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China ZhengTong Auto Services Holdings Limited

中國正通汽車服務控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1728)

PROPOSED ISSUE OF BONDS

The Company proposes to conduct an international offering of the Bonds to professional investors only. The Proposed Bonds Issue will only be offered to persons outside the United States in reliance on Regulation S under the U.S. Securities Act. Payments of principal and interest in respect of the Bonds will have the benefit of an irrevocable standby letter of credit issued by Bank of China, Macau Branch.

J.P. Morgan is the Sole Global Coordinator of the Proposed Bonds Issue. J.P. Morgan and Credit Suisse are the Joint Bookrunners and Joint Lead Managers of the Proposed Bonds Issue. Pricing of the Bonds will be determined through a book building exercise to be coordinated by the Joint Bookrunners. As at the date of this announcement, the principal amount, the interest and other terms and conditions of the Proposed Bonds Issue are yet to be determined. Upon finalisation of the terms of the Proposed Bonds Issue, the Company and J.P. Morgan and Credit Suisse, as the Joint Bookrunners and Joint Lead Managers, are expected to enter into a subscription agreement and other ancillary documents in relation to the Proposed Bonds Issue.

The Company intends to use all the net proceeds to repay a portion of the Bridge Loan Facilities. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, the Company intends to deposit the net proceeds into short-term demand deposits with authorised financial institutions.

In connection with the Proposed Bonds Issue, the Company will provide certain professional investors with certain corporate and financial information regarding the Group, which information may not necessarily have been made public previously. For purposes of equal, effective and timely dissemination of information to shareholders and investment community, an extract of such information is attached to this announcement, and a copy of this announcement will be available on the Company's website at www.zhengtongauto.com.

The Company will seek a listing of the Bonds on the Stock Exchange. A confirmation of eligibility for listing of the Bonds has been received from the Stock Exchange. A listing of the Bonds on the Stock Exchange is not to be taken as an indication of the merits of the Company, or the Bonds.

As no binding agreement in relation to the Proposed Bonds Issue has been entered into as at the date of this announcement, the Proposed Bonds Issue may or may not materialise. Completion of the Proposed Bonds Issue is subject to a number of conditions, including but not limited to global market conditions and investor interest. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement(s) in respect of the Proposed Bonds Issue will be made by the Company as and when appropriate.

THE PROPOSED BONDS ISSUE

Introduction

The Company proposes to conduct an international offering of the Bonds to persons outside the United States in reliance on Regulation S under the U.S. Securities Act. Payments of principal and interest in respect of the Bonds will have the benefit of an irrevocable standby letter of credit issued by Bank of China, Macau Branch.

Completion of the Proposed Bonds Issue is subject to, among others, global market conditions and investor interest. J.P. Morgan is the Sole Global Coordinator of the Proposed Bonds Issue. J.P. Morgan and Credit Suisse are the Joint Bookrunners and Joint Lead Managers of the Proposed Bonds Issue. Pricing of the Bonds will be determined through a book building exercise to be coordinated by the Joint Bookrunners. As at the date of this announcement, the principal amount, the interest and other terms and conditions of the Proposed Bonds Issue are yet to be determined. Upon finalisation of the terms of the Proposed Bonds Issue, the Company and J.P. Morgan and Credit Suisse, as the Joint Bookrunners and Joint Lead Managers, are expected to enter into a subscription agreement and other ancillary documents in relation to the Proposed Bonds Issue.

The Bonds have not been, and will not be, registered under the Securities Act. The Bonds are being offered only outside the United States in reliance on Regulation S under the Securities Act. None of the Bonds will be offered to the public in Hong Kong.

In connection with the Proposed Bonds Issue, the Company will provide certain professional investors with certain corporate and financial information regarding the Group, which information may not necessarily have been made public previously. For purposes of equal, effective and timely dissemination of information to shareholders and investment community, an extract of such information is attached to this announcement, and a copy of this announcement will be available on the Company's website at www.zhengtongauto.com.

Proposed Use of Proceeds

The Company intends to use all the net proceeds to repay a portion of the Bridge Loan Facilities. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, the Company intends to deposit the net proceeds into short-term demand deposits with authorised financial institutions.

Listing

The Company will seek listing of the Bonds on the Stock Exchange. A confirmation of eligibility for listing of the Bonds has been received from the Stock Exchange. A listing of the Bonds on the Stock Exchange is not to be taken as an indication of the merits of the Company or the Bonds.

General

As no binding agreement in relation to the Proposed Bonds Issue has been entered into as at the date of this announcement, the Proposed Bonds Issue may or may not materialise. Completion of the Proposed Bonds Issue is subject to a number of conditions, including but not limited to global market conditions and investor interest. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcement(s) in respect of the Proposed Bonds Issue will be made by the Company as and when appropriate.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Bonds”	the US\$ denominated credit enhanced bonds proposed to be issued by the Company
“Bridge Loan Facilities”	the initial facilities consisting of US\$50.0 million and HK\$930.0 million and a greenshoe facility of up to US\$200.0 million granted to the Company by certain lenders pursuant to a loan agreement dated 16 August 2012 among the Company, certain guarantors and Credit Suisse AG, Singapore Branch, acting as the facility agent, which was amended and supplemented by a supplemental agreement dated 11 December 2012
“Company”	China Zhengtong Auto Services Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Credit Suisse”	Credit Suisse Securities (Europe) Limited
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“J.P. Morgan”	J.P. Morgan Securities plc
“Joint Bookrunners” or “Joint Lead Managers”	J.P. Morgan and Credit Suisse, the joint bookrunners and joint lead managers in respect of the offer and sale of the Bonds

“Proposed Bonds Issue”	the proposed issue of the Bonds as described in this announcement
“Securities Act”	the United States Securities Act of 1933, as amended
“Sole Global Coordinator”	J.P. Morgan, the sole global coordinator in respect of the offer and sale of the Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“United States”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States

For and on behalf of the Board of Directors
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Muqing
Chairman

Hong Kong, 3 September 2013

As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman) as a non-executive Director; Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. CHEN Tao and Mr. SHAO Yong Jun as executive Directors; and Dr. WONG Tin Yau, Kelvin, Mr. TAN Xiangyong and Mr. ZHANG Yansheng as independent non-executive Directors.

