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## ZHONGSHENG GROUP HOLDINGS LIMITED 中升集團控股有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：881)

### 由本公司建議發行優先票據及 公司和財務資料摘要

本公告由中升集團控股有限公司(「本公司」)根據上市規則第13.09條刊發。

本公司擬向美國境外之專業投資者進行票據國際發售。票據預計由本公司發行及由本公司於中國境外註冊成立之若干附屬公司擔保。就建議票據發行而言，本公司將向若干專業投資者提供先前可能未公告之本集團近期公司及財務資料，包括但不限於風險因素、管理層對財務狀況及營運業績之討論及分析、關連方交易及債務資料。該等資料之摘錄隨附於後並可於本公司網站<http://www.zs-group.com.cn>查閱。建議票據發行之完成須視乎市場狀況及投資者興趣而定。中銀國際作為全球協調人，中銀國際及海通國際作為聯席賬簿管理人及聯席牽頭經辦人，負責管理建議票據發行。

倘若發行票據，本公司擬將票據之所得款項淨額用於撥付：(i)通過自然增長及選擇性併購、聯盟、合資公司及其他戰略性投資，擴充其4S經銷店網絡；及(ii)一般企業及營運資金用途。在所得款項淨額並未即時作以上用途前，並在適用法律及規例容許之情況下，本公司擬將該等所得款項淨額存入認可金融機構作短期通知存款。

票據於新交所上市已取得獲原則性批准。新交所不會就本公告內作出之任何聲明或表達之意見或收錄之報告承擔任何責任。獲准納入新交所正式上市名單不得視為本公司或票據之價值指標。票據未曾亦將不會申請於香港上市。

由於截至本公告日期並無就建議票據發行訂立具約束力之協議，建議票據發行未必能夠落實。建議票據發行之完成須視乎市況及投資者興趣而定。投資者及股東於買賣本公司證券時務請謹慎行事。

倘就建議票據發行簽署購買協議，本公司將就建議票據發行另行刊發公告。

## 建議票據發行

### 緒言

本公司擬向美國境外之專業投資者進行票據國際發售。票據預計由本公司發行及由本公司於中國境外註冊成立之若干附屬公司擔保。就建議票據發行而言，本公司將向若干專業投資者提供先前可能未公告之本集團近期公司及財務資料，包括但不限於風險因素、管理層對財務狀況及營運業績之討論及分析、關連方交易及債務資料。該等資料之摘錄隨附於後並可於本公司網站<http://www.zs-group.com.cn>查閱。中銀國際作為全球協調人，中銀國際及海通國際作為聯席賬簿管理人及聯席牽頭經辦人，負責管理建議票據發行。

票據及由本公司相關附屬公司作出之相關擔保未曾且不會根據美國證券法登記。票據僅可根據美國證券法S規例豁免登記規定在美國境外向專業投資者發售。概不得向香港公眾發售票據，亦不得向本公司任何關連人士配售票據。

## 建議所得款項淨額用途

倘若發行票據，本公司擬將票據之所得款項淨額用於撥付：(i)通過自然增長及選擇性併購、聯盟、合資公司及其他戰略性投資，擴充其4S經銷店網絡；及(ii)一般企業及營運資金用途。在所得款項淨額並未即時作以上用途前，並在適用法律及規例容許之情況下，本公司擬將該等所得款項淨額存入認可金融機構作短期通知存款。

## 上市

票據於新交所上市已取得原則性批准。新交所不會就本公告內作出之任何聲明或表達之意見或收錄之報告承擔任何責任。獲准納入新交所正式上市名單不得視為本公司或票據之價值指標。票據未曾亦將不會申請於香港上市。

## 一般事項

由於截至本公告日期並無就建議票據發行訂立具約束力之協議，建議票據發行未必能夠落實。建議票據發行之完成須受市況及投資者興趣而定。投資者及股東於買賣本公司證券時務請謹慎行事。

倘就建議票據發行簽署購買協議，本公司將就建議票據發行另行刊發公告。

## 釋義

於本公告中，除文義另有所指外，下列詞彙具有以下涵義：

「董事會」	指	董事會
「中銀國際」	指	中銀國際亞洲有限公司
「本公司」	指	中升集團控股有限公司，一家在開曼群島註冊成立的有限公司，其股份在聯交所主板上市
「關連人士」	指	具有上市規則賦予該詞之涵義
「董事」	指	本公司董事

