct or indirect competition with the Restrained Businesses, it shall offer our Group the pre-emptive right in terms of such opportunity with the equal terms subject to relevant laws, requirements or contractual arrangements with third parties:

(i) BAIC Group and/or its associates (other than Foton and members of our Group) shall provide our Group with written notice no later than the time of any such disposals ("**Disposal Notice**"). For the avoidance of doubt, BAIC Group and/or its associates (other than Foton and members of our Group) is entitled to provide information and/or Disposal Notice to any third parties at the same time or after providing the Disposal Notice to our Group;

(ii) our Group shall reply to BAIC Group and/or its associates in writing within, whichever the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to third parties for them to reply by BAIC Group and/or its associates before exercising its pre-emptive rights;

(iii) if our Group intends to take up such pre-emptive rights, the terms shall be determined with reference to fair market price; and

(iv) BAIC Group and/or its associates (other than Foton and members of our Group) shall not dispose of such businesses and interests to any third parties unless (a) our Group declines to purchase such businesses and interests in writing; (b) the notice of exercising such pre-emptive rights has not been received by BAIC Group and/or its associates from our Group within, whichever the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to third parties for them to reply by BAIC Group and/or its associates; or (c) our Group fails to offer the same or more favorable terms of acquisitions than those offered by any third parties to BAIC Group and/or its associates (other than Foton and members of our Group).

For the avoidance of doubt, the terms of disposal offered by BAIC Group and/or its associates (other than Foton and members of our Group) to any third parties shall not be more favorable than those offered to our Group.

Option for Purchase

Within the Restrained Period, on the condition that no relevant laws and regulations are breached and agreements with third parties are complied with, our Group is entitled to acquire any businesses operated by BAIC Group and/or its associates (other than Foton and members of our Group) which competes or potentially compete with the Restrained Businesses or any businesses or any interests of BAIC Group and/or its associates (other than Foton and members of our Group) which are gained through the New Business Opportunities ("**Option for Purchase**"). Our Group is entitled to exercise the Option for Purchase at any time, and BAIC Group and/or its associates (other than Foton and members of our Group) shall base on below conditions to offer the Option for Purchase to our Group:

The commercial terms of the proposed acquisition shall be formed solely by the committee consisting of our independent non-executive Directors after consulting the views of independent experts. Furthermore, such commercial terms shall be based on negotiation between the parties in line with normal commercial practice of our Group which is fair, reasonable and in compliance with the interests of our Group as a whole, as in accordance with the negotiations with BAIC Group and its associates.

However, if a third party has the pre-emptive rights in accordance with applicable laws and regulations and/or a prior legally binding document (including, but not limited, to articles of association and/or shareholders' agreements), Options for Purchase of our Group shall be subject to such third-party rights. In such a case, BAIC Group and/or its associates (other than Foton and members of our Group) will use their best efforts to persuade the third party to waive its pre-emptive rights.

BAIC Group's Further Undertaking

BAIC Group has further undertaken that, subject to relevant laws, requirements or contractual arrangements with third parties:

(i) upon the request of our Group, it shall and shall procure its associates (other than Foton and members of our Group) to provide any necessary information for the implementation of the Non-Competition Undertaking;

(ii) it would allow the authorized representatives or auditors of our Group to have reasonable access to the financial and corporate information necessary to its transactions with third parties, which would assist with the judgments of our Group in respect of whether BAIC Group and/or its associates have complied with this Non-Competition Undertaking; and

(iii) it would ensure that within 10 days of receipt of the written request from our Group, necessary confirmation shall be made in writing as to BAIC Group's and its associates' performance under the Non-Competition Undertaking and BAIC Group and its associates shall allow such confirmation to be included into the annual reports of our Group.

Corporate measures in relation to the implementation of the Non-Competition Undertaking

Our Company will also adopt the following procedures to ensure that the undertakings under the Non-Competition Undertaking are observed:

(i) *Review by independent non-executive Directors*—our independent non-executive Directors will be responsible for reviewing the options for New Business Opportunities, pre-emptive rights and Option for Purchase granted by BAIC Group, and deciding whether or not to take up business opportunities as referred to in the Offer Notice, Disposal Notice and/or the Option for Purchase. In deciding whether to take such business opportunities, our independent non-executive Directors will consider various factors including the due diligence to be conducted towards the target businesses, the purchase prices, the benefits that it will bring to our Group as well as whether we have adequate management and resources to manage and operate the business operations of such businesses.