APPENDIX

EXTRACT OF OFFERING CIRCULAR

As used in this appendix to this announcement, references to “we”, “us”, “our” and the “Company” are to China ZhengTong Auto Services Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and its subsidiaries, as the context requires. The term “our Group”, refers to China ZhengTong Auto Services Holdings Limited and its subsidiaries.

In this appendix, unless otherwise specified or required by the context, the following expressions shall have the meanings indicated.

“ACMR”	All China Marketing Research Co. Ltd.
“automobile manufacturer”	a manufacturer of automobiles, its affiliates and agents
“Bridge Loan Facilities”	The initial facilities consisting of US\$50.0 million and HK\$930.0 million and a greenshoe facility of up to US\$200.0 million granted to our Company by certain lenders pursuant to a loan agreement dated 16 August 2012 among our Company, certain guarantors and Credit Suisse AG, Singapore Branch, acting as the facility agent, which was amended and supplemented by a supplemental agreement dated 11 December 2012
“BVI”	British Virgin Islands
“Contractual Arrangements”	our historical Contractual Arrangements which are in the process of being terminated as described under the section headed “Corporate Structure of the Group – Termination of Our Contractual Arrangements” in this document
“PRC Legal Advisors”	Jingtian & Gongcheng, PRC legal advisors to the Company
“pre-owned automobile”	a used automobile that has one or more prior owners
“Qingdao Huacheng”	青島華成汽車服務有限公司 (Qingdao Huacheng Automobile Services Co., Ltd.*), a company incorporated in the PRC and an indirect wholly owned subsidiary of our Company
“SAIC”	the State Administration of Industry and Commerce of the PRC (國家工商行政管理總局)

“SCAS Acquisition”	the acquisition of Top Globe Limited by our Company at a consideration of RMB5.5 billion pursuant to terms and conditions of a share purchase agreement dated 23 August 2011 entered into by, among others, our Company and Exactwin Limited, a company incorporated in the BVI, which was completed in December 2011
“SCAS Group”	the group of companies acquired by our Company under the SCAS Acquisition
“Shantou Hongxiang”	汕頭市宏祥物資有限公司 (Shantou Hongxiang Materials Co., Ltd.*), a company incorporated in the PRC under the Contractual Arrangements with us as of the date of this document
“Top Globe”	Top Globe Limited (同方有限公司), a BVI Business Company incorporated with limited liability in the BVI and a direct wholly owned subsidiary of our Company
“United States” or “U.S.”	the United States of America
“4S”	sales, spare parts, service and survey
“%”	per cent.

* *The English name of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.*

KEY RECENT DEVELOPMENTS

Expansion of Dealership Network

Since 30 June 2013 and till the date of this document, we opened one new Mercedes-Benz repair and maintenance centre in Shenzhen, Guangdong, which is the largest Mercedes-Benz repair and maintenance centre in Southern China. As such, we increased our total number of outlets from 87 as at 30 June 2013 to 88 as at the date of this document.

Post-Acquisition Integration of SCAS Group

Since the SCAS Acquisition in December 2011, we have completed the integration of all the subsidiaries we acquired under the SCAS Acquisition by synchronising the financial and business records, dealership network, procurement of automobile accessories and customer relationships, as well as assimilating the personnel of the subsidiaries we acquired. Such successful integration has helped us to achieve significant growth in respect of financial performance:

Our growth in turnover and gross profit in 2012 was primarily attributable to our full consolidation of the financial statements of SCAS Group in 2012 whereas such consolidation in 2011 was only for less than one month after the completion of the SCAS Acquisition in December 2011. Our turnover increased by RMB13,205.5 million, or 91.4%, from 2011 to 2012, of which RMB10,754.8 million was contributed by subsidiaries acquired under the SCAS Acquisition. Our gross profit increased by RMB1,066.3 million, or 77.0%, from 2011 to 2012, of which RMB993.0 million was contributed by subsidiaries acquired under the SCAS Acquisition.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We depend on automobile manufacturers as suppliers of our new automobiles and spare parts, for the rights to operate our outlets and as customers of our other businesses

As at the date of this document, 18 of our dealership agreements have expired and we are in the process of renewing these dealership agreements.

There can be no assurance that we will continue to receive incentive rebates from automobile manufacturers

Our purchase arrangements with automobile manufacturers often include purchase volume or sales-based incentive rebates, which are decided with reference to the number of new automobiles we purchase or sell, and adjusted based on our completion of certain targets set by the relevant automobile manufacturers, including customer satisfaction indexes and dealership retail standards. Historically incentive rebates from automobile manufacturers have increased our gross profit margin by reducing our cost of sales. The percentages of the aggregate incentive rebates we received from automobile manufacturers to our total turnover for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 ranged from 5.5% to 8.9%. There can be no assurance that automobile manufacturers will continue to offer incentive rebates to us. Should some or all automobile manufacturers cease to offer such rebates, or alter the conditions by which such rebates are granted, our results of operations and financial condition, in particular, our profitability, may be materially and adversely affected.

