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About Deloitte China Auto Dealership Service Team

The Deloitte China Auto Dealership Service Team ("we/us") is a professional consulting team focusing on serving auto dealership market. We are committed to enhancing the competitiveness, improving the profits and maintaining the healthy development of auto manufacturers and dealers. Through our years of service, we have accumulated extensive knowledge on dealership management, and continuously updated our dealership management database. Our service scope covers Vehicle Sales (new and used vehicles), After Sales (accessories and services), Finance and Insurance, Market and Customer Retention Management, and Dealership Network Development. Our service offerings include: Dealership Excellence Reporting System, Dealership Risk Management, Human Resources Development Excellence, Dealership Performance and Improvement, and Dealership Audit.

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We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

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Deloitte 2012 China Auto Dealership Performance Study (Executive Summary)

Deloitte China Auto Dealership

About "Deloitte China Auto Dealership Performance Study"

To help China's auto dealers to gain a deeper understanding of the inherent risks of the industry and to formulate effective long term early-warning and management mechanisms, Deloitte China has been conducting research studies since 2011, publishing findings that center on the risks faced by China's auto dealers.

This latest study focuses on dealerships and dealer groups in Mainland China's market for the world's leading luxury brands and imported vehicles. Information has been gathered through a combination of published financial statements, industry associations, in-depth interview discussions and independent research questionnaires with a view to modeling the local dealers' risk management and improvement of business performance. The primary theme of this study has been the operational Key Performance Indicators (KPIs) and major risks faced by the dealers in their everyday business operations. Subject matter includes the issues of liquidity, profitability, business policies of the manufacturers, group mergers and acquisitions, and other highly relevant topics of concern to auto dealers and dealer groups.

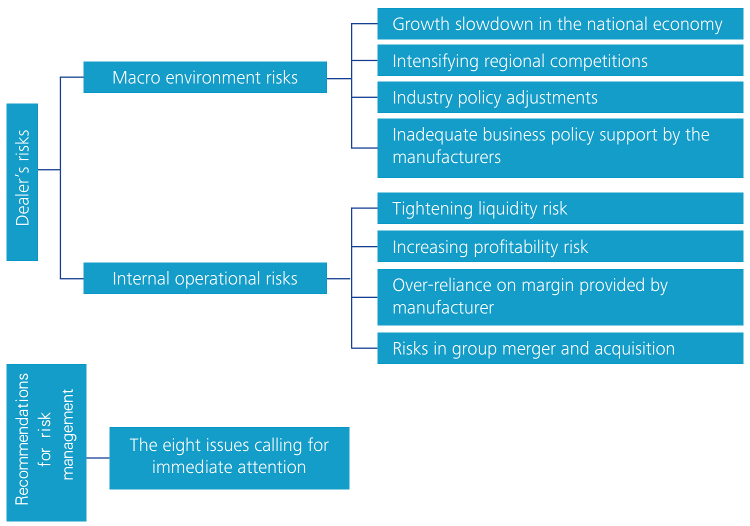
We have conducted in-depth discussions on our model and benchmarks with domestic and international industry experts, senior corporate executives, and general managers of the dealerships to corroborate the risks and modeling alluded to in this report.

General Overview

The aim of 2012 China Auto Dealership Performance Study is to provide insight into challenges faced by China's auto dealers in the present macroeconomic climate and market environment and the resulting risks faced by this country's auto dealers in their everyday business operations. Deloitte's study suggests the means to implement effective measures for risk management in future corporate strategies, and ways forward for auto manufacturers, auto dealer groups, and independent dealers to manage their business.

In recent years, rapid expansion in the production capacity of China's auto industry was accompanied with a slowdown in local automotive markets growth. Concerns such as "liquidity" and "profitability" have begun to bear on these markets, resulting in emergence risks of the country's auto dealers. Deloitte China Auto Dealership team has systematically refined and analyzed the study results, supplementing these with highly specialized database support for automobile dealerships as well as with public domain data collected and analyzed by the team. Combined with experts' opinions, Deloitte's findings conclude with recommendations for approaching the macro environment risks, risks to dealer operations, and for overall risk management.

Fig.1 The main contents of this report are structured as follows:



Key observations and findings

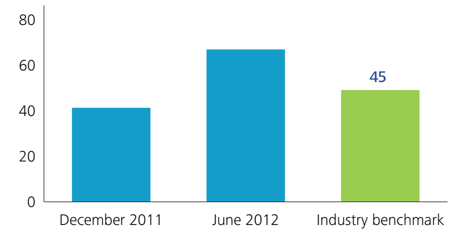
After experiencing the great upheaval of high growth over the past two-year period from 2009 to 2010 and encountering a sharp braking in 2011, China's auto industry has resumed slow growth since the first half of 2012. Judging from the general outlook on the external environment, the auto dealerships is still facing a series of challenges.