(ii) *Increased transparency*—BAIC Group has undertaken to provide all information necessary for the enforcement of the options for New Business Opportunities, pre-emptive rights and Option for Purchase. We will provide our independent non-executive Directors with the Offer Notice and Disposal Notice (as the case may be) on the new business opportunity or pre-emptive rights referred to us by BAIC Group within seven days of receipt, and our independent non-executive Directors would be allowed to propose the exercise of the Option for Purchase at any time.

(iii) *Public disclosure of decisions*—our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the exercise or non-exercise of options for New Business Opportunities, pre-emptive rights and Option for Purchase either through our annual report, or by way of announcements to the public. Our independent non-executive Directors will report in our annual report (a) their findings on the compliance by BAIC Group of the Non-Competition Undertaking and (b) any decision made pursuant to the options and pre-emptive rights granted to the Company, and the basis of such decision.

Our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to take up new business opportunities or exercise our pre-emptive rights. In any event, our independent non-executive Directors may appoint a financial adviser or professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the option or pre-emptive rights under the Non-Competition Undertaking.

Termination of the Non-Competition Undertaking

The Non-Competition Undertaking will become effective upon Listing and remain in full force. It will be terminated upon the earlier of:

(i) BAIC Group and its associates (other than Foton and members of our Group), individually or, directly and/or indirectly in aggregation, holding less than 30% of the voting rights or control of exercising voting rights in any shareholders' meeting; and

(ii) our H Shares no longer being listed on the Stock Exchange (except for the circumstances under which our H Shares are temporarily suspended to be listed in accordance with the Listing Rules).

Based on the legally binding obligations of BAIC Group as set out in the Non-Competition Undertaking and the related grant of the option for new business opportunities, pre-emptive rights and option for purchase, and the information sharing and other mechanisms in place as described above to monitor compliance by BAIC Group, our Directors are of the view that our Company has taken all appropriate and practicable measures to ensure compliance by BAIC Group with its obligations under the Non-Competition Undertaking.

INDEPENDENCE FROM BAIC GROUP

Having considered the following factors, our Directors are satisfied that we can conduct our business independently from BAIC Group and its associates after the Global Offering.

Operational Independence

Save as disclosed in details in the discussion of each of BAIC Group's interest in the Excluded Companies above:

- We are in possession of all production and operating facilities and technology relating to our Company's core business. Currently, we engage in our Group's core business independently, with the autonomous right to make and implement operational decisions. We have independent access to customers and suppliers and, except for otherwise disclosed in "Connected Transactions," we are not reliant on BAIC Group with respect to supplies for our business operations or distribution networks. We have sufficient capital, equipment and employees to operate our business independently from BAIC Group.

- We have our own organizational structure with self-governing departments, each with specific areas of responsibility. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. We have adopted protective measures to ensure the enforceability of the Non-Competition Undertaking with BAIC Group. See "—Non-Competition Undertaking" in this section for details. We have also adopted a set of corporate governance manuals such as rules of the shareholders' meeting, rules of the board meeting, and rules of the Board of Supervisors, which are based on relevant laws, rules and regulations.

- Our Company has entered into certain continuing connected transactions with BAIC Group, pursuant to which BAIC Group and/or its associates may provide services or commodities to our Group or vice versa. During the Track Record Period, our Group's sales (the historical amounts of transactions in respect of the Provision of Products and

General Services (as defined in "Connected Transactions—Continuing connected transactions relating to BAIC Group and its associates—Non-exempt continuing connected transactions—5. Provision of Products and Services Framework Agreement" in this prospectus) for the years ended December 31, 2011, 2012 and 2013) to BAIC Group and its associates accounted for approximately 2.4%, 6.5% and 4.8% of our Group's total amount of sales during the same periods; while our Group's purchases (the historical amounts of transactions in respect of the Purchase of Products and General Services (as defined in "Connected Transactions—Continuing connected transactions relating to BAIC Group and its associates—Non-exempt continuing connected transactions—4. Products and Services Purchasing Framework Agreement" in this prospectus) for the years ended December 31, 2011, 2012 and 2013) from BAIC Group and its associates accounted for approximately 25.3%, 43.5% and 28.1% of our Group's total amount of cost of sales and expenses during the same periods. Considering, among others, that (1) the mutual provision of services and commodities between BAIC Group and/or its associates, and our Group, have been and will continue to be on a non-exclusive basis with fair and reasonable terms negotiated on arm's length basis, and (2) though such services and/or commodities are readily available from independent third parties as appropriate, BAIC Group , by understanding our business and operational requirements well, could efficiently fulfill our requirements with stable supply of products and general services with high quality and thus are in the best interest of our Company and its Shareholders as a whole, our Directors believe that despite the continuation of the connected transactions, we will be able to function and operate autonomously from BAIC Group as we do not expect to place undue reliance on BAIC Group in respect of the continuing connected transactions after the Listing.