We do not have valid title or rights to use certain properties and the required permits for construction and development on certain properties occupied by us

Properties occupied by our Group primarily comprise outlets, logistics facilities, warehouses and ancillary buildings and offices. We are currently in the process of applying for title ownership certificates, and converting certain state-owned allocated land or collectively-owned land into state-owned transferrable land as required under PRC laws in order for the land use rights of those properties to be transferred to us. As at the date of this document, such land and properties that were subject to defects in title accounted for approximately 12.3% of the aggregate size of the land lots and approximately 48.9% of the aggregate gross floor area of the properties, in each case owned by our subsidiaries that were engaged in dealership business. Our failure to obtain the title ownership certificates to such properties may require us to seek alternative premises for our business operations, which may lead to disruptions in our business operations and may adversely and materially affect our business, results of operations and financial condition.

With respect to some of our leased properties, we had not been provided with title ownership certificates or documents evidencing that the relevant lessors have requisite titles or rights to lease the properties to us. A lessor's failure to duly obtain title to properties leased to us might potentially invalidate our lease agreements. We also failed to obtain lease permits for certain of our leased properties. In addition, some of properties leased by us are not authorised to be used as 4S dealership operations and some of the properties leased by our subsidiaries are temporary construction that may be demolished by PRC authorities. As at the date of this document, approximately 63.6% of the aggregate size of the land lots and approximately 63.0% of the aggregate gross floor area of the properties, in each case leased by our subsidiaries that were engaged in dealership business, was subject to defects in title.

We have certain title defects in certain equity interests we have acquired

When Qingdao Huacheng was established, one of its shareholders paid its capital contribution through intangible property without undertaking asset valuation and verification steps as required by PRC laws. Although we have not received any order or notice from any governmental authorities or other parties to challenge the capital contribution of such equity interest and additionally, the latest annual inspection procedures as required by the local branch of SAIC have been completed by Qingdao Huacheng, the relevant governmental authority may determine that the capital contribution has not been fully paid and we may be required by the relevant authority to pay such capital contribution in the amount of RMB7.4 million, together with any fines that may be imposed under the PRC laws up to RMB1.11 million.

We rely on Contractual Arrangements to operate one PRC operating entity, which may subject us to uncertainties in the operation of its business

As at the date of this document, we had Contractual Arrangements with one PRC operating entity, namely Shantou Hongxiang, which operated one Audi dealership store. For the six months ended 30 June 2013, this entity contributed approximately 2.2% of our total turnover, 2.7% of our total net profit, and 2.0% of our total assets. We are in the process of terminating the Contractual Arrangements with this operating entity. However, there is no assurance that we can complete such conversion in a timely manner, if at all, and therefore the Contractual Arrangements with this entity may remain.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will continue to enable us to capitalize on future growth opportunities.

Leading automobile dealership group with focus on the luxury and ultra-luxury brand segments

As purchasers of luxury and ultra-luxury automobiles are generally less price sensitive, and more likely to procure optional add-ons to their automobiles or utilise after-sales services, the potential profits from the sale of a luxury or ultra-luxury branded automobile exceed and are more stable than those from the sale of a middle market or low-end branded automobile. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, luxury and ultra-luxury brands accounted for 85.5%, 85.8%, 97.3% and 96.6% of our gross profit for new automobile sales, respectively, and 65.7%, 77.2%, 82.5% and 83.8% of gross profit for after-sales services, respectively.

Nationwide dealership network covering affluent coastal regions as well as developing inland regions, driving continued growth

Our well-balanced, wide dealership network has also helped us become less dependent on a single provincial region, with revenue and gross profit contribution from a large area of regions we serve. For the six months ended 30 June 2013, the turnover from affluent or coastal regions (consisting of Beijing, Guangdong, Shanghai, Shandong, Tianjin, Hainan and Fujian) accounted for approximately 59.6% of our total turnover, while that from high-growth central and western regions (consisting of Inner Mongolia, Shanxi, Hunan, Hubei, Jiangxi) accounted for the remaining approximately 40.4% of our total turnover. During the same period, the gross profit from affluent or coastal regions accounted for approximately 60.9% of our total gross profit, while that from high-growth central and western regions accounted for the remaining approximately 39.1% of our total gross profit.

Strong and well-established relationship with automobile manufacturers ensures our strong market position

In December 2011, we completed the acquisition of SCAS Group, which according to ACMR, was the second largest dealer group for Land Rover/Jaguar and the largest dealership group for Volvo in China by the number of 4S dealership store as at February 2012. SCAS Group was also the chief selling agent of Land Rover/Jaguar and Volvo in China from 1998 and 2010, through which we have established and maintained sound relationships with Land Rover/Jaguar and Volvo. After the SCAS Acquisition, we have remained a market leader in distributing Land Rover/Jaguar and Volvo. As at 31 December 2012, we operated 12 Land Rover/Jaguar outlets in Beijing, Inner Mongolia, Hunan, Fujian, Guangdong, Hainan and Shandong, and 17 Volvo outlets in Beijing, Tianjin, Guangdong, Fujian, Hunan and Henan, making us the largest Volvo dealership group and a leading Land Rover/Jaguar dealership group in China in terms of number of outlets, according to ACMR.