- Slowdown in the national economy, with decelerating demand growth;
- Down-tier redeployment and westward shift of the distribution channels, with intensifying regional competition;
- A shift in mainstream policies from encouraging car buying toward driving for industry structural change;
- The dominant positions of manufacturers have had relatively greater impacts on dealer operations.

On the heels of rapid growth for manufacturers and its follow-on effects for sales and distribution channels and the scale of dealers' business operations, a slow down of market conditions had the effect of amplifying the challenges faced by the auto dealers. The conflict between a rapid expansion of production capacities for the manufacturers and a slowdown in market growth, along with a gradual build-up of conflict between market volatility and persisting imbalance in the dealers' business structures have all contributed to a gradual emergence of a series of operational risks in the auto dealerships - risks that were previously masked by the phenomenon of flourishing prosperity:

With the rising of inventory levels, the auto dealers' liquidity pressure is increasing. Confronted by the manufacturers' aggressive sales targets and lackluster results from their marketing efforts, the accumulation in inventory at dealerships has exerted further strains on the finance chain that sustains their business. As the dealers are able to obtain finance from external sources, the financing situation is still reasonably satisfactory at present. However, due to the dealers' high reliance on external funding sources, it likely faces the risk of a fracture of their financing facilities in the event of a policy change for credit lending.

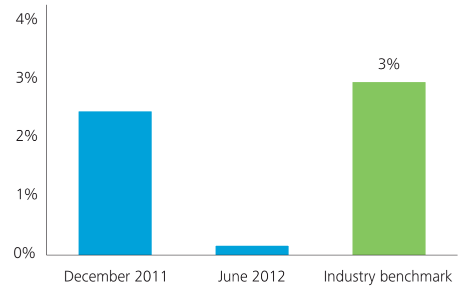
Fig.2 Inventory Turnover Days



Data Source: Deloitte China 2012 Auto Dealership Risk Survey
Financial report of listed auto dealer groups and Deloitte Analysis

Since there remains an imbalance in the dealers' own business structures, declining overall profitability is apparent. Affected by such factors as the general conditions in the market, regional competition, and inventory pressure, a tumble in gross profit margins for new vehicle sales has been noticeable. The existing business model for China's dealers remains very much front-end driven—in other words, profitability is mainly based on new vehicle sales. Operational costs and manpower costs are also continuing to rise, and the result is a drop in overall profitability for the dealers. This situation has clearly undermined investor enthusiasm and dealer brand loyalty to a degree that cannot be salvaged by the attractiveness of brand names.

Fig.3 Return on Sales



Data Source: Deloitte China 2012 Auto Dealership Risk Survey
Financial report of listed auto dealer groups and Deloitte Analysis

The dealers' overreliance on the business policies of the manufacturers coupled with the latter's inaccurate market forecasts over the course of this current year have resulted in overly optimistic targets that have proven to be far off the mark from actual circumstances. In order to safeguard their eligibility for margin refunds, the dealers have chosen to bear the enormous pressure of maintaining inventory, hence exacerbating an inevitable slump in profits, and the lull in the market has further aggravated the adverse effects of both of these factors.

This winter freeze for the auto dealers may give rise to an imminent reshuffling in the auto sales industry, and occurrence of mergers and acquisitions by the dealer groups will be certain to intensify. The decreased profitability and rising costs make independent dealers' operational situation increasingly difficult, it leads to a consensus of stabilizing the profit and controlling the cost by large scale operation. When executing M&A by the dealer groups, close attention must be paid to the financial status of the individual dealer to avoid excessively fast-paced expansion thus jeopardizing overall liquidity. Moreover, in the integration process during the post-M&A period, parties should be mindful of the institutional and management arrangements and the statutory, taxation, and communication aspects as well, in order to ensure that the integration process can be completed without difficulties.

In 2012, confronted by an across-the-board rise in the dealers' operational risks, we would recommend that manufacturers, groups, and independent dealers put in place quantifiable risk assessment and monitoring systems to uncover and guard against risks. At the same time, all should keep communication channels open, and take appropriate risk response measures with the aim of bringing about sustainable, stable, and rapid business growth on a long-term basis.

Please feel free to contact us for further information about this study.