In addition, our Directors are of the view that the increasing annual caps would not increase our Group's level of reliance on BAIC Group. As elaborated in "Connected Transactions" of this prospectus, the estimated annual caps are linked to and ultimately resulted from the business expansion plan of our Group. The historical amounts and estimated annual caps of the connected transactions during the Track Record Period and for the years ending December 31, 2014, 2015 and 2016, as percentages of the Group's total and estimated total revenues or costs of sales and expenses, as the case may be, are at similar level.

- We have secured the long-term use of BAIC Group's certain trademarks and technologies by entering into a trademark and technology licensing framework agreement with BAIC Group, pursuant to which, BAIC Group has granted us a license to use various trademarks and technologies owned by BAIC Group for an initial term which would commence on the Listing Date and end on December 31, 2016, subject to renewal through mutual consents by the relevant parties. We believe the trademark and technology licensing framework agreement is fair and reasonable and in the interest of our Shareholders as a whole. Our Directors are of the view that there is no risk for us to use the trademarks and technologies during our operations for the following reasons: (1) although the trademarks and technologies are not currently registered by the Group, BAIC Group has undertaken to grant the Group the right to use the trademarks and technologies for an initial term which would commence on the Listing Date and end on December 31, 2016, subject to renewal through mutual consents by the relevant parties, and on a repetitive basis as long as BAIC Group remains the Controlling Shareholder of the Company; and (2) although the trademarks and technologies are licensed to the Group on a non-exclusive basis, all the other licensees are intra-group companies of BAIC Group.

Based on the above, our Directors are of the view that the Company operates independently from BAIC Group.

Financial Independence

We have established our own finance department with a team of independent financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of our Company independent from BAIC Group.

We can make financial decisions independently and BAIC Group does not interfere with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we maintain bank accounts with banks independently and BAIC Group does not share any bank accounts with us. We have made independent tax registration in accordance with applicable laws, and paid tax independently pursuant to applicable PRC tax laws and regulations, rather than on a combined basis with BAIC Group or other enterprises under its control.

We have sufficient capital to operate our business independently, and we are capable of obtaining financing from third parties without relying on any guarantee or security provided by BAIC Group or other connected persons. In particular, we have obtained credit facilities from independent commercial banks without any assistance, guarantee or security from BAIC Group. See "Financial Information—Liquidity and Capital Resources" of this prospectus for details. Moreover, we have established long-term relationships with relevant PRC commercial banks from which we are able to obtain banking facilities on competitive terms to fund our business operations and expansions. Therefore, we operate independently from BAIC Group from a financial perspective.

In addition, we have been receiving financial services from BAG Finance (a subsidiary of BAIC Group), including deposits, loans, discounted notes services and other financial services (see "Connected Transactions" in this prospectus for more details), which will continue to be provided by BAG Finance to our Group after the Listing. Taking into account that (i) the amount of such financial services is and will continue to be considerably limited compared to the actual and estimated scale of needs for financial services by the Company, (ii) the arrangement of financial services within PRC state-owned enterprises is common, (iii) the financial services from BAG Finance to us are and will continue to be on normal commercial terms, (iv) our Group has a record of fund raising on a stand-alone basis without any credit support from BAIC Group, (v) our Group has received firm offers from a number of independent financial institutions to provide generally equivalent finance facilities, on a stand-alone basis, which is sufficient to refinance our loans from BAG Finance, (vi) our Group has a strong financial position with our business operations in a relatively matured and developed market, and (vii) the premature release of BAG Finance's financial assistance would not be commercially sound or practical in the prevailing economic climate where financial institutions might be more likely to impose stricter or less favorable terms for banking facilities on our Group which would in turn be detrimental to the best interest of our Shareholders as a whole, our Directors are of the view that the financial services provided by BAG Finance would not affect our financial independence from BAIC Group and that we operate independently from BAIC Group from a financial perspective.

Management Independence

Our Company is capable of managing our businesses independently from BAIC Group.

All the directors of BAIC Group are designated by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality with an exception of an employee representative director. For our Company, Directors are nominated by the Shareholders and must be approved by the Shareholders by ordinary resolutions at general meetings.

