

RIO Prestige Performance UK Ltd.

12th October 2009

Salon Prive London event 21st-24th of July

As I said in my last report I flew to London to assist UK staff with the Salon Prive London event: www.salonprivelondon.com. I am happy to report that this was a great success, with the weather perhaps assisting. As usual the hours were long, from 10am till 10pm each day; I worked alongside two other RIO UK employees promoting RIO Prestige Performance UK. Over the three day period we had several car hire enquires and five confirmed bookings, although not enough to cover the costs of the venue.

A big benefit of exhibiting at this venue was that it resulted in the sale of the Koenigsegg, which RIO Prestige Performance UK had been trying to sell for over nine months.

The company had already tried dealers, who had been reluctant to bid strong money due to the down turn in the used car market. RIO received several offers from dealers for this car, mostly around £110k. We also consulted with a specialist car auction company, who felt they may get £115k less commission. Accordingly, I instructed the UK office to hold out for a higher price. RIO then tried to retail this car, and advertised the vehicle for sale in two well known car retail magazines. We also marketed it for sale on the internet for three months without result. The financial crisis had made it very difficult for any potential purchaser to obtain finance, thus blunting the interest of many people over that period. Previously it would have been easy to sell this car as finance for such a vehicle in a normal market would be a formality. Hence, finally being able to sell off this unit made attending the Salon Prive event particularly worthwhile. The sale of the Koenigsegg was very good news as it allowed the repayment of corporate debt which had been hampered because of shortage of capital.

That said I also decided to take the opportunity at this venue to promote the RIO Prestige Performance UK franchise for the first time at. This was well received. I had a few interesting discussions at the venue on this topic, one enquiry leading to three further meetings in London. One was held on the 25th July in Starbucks, and I remember it well as it went on for three hours. The individual has since developed a very serious interest in the London-based RIO Prestige Performance UK franchise. Negotiations are ongoing and a successful outcome would be excellent. Furthermore, last week one interested party actually came all the way to Jakarta to discuss buying a franchise: again they are reviewing the offer.

Placing all franchising in the four selected regions chosen would immediately raise a further £105,000 from franchise license fees alone. It is envisaged that the first of these will be in operation by the end of this year. Should all four franchises be successfully sold, RIO will offer a further two franchise opportunities for sale in Ireland, one in the south and the other in the north. RIO Prestige has clients living in both regions and a data base of leads built up over five years.

The target is to have all franchisees operating before the start of season April 2010. Ten people have already approached RIO regarding franchise opportunities since promoting the

concept at Salon Prive. A successful sale of all four mainland franchises in UK would mean that costs of operating would be dramatically less, since the responsibility for operating costs are with the franchise, while the brand would be represented in four regions locally, not remotely.

This would lead to further brand recognition building added value to the brand, and affording a better customer service throughout the UK. An upturn in business is forecast, due to many factors, including delivery times and the ability to respond economically one day car hire since vehicles will be housed in each of the regions, not just Scotland. This would in turn lead to an upturn in franchise revenue streams received by RIO Prestige Performance UK Ltd, since each franchise is contracted to pay a percentage of all hire revenues to the franchisor.

Ground work for franchise placement almost finalized

Having spent the past five years building the brand and investing over one million pounds in advertising to secure the brand over the same period it is very important that we maintain image. Last month I was busy drafting the franchise agreement, which is now with our lawyers to prepare final draft. This will ensure that the technical and legal aspects are properly addressed through an enforceable legal contract to be signed by all franchisees.

Each franchise having paid the franchise license fee will receive training from RIO UK in Scotland, and each regional office will also benefit from the package put together on the company's online booking system and car preparation, along with promotion on RIO Branding.

It is important to note that the brand name remains the property of the RIO Prestige Performance UK Ltd. Each franchise pays for use of the name and will receive the benefit of extensive leads already held in all areas, allowing a comprehensive marketing campaign to begin as soon as the franchise is placed.

All franchisees will use the same web site, which has been in place for the past five years. This is expected to benefit ranking due to a fourfold increase in marketing by region. RIO has designed a central telephone booking system, which is currently being tested, work due for completion by the end of this month. All banners and promotional material are currently being printed, advertising that franchises are now in place. These are to be first used at the MPH Top Gear live event in November this year, where RIO is already well known. The event has over one hundred thousand visitors a day, each having one thing in common - car fanatics. There will also be many businesses attending, helping to raise significant interest.