「本集團」	指	本公司及其不時之附屬公司
「海通國際」	指	海通國際證券有限公司
「香港」	指	中國香港特別行政區
「上市規則」	指	聯交所證券上市規則
「票據」	指	預期將由中升集團控股有限公司建議發行之優先票據
「中國」	指	中華人民共和國，就本公告而言，不包括香港、中國澳門特別行政區及台灣地區
「建議票據發行」	指	建議發行票據
「人民幣」	指	人民幣元，中國的法定貨幣
「新交所」	指	新加坡證券交易所
「股份」	指	本公司股本中每股面值0.0001港元之普通股
「股東」	指	股份持有人
「聯交所」	指	香港聯合交易所有限公司
「美國」	指	美利堅合眾國，其領土、屬地及服從其司法管轄之所有地區
「美國證券法」	指	一九三三年美國證券法(經修訂)

承董事會命  
**中升集團控股有限公司**  
**黃毅**  
 董事長

香港，二零一一年四月十一日

於本公告日期，本公司執行董事為黃毅先生、李國強先生、杜青山先生和俞光明先生；本公司非執行董事為冷雪松先生；以及本公司獨立非執行董事為茂野富平先生、吳育強先生和沈進軍先生。

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## **CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION**

This document has been prepared using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” and words of similar import, we are referring to Zhongsheng Group Holdings Limited, the “Company” itself, or to the Company and its consolidated subsidiaries, as the context requires. References to the “Group” are to the Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of the present subsidiaries, the present subsidiaries of our Company.

Market data and certain industry forecast and statistics in this document have been obtained from both public and private sources, including market research, publicly available information and industry publications. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

In this document, all references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America (the “United States” or “U.S.”); and all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China (the “PRC”) . We record and publish our financial statements in Renminbi.

References to “PRC” and “China,” for the purposes of this document, are to the People’s Republic of China which, except where the context otherwise requires, does not include Taiwan, Hong Kong and Macau Special Administrative Regions. “PRC government” or “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

Totals presented in this document may not tally correctly due to the rounding of numbers.

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including, without limitation, words and expressions such as “expect,” “believe,” “plan,” “intend,” “aim,” “estimate,” “project,” “anticipate,” “seek,” “predict,” “may,” “should,” “will,” “would” and “could” or similar words or statements, in particular, in the “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” sections in this document in relation to future events, our future financial, business or other performance and development, strategy, plans, objectives, goals and targets, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document and the following:

- future development, trends and conditions in our industry;
- changes in our expansion plans and estimated capital expenditures;
- our business prospects;
- the competitive markets for our products and services and the actions and development of our competitors and automakers;
- our ability to purchase automobiles from automakers, and the ability of automakers to deliver such automobiles to us in a timely manner;
- our relationship with automakers and suppliers of automotive parts;
- financial condition and performance;
- general political and economic conditions, including those related to the PRC;
- cost fluctuations;
- interest rate movements;
- effect of the earthquake and tsunami in Japan in March 2011;
- exchange rate fluctuations and developing legal systems, in each case pertaining to the PRC and the industry and markets in which we operate;
- regulations and restrictions, including environmental regulations;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- our ability to successfully implement our business plan and strategies.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*.” When evaluating any statement made in this document, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the manner we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information.

In this document, statements of or references to our intentions or those of any of our directors are made as of the date of this document. Any such intentions may change in light of future developments.

## GLOSSARY

This glossary contains certain definitions of automakers, automobile brands and technical terms used in this document in connection with our Company and our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

4S dealership . . . . .	a dealership authorized to sell the products of a single brand of automobiles. Such dealership integrates four standard automobile-related businesses: sales, spare parts, service and survey, among which survey refers to the function of collecting market information for the automakers in order for the automakers to adjust their marketing strategies accordingly. In China, the majority of automobiles are retailed through 4S dealerships.
Audi . . . . .	refers to Audi AG and FAW-Audi collectively
automobile accessory exhibition center . . . . .	dedicated automobile accessory display and sales center or showroom
CAGR . . . . .	compound annual growth rate
Development Permits . . . . .	the consents, permits and approvals for development, including construction permits necessary for the development of properties in the PRC
DF-Honda . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation, Dongfeng Honda Co., Ltd., established jointly by Honda Motor Co., Ltd. and Dongfeng Motor Group Co., Ltd.
DF-Nissan . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation, Dongfeng Motor Co., Ltd., established jointly by Nissan Motor Co., Ltd. and Dongfeng Motor Group Co., Ltd.
FAW-Audi . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation, FAW-VW Automobile Co., Ltd., established jointly by FAW Group Corporation, Volkswagen AG, Audi AG and Volkswagen Automobile (China) Investment Co., Ltd.
FAW-Toyota . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation, Tianjin FAW Toyota Motor Co., Ltd., established jointly by FAW Group Corporation, Tianjin FAW Xiali Automobile Co., Ltd., Toyota Motor Corporation and Toyota Motor (China) Investment Co., Ltd.
FJ-Diamler . . . . .	the Mercedes-Benz brand of automobiles manufactured by the PRC joint venture corporation established jointly by Fujian Motor Industry Group Company and Hong Kong Daimler Vans Limited, which is a joint venture between Daimler AG and Taiwan China Motor Corporation
GDP . . . . .	gross domestic product