Upon the Listing, our Board will consist of fifteen directors, five of whom will continue to hold positions within BAIC Group after the Listing. Most of our Directors and senior management have broad experience in managing automobile manufacturing businesses. Set forth below is a table summarizing the identities of the five Directors who will continue to hold positions within BAIC Group and its subsidiaries after the Listing and their respective major positions in our Group and BAIC Group as well as its subsidiaries.

Name	Major positions in our Group	Major positions within BAIC Group and its subsidiaries
Mr. Xu Heyi	● Chairman of the Board, the secretary of the party committee and non-executive Director of the Company ● Chairman of the board of Beijing Benz ● Chairman of the board of BAIC Hong Kong ● Chairman of the board of directors of BAIC Investment	● Chairman of the board and the secretary of the party committee of BAIC Group
Mr. Zhang Xiyong	● Non-executive Director of the Company	● Director, member of the standing committee of the party committee and general manager of BAIC Group ● Chairman of the board of directors of Beijing BAIC Rocar Automobile Services & Trade Co., Ltd. (北京北汽鵬龍汽車服務貿易股份有限公司) ● Executive director of Beijing Automobile International Development Co., Ltd. (北京汽車國際發展有限公司)
Mr. Li Zhili	● Non-executive Director, deputy secretary of the party committee and secretary of discipline committee of the Company	● Director, the deputy secretary of the party committee and the secretary of the discipline committee of BAIC Group
Mr. Li Feng	● Executive Director, president and deputy secretary of the party committee of the Company ● Director of Beijing Benz	● A director and member of the standing committee of the party committee of BAIC Group

Name	Major positions in our Group	Major positions within BAIC Group and its subsidiaries
Mr. Ma Chuanqi	● Non-executive Director of the Company ● Director of BAIC Investment ● Chairman of the board of directors of Beijing Hainachuan Investment Co., Ltd. ● Director of Beijing Benz ● Director of BAIC Hong Kong	● Director and the chief financial officer of BAIC Group ● Chairman of the board of directors and secretary of the party committee of BAG Finance

For technical knowledge, expertise and experience of the overlapping Directors, see section "Directors, Supervisors, Senior Management and Employees" of this prospectus for more details. None of our independent non-executive Directors has any relationship with BAIC Group other than allowed under Rule 3.13 of the Listing Rules. Therefore, there are sufficient non-overlapping directors who are independent and have relevant experience to allow the proper functioning of the Board.

Save for that Mr. Zhang Yuguo, a supervisor of our Company, also serves as the supervisor of BAIC Group as appointed by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, upon the Listing, none of our Supervisors serves as the directors, supervisors or senior management of BAIC Group. Among the 12 senior management members, except for Mr. Li Feng and Mr. Zhang Hui who serve as the directors of BAIC Group (Mr. Zhang Hui serves as a director representing the employees of BAIC Group), there is no other overlap of directors, supervisors and senior management of our Group with BAIC Group.

We believe that our Directors and senior management will be able to perform their roles in the Company independently and that the Company is capable of managing its business independently of BAIC Group after the Listing for the following reasons:

- 10 out of 15 members of the Board do not hold any director, supervisor of senior management position in BAIC Group. It is the Board as a whole, and not any individual Director, that makes decisions for our Company pursuant to the Articles of Association;
- the decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflict of interest by providing, among other things, that in the event of a conflict of interest, such as a consideration of resolutions in relation to connected transactions with BAIC Group, the relevant Director who is connected with BAIC Group shall abstain from voting and will not be counted in the quorum. Further, when considering connected transactions, our independent non-executive Directors will review the relevant transactions;
- the day-to-day operation of our Company is not only managed by our executive Director, but also by its senior management, who are all full time employees of our Company. Our executive Director together with the senior management are the core management team of our Company;
- none of our Directors, Supervisors or members of senior management have any shareholding interests in BAIC Group;
- each of our Directors is aware of his fiduciary duties as a director, which requires, among other things, that he acts for the benefit and in the best interests of our Company;

- out of the 10 Directors who are not independent non-executive Directors, five are nominated by BAIC Group and the remaining five are nominated by other Shareholders including Daimler AG, Shougang Limited, BSAMAC and Beijing Energy Investment, all of which (except for BSAMAC) are independent of BAIC Group; and
- we have appointed five independent non-executive Directors, comprising one third of the total Board members, to provide a balance in the number of interested and independent Directors with a view to promote the interests of the Company and our Shareholders as a whole.