Comprehensive and well-diversified automobile brand portfolio

A comprehensive brand portfolio can best attract a first-time purchaser who may want to compare different luxury brands and models, and retain existing customers who may consider an upgrade or purchase a second car. Our well-diversified brand portfolio allows us to be less reliant on any single brand and achieve more stable growth. Sales of new automobiles of BMW/MINI, our largest revenue contributing brand, accounted for 28.4% and 30.0% of our total turnover generated from sales of new automobiles for the year ended 31 December 2012 and the six months ended 30 June 2013, respectively, which decreased from 50.8% in 2011.

OUR STRATEGIES

Consolidate and enhance our leading position in the luxury brand dealership market in China

We intend to enhance our footprint in Central China, the Pearl River Delta, the Yangtze River Delta, Bohai Rim and Chengdu-Chongqing Economic Zone. We seek to pursue our expansion plans through both organic growth and acquisition of other dealerships, in particular, dealerships complementary to our existing brand portfolio and geographical coverage. We believe that our in-depth experience and expertise in the luxury dealership markets will enable us to identify attractive acquisition targets and realise synergies from such acquisitions.

We believe our continuously growing luxury dealership network and our scale of operations are appealing to other automobile manufacturers of luxury brands. As such, we intend to further diversify our brand portfolio so as to capture the customer demand for a variety of luxury brand automobiles arising from regions in which we operate. In order to further enhance our sales of luxury brand automobiles, we also plan to help the relevant manufacturers to promote their brands in the geographic areas where we operate by establishing luxury brand automobile clubs and organising tours to the automobile manufacturing sites and automobile shows in these clubs.

OUR BUSINESS SEGMENTS

We are primarily engaged in dealership sales and services through our nationwide outlets, and to a lesser extent, engaged in other businesses, consisting of automobile logistics services and lubricant oil trading.

The following table sets forth a breakdown of our turnover by business segment for the periods indicated.

	2010		Year ended 31 December				Six months ended 30 June			
	RMB	%	2011	2012	2012	2013	RMB	%	RMB	%
			RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)									
Dealership business										
Sales of new automobiles										
Luxury and ultra-luxury brands	4,801,723	59.8	10,582,659	73.3	21,833,857	78.9	10,896,517	79.6	11,079,959	79.1
Middle Market brands	2,207,703	27.4	2,370,066	16.4	3,007,178	10.9	1,481,243	10.8	1,369,019	9.8
Total sales of new automobiles	7,009,426	87.2	12,952,725	89.7	24,841,035	89.8	12,377,760	90.5	12,448,978	88.9
After-sales services										
Sales of automobile spare parts	127,821	1.6	242,579	1.7	394,995	1.4	177,650	1.3	229,000	1.7
Provision of maintenance services	473,694	5.9	804,801	5.6	1,922,177	7.0	874,824	6.4	1,138,004	8.1
Total after-sales services	601,515	7.5	1,047,380	7.3	2,317,172	8.4	1,052,474	7.7	1,367,004	9.8
Total dealership business	7,610,941	94.7	14,000,105	97.0	27,158,207	98.2	13,430,234	98.2	13,815,982	98.7
Other business										
Logistics services and lubricant oil trading	423,308	5.3	443,822	3.0	491,233	1.8	252,478	1.8	194,030	1.3
Total turnover¹	8,034,249	100.0	14,443,927	100.0	27,649,440	100.0	13,682,712	100.0	14,010,012	100.0

Note:

- (1) Does not include the commissions we received from automobile agency services, which are recorded as our other revenue and income.

DEALERSHIP SALES AND SERVICES

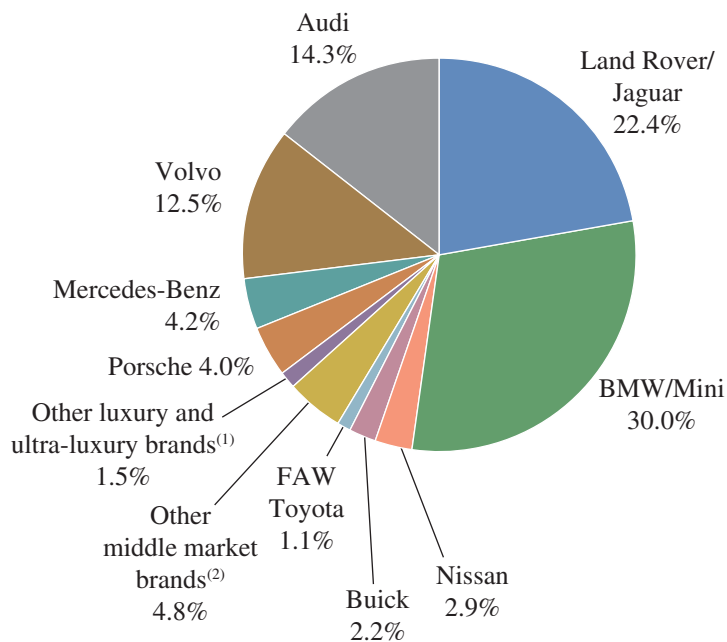
Our dealership sales and service primarily consist of (i) sales of new automobiles, (ii) after-sales services, which include maintenance, repair services and sales of spares parts and accessories, and (iii) automobile agency services, which include automobile insurance and financing loan agency, automobile registration and agency services for pre-owned automobiles.