GZ-Honda . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation, Guangzhou Honda Automobile Co., Ltd., established jointly by Honda Motor Co., Ltd. and Guangzhou Automobile Group Co., Ltd.
GZ-Toyota . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation established jointly by Toyota Motor Corporation and Guangzhou Automobile Group Co., Ltd.
Honda . . . . .	refers to Honda Motor Co., Ltd., DF-Honda and GZ-Honda collectively
Lexus . . . . .	the brand of automobiles produced by the luxury automobile division of Toyota Motor Corporation, Lexus
Mercedes-Benz . . . . .	refer to the brand of automobiles produced by the Mercedes-Benz division of Daimler AG and FJ-Daimler collectively
Nissan . . . . .	refers to Nissan Motor Co., Ltd., DF-Nissan and ZZ-Nissan collectively
quick service shop . . . . .	our automobile repair, maintenance and detailing services shop established in the vicinity of our 4S dealerships to provide quick minor repair, maintenance and detailing services
Toyota . . . . .	refers to Toyota Motor Corporation, FAW-Toyota and GZ-Toyota collectively
ZZ-Nissan . . . . .	the brand of automobiles manufactured by the PRC joint venture corporation established jointly by Nissan Motor Co., Ltd., Dongfeng Motor Joint Stock Co., Ltd. and Dongfeng Motor Group Co., Ltd.

## SUMMARY

*You should read the entire document, including the section entitled “Risk Factors” and the financial statements and related notes thereto.*

### OUR BUSINESS

We are a leading national automobile dealership group in China by revenue from 2006 to 2009, according to ACMR. Our 4S dealerships are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern regions of China, as well as selected inland areas. We have grown rapidly from 15 operating 4S dealerships at the beginning of 2006 to 98 4S dealerships in operation as of the date of this document.

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini and mid-to-high end automobile brands including Toyota, Nissan and Honda. Each of our 4S dealerships is designated to sell one brand of automobile and typically only permitted to operate at a single point of sale.

We were the first company to be granted dealership rights by Toyota in China, and one of the first authorized dealerships for Lexus and Audi in China. According to ACMR Survey, we are one of the largest automobile dealership groups in China, in terms of sales volume and number of 4S dealerships for Toyota and Lexus. Toyota and Lexus are our two largest automobile brands in terms of sales.

Through our “one-stop automobile shop” business model, we offer our customers a comprehensive range of new automobiles, after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services. Each of the new automobile sales business and after-sales businesses has its own features in terms of business model and revenue and profitability contributions to our Group.

Our revenue for the three years ended December 31, 2008, 2009 and 2010 was RMB10,548.6 million, RMB13,722.2 million and RMB 24,042.9 million, respectively, representing a CAGR of approximately 51.0% during such periods. Revenue generated from the sales of our mid-to-high end automobile brands accounted for approximately 65.8%, 69.5% and 62.6% of our new automobile sales revenue for the three years ended December 31, 2008, 2009, 2010, respectively, while revenue generated from the sales of our luxury automobile brands accounted for approximately 34.2%, 30.5% and 37.4% of our new automobile sales revenue for the same periods. The gross profit margin of our sales of mid-to-high end brand automobiles was 4.0%, 4.5% and 4.4%; the gross profit margin of our sales of luxury brand automobiles was 5.5%, 6.5% and 8.2%; and the gross profit margin of our after-sales businesses was 40.3%, 44.3% and 48.9% during the same periods, respectively. Revenue generated from our new automobile sales business accounted for approximately 91.9%, 90.8% and 91.2% and the revenue generated from our after-sales businesses accounted for approximately 8.1%, 9.2% and 8.8% of our revenue during the same periods. Our profit attributable to owners of the parent for the three years ended December 31, 2008, 2009 and 2010 was RMB218.7 million, RMB470.9 million and RMB1,031.2 million, respectively, representing a CAGR of approximately 117.1% during such periods.

Based on the information provided by ACMR, we accounted for approximately 1.1%, 1.2% and 1.0% of the Chinese passenger car market’s total revenue<sup>1</sup> in 2007, 2008 and 2009, respectively. Our Group was ranked fifth, fourth and seventh among passenger car dealerships in terms of revenue in 2007, 2008 and 2009, respectively, in the PRC.<sup>1</sup>

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<sup>1</sup> The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue referred therein includes VAT.