Further benefits of my UK business trip

Just for reference, since taking temporary charge of RIO Prestige UK, I have reduced costs of operating by over 58%, as reported previously. During August I entered long discussions with the landlord of the property in Scotland occupied by RIO Prestige Performance UK. RIO has occupied these premises since the inception of the company in 2004; the rent has remained the same ever since. I decided to use the financial crisis to attempt to reduce the rent. The outcome has been a rental reduction of 30%.

Meetings were also held with our current provider of car insurance in an agreement to insure RIO franchisees would be offered cover, subject to usual terms and conditions, and also secured a 10% reduction in cost of cover. It was important to secure acceptance of cover for the franchisees, since the market for car hire insurance has changed. Currently, most insurers will not consider any new applications for super car hire; a track record in the field is essential. RIO Prestige Performance UK has arguably the best record in the industry with only one accident in five years.

The very considerable difficulty in obtaining insurance for any individual interested in starting up a new super car hire business should benefit RIO Prestige Performance UK franchise sales.

Finally, the MPH Top Gear Live show is the final exhibition event for RIO Prestige this year. I approached the promoters to try to negotiate a discount but this was unsuccessful. However, in negotiations free extra floor space was secured. With this I plan to promote the franchisee opportunity along with the promotion of car hire and RPM Club membership. The show runs from the 5-8 November in London at Earls Court Exhibition Centre: www.mphshow.co.uk

Note; RIO Prestige has a significant customer base in the UK, RIO represents what most in the industry see as the best brand in the hire market. The fifty or so small entities that sprang up during 2005-07, so called copycat businesses, have almost all disappeared during 2008-9, as highlighted in previous reports. There are now only three core providers left, the original three. P1 went bankrupt and are now tainted by very bad press, but still secured refinancing to re start as PLX. The Ecurie 25 brand, which sells club membership only and which was bought over by a British businessman, does not offer car hire to non-members. RIO Prestige has been one of a very few, which have survived the financial crisis of 2008-9. The small entities did succeed in generating clients, however, most of whom still want to hire super cars; these clients have been hiring from RIO. Data shows that hire enquires remain constant!

During 2008, RIO Prestige UK was forced to sell several vehicles due to the immediate recall of overdraft by its bankers. The company did not have £300k liquid cash in account at that time, but did have a shortage of operating capital.

Performance car market up date trend

In the period between 1989 and 2002, the overall market fell by 30%. History is now being repeated because, since September of last year, manufacturers like Bentley, Aston Martin, Land Rover, and Porsche have significantly underperformed in the marketplace. Already, dealers are reporting significant shortages, not only of late used cars, but the crop of retail part-exchanges has been decimated. This situation can only worsen. So does all this mean that values of used cars will continue to edge upwards in the next 2 or 3 years?

In my opinion there is no clear cut answer. As we have established, the recovery in prices this year has owed much to a reduction in supply, allied to a level of retail demand not massively lower than a year ago, This was forecast that in the previous report. What also helped in the mid '90s was that manufacturers were increasing price at a greater rate than the annual rate of inflation, which was running at about 3%. The effect of these two factors was to increase used car values. The other key ingredient was the return of consumer confidence.

Hence, our view would be that there is plenty of scope for values to creep upwards in the coming years. This will be promoted if manufacturers continue to increase new prices. The general level of increase is over 5% so far this year, greater than we have seen in any full year this decade. The one cautionary note to be sounded is that, once the pound gains significant strength against the euro and yen, manufacturers are likely to be tempted back into the bad habit of forced registrations. When this happens the effect on late used cars will be immediate and fairly dramatic, because late used values are only able to enjoy current high levels because of the almost complete absence of forced registrations.

The recovery in any market is dependent upon consumer confidence. We should remember that the dramatic recovery in prices seen this year has been achieved without this confidence. However, it is just as valid to say that when confidence does return, the market will move into a higher gear with higher prices.

The key message is that the gains in values seen this year are not only likely to be sustainable, but there is every chance that residual values will advance over the next 2 to 3 years.

I will fly to UK at end of this month to assist RIO Prestige Performance promote franchise sales at London MPH Top Gear Live. An update on this will feature in my end of year report.

William Gray
Executive Chairman
The RIO Club