Sales of New Automobiles

The following table sets forth a breakdown of our gross profits and gross profit margin for our sales of new automobiles for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>	
	<i>RMB</i>	<i>margin (%)</i>	<i>RMB</i>	<i>margin (%)</i>	<i>RMB</i>	<i>margin (%)</i>	<i>RMB</i>	<i>margin (%)</i>	<i>RMB</i>	<i>margin (%)</i>
	(RMB in thousands, except percentages)									
Luxury and ultra-luxury brands	321,730	6.7	721,152	6.8	1,299,650	6.0	656,635	6.0	615,806	5.6
Middle Market brands	54,727	2.5	119,557	5.0	36,406	1.2	23,608	1.6	21,885	1.6
Total sales of new automobiles	376,457	5.4	840,709	6.5	1,336,056	5.4	680,243	5.5	637,691	5.1

For the year ended 31 December 2012 and the six months ended 30 June 2013, the largest contribution to our turnover from sales of new automobiles came from our sales of BMW/MINI automobiles, followed by our sales of Land Rover/Jaguar and Audi automobiles. The following chart illustrates the breakdown of turnover generated from sales of new automobiles by the major brands of automobiles sold by our Group for the six months ended 30 June 2013.



Notes:

- (1) Other luxury and ultra-luxury brands consisted of Lamborghini, Imported Volkswagen, Cadillac, Acura and Infiniti.
- (2) Other middle market brands consisted of FAW Volkswagen, Hyundai, Ford, Chevrolet, Honda and Mazda.

After-sales Services

For the years ended 31 December 2010, 2011 and 2012, we processed 250,227, 354,512 and 675,459 repair and maintenance service orders, respectively, and our average service charge per order was RMB1,893.1, RMB2,270.2 and RMB2,845.7, respectively, during the same periods. For the six months ended 30 June 2012 and 2013, we processed 320,636 and 359,944 repair and maintenance service orders, respectively, and our average service charge per order was RMB2,728.4 and RMB3,161.6, respectively, during the same periods.

From 30 June 2011 to 30 June 2013, we provided after-sale services to an aggregate of approximately 380,000 customers in China. In addition, we have been awarded a number of prizes by automobile manufacturers for our after-sales services, including, among others, the championship of “Audi Professional Double-Cup Competition” (奧迪專業雙杯競賽) in China granted by Audi to our dealership store in Hubei in 2003, the title of “Annual Best After-sales Service Provider” (年度最佳售後經銷商) granted by Land Rover to our dealership store in Guangdong in 2012, and various after-sales service prizes granted by BMW to our dealership stores in Nanchang and Baotou in recent years.

The following table sets forth a breakdown of our gross profits and gross profit margins for our after-sales services for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	<i>Gross profit</i> RMB	<i>margin (%)</i>	<i>Gross profit</i> RMB	<i>margin (%)</i>	<i>Gross profit</i> RMB	<i>margin (%)</i>	<i>Gross profit</i> RMB	<i>margin (%)</i>	<i>Gross profit</i> RMB	<i>margin (%)</i>
	(RMB in thousands, except percentages)									
Sales of automobile spare parts	56,875	44.5	121,341	50.0	197,283	49.9	82,399	46.4	115,160	50.3
Provision of maintenance services	208,510	44.0	335,734	41.7	846,529	44.0	391,211	44.7	521,888	45.9
Total after-sales services	265,385	44.1	457,075	43.6	1,043,812	45.1	473,610	45.0	637,048	46.6

Out-of-warranty repair

We also offer repair services that are not covered by the automobile manufacturer's warranty, including replacement of parts due to wear and tear or repair of damage resulting from collisions or other accidents. We also provide emergency repair services supported by our 24-hour customer service call centre. Our repair services are generally priced based on the price of spare parts and the hourly rate of repair services. Our hourly rates of repair services in general range from RMB100 to RMB150 for middle market branded automobiles and from RMB350 to RMB600 for luxury and ultra-luxury branded automobiles.

Dealership Agreements

We enter into dealership agreements with the relevant automobile manufacturers to operate our 4S dealership stores. We are also authorised to operate a number of showrooms pursuant to dealership agreements or authorisation letters from automobile manufacturers. Our dealership agreements provide, among other things, that:

- we are prohibited from retailing more than one brand of new automobile in a particular outlet;
- automobile manufacturers are entitled to define and adjust the geographical coverage within which our dealership stores are operated;
- we are required to follow minimum inventory requirements for new automobiles and spare parts imposed by automobile manufacturers;

- we are required to follow pricing guidelines for particular automobiles, spare parts and services provided by an outlet to its customers;
- we are required to provide designated services to customers, including sales of new automobiles, sales of spare parts and after-sales services;
- we are required to meet the automobile manufacturer's design standards for our outlets and follow annual sales plans set by the automobile manufacturer;
- we are prohibited from knowingly selling automobiles to any customer whose intention is to resell or export automobiles to outside the PRC; and
- we are entitled to use the trade names, trademarks and other brands of the automobile manufacturer in a manner consistent with the standards set by the automobile manufacturer to promote the automobiles we sell through our dealership stores.

Our dealership agreements typically have a term of one to five years, subject to renewal. As at the date of this document, 18 of our dealership agreements have expired and we are in the process of renewing these dealership agreements. As at the date of this document, we are not aware of any facts or circumstances that may cause any of our automobile manufacturers not to renew such agreements with us or continue selling their automobiles to our outlets.

Automobile Recalls

Our sales of automobiles that have been subject to recalls by automobile manufacturers during the years of 2010, 2011 and 2012 and the six months ended 30 June 2013 accounted for less than 5.0% of our turnover from sales of new automobiles. We did not experience any cancellation of orders or any material adverse impact on our inventory and sales of new automobiles as a result of the recalls of automobile models we sold.

Customer Relationship Management

For the six months ended 30 June 2013, approximately 30% of our customers purchased new automobiles by financing loans provided by financial institutions.