As a leading national automobile dealership group in the PRC, we believe that as a result of our strong portfolio of luxury and mid-to-high end automobile brands and strategic positioning as a “one-stop automobile shop”, we are well-placed to benefit from the growth of China’s middle-class and the continued rise in the per capita disposable income of Chinese consumers, and further consolidate our market leadership position.

## OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth can be attributed to combination of our competitive strengths:

- We are a leading national automobile dealership group in the PRC by revenue, with a strong presence of 4S dealerships in cities with relatively affluent populations in multiple regions;
- We have a diversified portfolio of luxury and mid-to-high end automobile brands;
- Our customer-focused philosophy and store-level operational expertise have resulted in our highly-ranked 4S dealerships with consistent quality service and satisfactory customer experience;
- We have strong and established working relationships with leading automakers;
- Our large scale operations allow us to achieve economies of scale;
- We are able to grow rapidly both organically and through acquisition;
- We have an experienced senior management team, a deep bench of high-caliber store managers, and access to reliable source of skilled technical personnel; and
- We have efficient information technology systems to support our business.

## RECENT DEVELOPMENTS

During the second half of 2010 and up to the date of this document, we completed a series of significant mergers and acquisitions in order to expand our operations and enhance our competitive strength through achieving better economies of scale, including the acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd., the acquisition of 50% equity interest in B&L Motor Holding Co., Ltd. and the acquisition of 55% equity interest in New Wing Enterprises Limited.

The following table summarizes our significant acquisitions from the second half of 2010 and up to the date of this document.

Name of company	Date of acquisition agreements	% of equity interest held by the Company as of the date of this document	Consideration (RMB million)	Number of 4S stores	Distribution of 4S stores	Main brands
Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd. . . .	July 20, 2010, August 13, 2010 and September 16, 2010	100%	208	6	Fujian Province	DF-Nissan

Name of company	Date of acquisition agreements	% of equity interest held by the Company as of the date of this document	Consideration (RMB million)	Number of 4S stores	Distribution of 4S stores	Main brands
B&L Motor Holding Co., Ltd . . . . .	September 29, 2010	50%	1,100	8	Beijing and Tianjin	Porsche, Mercedes-Benz, Audi, Lamborghini and GZ-Toyota
New Wing Enterprises Limited . . . . .	December 22, 2010	55%	260	15	Liaoning and Shaanxi Province	DF-Nissan, GAC-Toyota and DF-Honda

## OUR STRATEGY

Our aim is to consolidate and retain our position as a leading national automobile dealership group in the PRC. We intend to achieve these goals through a business strategy with the following key aspects:

- Increasing the size of our 4S dealership network by organic growth and through acquisitions;
- Increasing productivity and profitability as well as promoting customer service quality of each of our 4S dealerships;
- Utilizing our existing resources and customer base in new automobile sales to promote our after-sales businesses, including retailing spare parts, providing repair, maintenance and detailing services, and retailing automobile accessories; and
- Expanding our business operations by developing used automobile sales business to complement our existing businesses, and enlarging our employee talent pool to support our continued growth.

## GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on June 23, 2008 as an exempted company with limited liability. Its principal place of business in the PRC is at 9th Floor, Zhongnan Building, 18 Zhonghua West Road, Ganjingzi District, Dalian City, Liaoning Province, PRC. Its place of business in Hong Kong is at Room 3504–12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company completed its initial public offering and listing on Hong Kong Stock Exchange on March 26, 2010. Its ordinary shares are listed under the code “881”.

The Company’s website is [www.zs-group.com.cn](http://www.zs-group.com.cn). Information contained on its website does not constitute part of this document.

## SUMMARY COMBINED AND CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary financial data as of and for the fiscal year ended December 31, 2008 is derived from our audited combined financial information included in the prospectus of the Company dated March 16, 2010 in connection with the offering of new shares of the Company on the Main Board of The Stock Exchange of Hong Kong. The summary financial data as of and for the fiscal year ended December 31, 2009 is derived from our audited combined financial statements included elsewhere in this document. The summary financial data as of and for the fiscal year ended December 31, 2010 is derived from our audited consolidated financial statements included elsewhere in this document. Our combined financial information, combined financial statements and consolidated financial statements have been audited by Ernst & Young, Certified Public Accountants. The combined financial information, combined financial statements and consolidated financial statements have been prepared and presented in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The summary financial data below should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the combined financial information, the combined financial statements and consolidated financial statements and the notes to those statements included elsewhere in this document. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation.*”