SUPPLIERS, PROCUREMENT AND INVENTORY MANAGEMENT

Inventory Management

We are typically required to follow minimum inventory requirements for new automobiles and spare parts imposed by automobiles manufacturers. We achieved better inventory management in the first half of 2013 through a number of efforts. For example, we have endeavoured to continuously enhance our same store sales growth through marketing and branding initiatives conducted by both the automobile manufacturers and us. We have also negotiated with automobile manufacturers to reduce the minimum inventory requirements that may be imposed by automobile manufacturers. As a result, our inventory level decreased from RMB3,269.6 million as at 31 December 2012 to RMB2,996.2 million as at 30 June 2013.

PROPERTIES

Properties occupied by our Group are comprised of outlets, logistics facilities, warehouses and ancillary buildings and offices, located across China in the regions we operate. We both own and lease property for our business use. As at the date of this document, approximately 12.3% of the aggregate size of the land lots and approximately 48.9% of the aggregate gross floor area of the properties, in each case owned by our subsidiaries that were engaged in dealership business, was subject to defects in title. As at the date of this document, approximately 63.6% of the aggregate size of the land lots and approximately 63.0% of the aggregate gross floor area of the properties, in each case leased by our subsidiaries that were engaged in dealership business, was subject to defects in title. For details, see “Risk factors – Risks relating to our business and industry – We do not have valid title or rights to use certain properties and the required permits for construction and development on certain properties occupied by us.”

HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

Year ended 31 December 2012 compared to year ended 31 December 2011

Turnover. Our turnover increased by 91.4% from RMB14,443.9 million in 2011 to RMB27,649.4 million in 2012, primarily due to the full consolidation of the financial statements of SCAS Group in 2012 whereas such consolidation in 2011 was only for less than a month after the completion of the SCAS Acquisition in December 2011, and to a lesser extent, an increase in the turnover generated from outlets we owned prior to the SCAS Acquisition and newly opened after the SCAS Acquisition. We consolidated a total turnover of RMB11,507.8 million generated by the SCAS Group into our financial statements in 2012, compared to the total turnover of RMB753.0 million from the SCAS Group that was consolidated into our financial statements in 2011. Assuming the SCAS Acquisition did not take place, our turnover would have increased by 17.9% from RMB13,690.9 million in 2011 to RMB16,141.7 million in 2012.

Turnover from sales of luxury and ultra-luxury branded automobiles increased by 106.3% from RMB10,582.7 million in 2011 to RMB21,833.9 million in 2012. The turnover from sales of luxury and ultra-luxury branded automobiles as a percentage of the total turnover from sales of new automobiles increased from 81.7% in 2011 to 87.9% in 2012. In addition, turnover from after-sales services of luxury and ultra-luxury branded automobiles was RMB1,901.4 million in 2012, representing a growth of 136.3% as compared to RMB804.3 million in 2011, and accounted for 82.1% of the total turnover from after-sales services business in 2012.

Cost of sales. Our cost of sales increased by 93.0% from RMB13,058.3 million in 2011 to RMB25,197.6 million in 2012. This increase was mainly due to an increase in the cost of sales for new automobiles by 94.1% from RMB12,112.0 million in 2011 to RMB23,505.0 million in 2012, in line with our increased sales of new automobiles, primarily due to the full consolidation of the financial statements of SCAS Group in 2012 whereas such consolidation in 2011 was only for less than a month after the completion of the SCAS Acquisition in December 2011. Our cost of sales for luxury and ultra-luxury branded automobiles increased by 108.2% from RMB9,861.5 million in 2011 to RMB20,534.2 million in 2012, primarily because the SCAS Acquisition has increased the relative significance of luxury and ultra-luxury brand segment to our business, and the cost of sales for middle market branded

automobiles increased by 32.0% from RMB2,250.5 million in 2011 to RMB2,970.8 million in 2012. Our cost of sales for after-sales services increased by 115.7% from RMB590.3 million in 2011 to RMB1,273.4 million in 2012, less than the growth rate of our revenue generated from provision of after-sales services.

Gross profit. Our gross profit increased by 77.0% from RMB1,385.6 million in 2011 to RMB2,451.9 million in 2012, primarily due to the full consolidation of the financial statements of SCAS Group in 2012 whereas such consolidation in 2011 was only for less than a month after the completion of the SCAS Acquisition in December 2011, and to a lesser extent, an increase in the gross profit generated from outlets we owned prior to the SCAS Acquisition and newly opened after the SCAS Acquisition. We consolidated a total gross profit of RMB1,099.2 million generated by the SCAS Group into our financial statements in 2012, compared to the total gross profit of RMB106.2 million from the SCAS Group that was consolidated into our financial statements in 2011. Assuming the SCAS Acquisition did not take place, our gross profit would have increased by 5.7% from RMB1,279.4 million in 2011 to RMB1,352.7 million in 2012.

Our gross profit generated from dealership business increased by 83.4% from RMB1,297.8 million in 2011 to RMB2,379.9 million in 2012, primarily due to an increase in our gross profit generated from sales of luxury and ultra-luxury branded automobiles from RMB721.2 million in 2011 to RMB1,299.7 million in 2012, the effects of which were partially offset by a decrease in our gross profit generated from sales of middle market branded automobiles from RMB119.6 million in 2011 to RMB36.4 million in 2012.

Moreover, our gross profit generated from provision of after-sales services increased by 128.4% from RMB457.1 million in 2011 to RMB1,043.8 million in 2012. Our gross profit from logistics services business and lubricant oil trading business decreased from RMB87.9 million 2011 to RMB72.0 million in 2012.

Our gross profit margin decreased from 9.6% in 2011 to 8.9% in 2012, primarily due to the decrease in selling prices of automobiles resulting from the intensified market competition in 2012.

Other revenue and other net income. Our other revenue and other net income increased by 124.4% from RMB120.1 million in 2011 to RMB269.5 million in 2012, primarily due to the increase in commissions we received from financial institutions and insurance companies for our agency services in originating automobile loans and insurance policies in connection with our increased sales of new automobiles.

Finance costs. Our finance costs increased by 215.1% from RMB128.2 million in 2011 to RMB403.9 million in 2012. This increase was primarily due to an increase in interest expenses on loans and borrowings, primarily reflecting our increased borrowings to finance the SCAS Acquisition and to satisfy working capital needs resulting from our expanded operations.

Income tax expenses. Our income tax expenses increased by 50.5% from RMB187.0 million in 2011 to RMB281.5 million in 2012, primarily as a result of our increased profit. Our effective tax rate increased from 25.0% in 2011 to 30.8% in 2012, primarily because an increase in non-deductible expenses from RMB8.5 million in 2011 to RMB56.4 million in 2012, primarily as a result of the increase in our offshore finance costs to finance the SCAS Acquisition.

Year ended 31 December 2011 compared to year ended 31 December 2010

Cost of sales. Our cost of sales increased by 78.7% from RMB7,307.9 million in 2010 to RMB13,058.3 million in 2011. This increase was primarily due to the increase in the cost of sales for new automobiles, which increased by 82.6% from RMB6,633.0 million in 2010 to RMB12,112.0 million in 2011, in line with our increased sales of new automobiles for the same period. Our cost of sales for luxury and ultra-luxury branded automobiles increased by 120.1% from RMB4,480.0 million in 2010 to RMB9,861.5 million in 2011 and our cost of sales for middle market branded automobiles increased by 4.5% from RMB2,153.0 million in 2010 to RMB2,250.5 million in 2011. The increase in our cost of sales was also due in part to the increase in cost of sales for after-sales services, which increased by 75.6% from RMB336.1 million in 2010 to RMB590.3 million in 2011, in line with the increase in our turnover generated from after-sales services business during the same period.

Other revenue and other net income. Our other revenue and other net income increased by 157.7% from RMB46.6 million in 2010 to RMB120.1 million in 2011, primarily due to the increase in our commission income received from financial institutions and insurance companies as we brokered more loans and insurance policies in connection with our increased sales of new automobiles. In addition, interest income from bank deposits also increased as the balance of our pledged bank deposits increased.

Administrative expenses. Our administrative expenses increased by 82.2% from RMB175.6 million in 2010 to RMB320.0 million in 2011. This increase was primarily due to the increase in staff remuneration, salary expenses as well as staff benefits and depreciation cost for our newly added or acquired outlets, and the increase in rental expenses due to our newly added outlets.

Finance costs. Our finance costs increased by 128.5% from RMB56.1 million in 2010 to RMB128.2 million in 2011. This increase was primarily due to an increase in interest expenses arising from increased bills payable used by us for increased purchases of new automobiles, and an increase in interest expenses on loans and borrowings, primarily reflecting our increased bank borrowings to satisfy working capital needs resulting from expanded operations.

Income tax expenses. Our income tax expenses increased by 106.4% from RMB90.6 million in 2010 to RMB187.0 million in 2011, primarily as a result of the increase in our profit during the same period. Our effective tax rate increased from 23.2% in 2010 to 25.0% in 2011, primarily because in 2010, there was RMB27.3 million non-taxable income from gain on bargain purchase arising from the acquisition of equity interests in a joint venture.

Liquidity and capital resources of our Group

Inventory analysis

Our inventory primarily consisted of vehicles and automobile spare parts. Our inventory was RMB748.7 million, RMB3,244.0 million, RMB3,269.6 million and RMB2,996.2 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The 8.4% decrease from 31 December 2012 to 30 June 2013 was primarily due to our optimization of inventory management, enhancement of capital utilisation efficiency and improved sales productivity. Our inventory remained stable as at 31 December 2012 as compared with 31 December 2011, primarily due to our improved inventory management to increase sales of new automobiles in the second half of 2012 so as to reduce the inventory built-up in the first half of 2012 as a result of the intensified market competition. The 333.3% increase from 2010 to 2011 was primarily due to (i) an increase in inventory of new automobiles resulting from purchases of additional luxury branded automobiles in anticipation of the strong market demand, as well as the build-up of inventory in 2011 due to earlier Chinese New Year holidays, (ii) an increase in inventories of automobile spare parts due to the growth of our after-sales services during the same periods, (iii) the inclusion of the inventories from outlets we acquired, and (iv) inventories purchased for new outlets we opened in 2011.

Trade and other payables

Our trade payables increased from RMB40.0 million as at 31 December 2010 to RMB131.3 million as at 31 December 2011, to RMB275.4 million as at 31 December 2012, and further to RMB378.4 million as at 30 June 2013, in line with our expansion of business operation over the same period.

Pledged bank deposits

Our pledged bank deposits consist of bank deposits that are pledged as security for bank loans and bills payable, primarily to finance our purchase of new automobiles from manufacturers. The initial bank deposits we are required to pledge for the issuance of bank acceptance notes typically represent 20% of the amount of the bank acceptance notes secured by such pledged bank deposits. Some banks also require us to deposit proceeds we receive from the sales of our new automobile inventory that has been financed by the bank acceptance notes secured by such pledged bank deposits into the pledged bank deposits account. Our pledged bank deposits increased from RMB960.9 million as at 31 December 2010 to RMB1,168.9 million as at 31 December 2011, and further to RMB1,294.2 million as at 31 December 2012, primarily to secure our increased bank acceptance notes and relevant bank loans. Our pledged bank deposits decreased from RMB1,294.2 million as at 31 December 2012 to RMB793.3 million as at 30 June 2013, primarily due to a decrease in bills payables in line with the decrease in inventory.

Capital expenditures

Our capital expenditures comprise expenditures on property, plant and equipment and land use rights in connection with our dealership business. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 30 June 2013, our total capital expenditures were RMB234.4 million, RMB440.9 million, RMB1,121.2 million, RMB513.9 million and RMB414.3 million, respectively.

Capital commitments

Our capital commitments are unpaid amounts of executed agreements for the acquisition of property, plant and equipment in connection with our opening of outlets. As at 31 December 2010, 2011 and 2012 and 30 June 2012 and 30 June 2013, our total outstanding capital commitments were RMB12.5 million, RMB48.7 million, RMB66.2 million, RMB30.0 million and RMB19.8 million, respectively. We plan to meet our capital commitment by using cash generated from our operating activities or proceeds from loans or other borrowings.

Contractual obligations

Our contractual obligations primarily consist of our future minimum lease payments under non-cancellable operating leases for the space we rented for our outlets. Our operating leases typically run for an initial period of one to 20 years and are renewable, subject to mutual agreement on the lease terms. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our total future minimum lease payments under non-cancelable operating leases were RMB197.1 million, RMB680.2 million, RMB1,027.0 million and RMB961.9 million, respectively.

Indebtedness

Loans and borrowings

Our loans and borrowings as at 31 December 2010, 2011 and 2012 and 30 June 2013 were RMB721.3 million, RMB4,220.4 million, RMB4,899.0 million and RMB5,127.5 million, respectively. For a breakdown of our loans and borrowings as at 30 June 2013, see “Capitalization and indebtedness”.

We have established and maintained strong banking relationships with various PRC banks, including China Citic Bank, China Construction Bank, Bank of China, China Minsheng Bank, Bank of Communications and China Everbright Bank. SCAS Group commenced its relationship with China Citic Bank in 1997 and we further consolidated this relationship with China Citic Bank after our acquisition of SCAC Group in 2011. China Citic Bank increased the amount of its credit line to us from RMB300.0 million in 2011 to RMB500.0 million in 2013. We have been a key client of China Construction Bank since 2006, which granted us a credit line of RMB700.0 million in 2007, a total credit line of RMB1.1 billion in 2009 and a loan facility of approximately RMB1.0 billion in 2013. Our relationship with Bank of China Limited began with their Hubei Branch in 2003; Bank of China Limited is also providing the Standby Letter of Credit for the Bonds. We have entered into a strategic cooperation agreement with China Minsheng Bank, which granted us an RMB3.0 billion credit line for our working capital needs in 2012. This credit line was further increased to RMB4.1 billion

in 2013. Bank of Communications granted us a credit line of RMB900.0 million in 2010, and in 2011, four of our dealership stores received an additional RMB1.0 billion credit line and in the same year, our Company also received an RMB1.2 billion credit line to finance our SCAS Acquisition. Furthermore, in 2013, we received a total credit line of RMB1.4 billion from Bank of Communications. We have established a strategic relationship with China Everbright Bank since 2006, which increased the amount of its credit line to us from RMB500.0 million in 2010 to RMB3.2 billion in 2013, as well as increasing the number of our subsidiaries with access to such credit line from five to 20. Partly due to our strong relationships with these banks, we had access to facilities totaling over RMB10.0 billion as at 30 June 2013.

As at the date of this document, our most significant outstanding offshore loans are the Bridge Loan Facilities we obtained to refinance our borrowings in connection with our SCAS Acquisition. The Bridge Loan Facilities were granted to us pursuant to a loan agreement dated 16 August 2012 among our Company, all of our offshore subsidiaries as guarantors and Credit Suisse AG, Singapore Branch, acting as the facility agent, which was amended and supplemented by a supplemental agreement dated 11 December 2012 (the “Bridge Loan Agreement”). Certain affiliates of each of the Joint Bookrunners and Joint Lead Managers are among the lenders under the Bridge Loan Facilities. Under the Bridge Loan Agreement, we were granted initial facilities consisting of US\$50.0 million and HK\$930.0 million, together with a greenshoe facility of up to US\$200.0 million. As at the date of this document, all the facilities granted under the Bridge Loan Agreement in an aggregate amount of US\$250.0 million and HK\$930.0 million were drawn down by us, primarily to repay our indebtedness incurred to finance our acquisitions, including the SCAS Acquisition. Outstanding borrowings under the Bridge Loan Agreement are payable within 15 months after the date of the Bridge Loan Agreement. The 15-month facility period is divided into five three-month terms. The interest rates for the amount we drew down under the Bridge Loan Agreement increased from term to term, with the last three-month term carrying the highest interest rate. Our repayment of borrowings under the Bridge Loan Agreement was guaranteed by all of our offshore subsidiaries and secured by share charges over the issued share capital of all of our offshore subsidiaries and other securities. We are also required to comply with certain negative and affirmative covenants under the Bridge Loan Agreement, including without limitation, applying net proceeds of any bonds offerings to repay the outstanding borrowings under the Bridge Loan Agreement, and obtaining consent from the lenders for the incurrence of certain financial indebtedness and the creation of security interest over our assets. We intend to use a combination of all of the net proceeds of the offering of the Bonds proceeds from other loan arrangements to repay in full our borrowings under the Bridge Loan Agreement.