### INCOME STATEMENTS

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue .....	10,548,577	13,722,185	24,042,907
Cost of sales and services provided .....	(9,771,214)	(12,542,762)	(21,750,181)
Gross profit .....	777,363	1,179,423	2,292,726
Other income and gains, net .....	33,412	69,203	321,779
Selling and distribution costs .....	(274,317)	(346,521)	(693,372)
Administrative expenses .....	(118,861)	(161,967)	(318,414)
Profit from operations .....	417,597	740,138	1,602,719
Finance costs .....	(104,443)	(80,688)	(226,917)
Share of profits of jointly-controlled entities .....	4,520	7,254	8,195
Profit before tax .....	317,674	666,704	1,383,997
Tax .....	(83,265)	(173,701)	(301,624)
Profit for the year .....	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>
<b>Attributable to:</b>			
Owners of the parent .....	218,702	470,881	1,031,190
Non-controlling interests .....	<u>15,707</u>	<u>22,122</u>	<u>51,183</u>
	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>

## STATEMENTS OF FINANCIAL POSITION

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment .....	548,779	838,379	1,788,709
Land use rights .....	256,987	422,899	700,650
Prepayments .....	33,273	56,271	703,785
Intangible assets .....	100,561	254,632	1,382,349
Goodwill .....	76,566	200,492	790,947
Interest in jointly-controlled entities .....	21,175	38,699	46,894
Available-for-sale investment .....	—	100	178,294
Held-to-maturity investments .....	5,291	5,283	—
Deferred tax assets .....	3,132	4,532	8,785
<b>Total non-current assets .....</b>	<b>1,045,764</b>	<b>1,821,287</b>	<b>5,600,413</b>
Inventories .....	1,133,415	1,024,240	3,453,046
Trade receivables .....	61,443	86,764	284,951
Prepayments, deposits and other receivables .....	724,823	1,113,186	2,615,120
Amounts due from related parties .....	459	556	2,229
Financial assets at fair value through profit or loss ...	—	—	83,369
Term deposits and pledged bank deposits .....	210,720	382,929	1,029,932
Cash in transit .....	29,690	44,542	140,852
Cash and cash equivalents .....	964,245	1,030,960	2,989,718
<b>Total current assets .....</b>	<b>3,124,795</b>	<b>3,683,177</b>	<b>10,599,217</b>
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings .....	1,157,543	1,797,149	4,924,455
Trade and bills payables .....	835,699	1,093,013	2,984,507
Other payables and accruals .....	273,201	277,702	954,396
Amounts due to related parties .....	156,774	24,236	10,026
Income tax payable .....	27,733	60,012	188,161
Dividends payable .....	—	—	919
<b>Total current liabilities .....</b>	<b>2,450,950</b>	<b>3,252,112</b>	<b>9,062,464</b>
<b>NET CURRENT ASSETS .....</b>	<b>673,845</b>	<b>431,065</b>	<b>1,536,753</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES ..</b>	<b>1,719,609</b>	<b>2,252,352</b>	<b>7,137,166</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities .....	33,838	104,545	422,597
<b>NET ASSETS .....</b>	<b>1,685,771</b>	<b>2,147,807</b>	<b>6,714,569</b>

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital .....	—	—	168
Reserves .....	1,633,098	2,110,915	5,742,660
Proposed final dividends .....	—	—	192,765
	<u>1,633,098</u>	<u>2,110,915</u>	<u>5,935,593</u>
Non-controlling interests .....	52,673	36,892	778,976
<b>Total equity .....</b>	<b><u>1,685,771</u></b>	<b><u>2,147,807</u></b>	<b><u>6,714,569</u></b>

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>OTHER FINANCIAL DATA</b>			
EBITDA <sup>1</sup> .....	474,184	825,445	1,744,997
EBITDA margin <sup>2</sup> .....	4.5%	6.0%	7.3%

<sup>1</sup> EBITDA for any year consists of profit for the year less interest income and plus interest expense, taxation, depreciation and amortization. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, you should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. You should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

The following table reconciles our Group's profit for the year under HKFRS to our definition of EBITDA for the years indicated.

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Profit for the year .....	234,409	493,003	1,082,373
Interest expense .....	104,443	80,688	226,917
Interest income .....	(8,795)	(10,100)	(18,954)
Amortization .....	10,008	20,388	43,529
Tax expenses .....	83,265	173,701	301,624
Depreciation .....	50,854	67,765	109,508
<b>EBITDA .....</b>	<b><u>474,184</u></b>	<b><u>825,445</u></b>	<b><u>1,744,997</u></b>

<sup>2</sup> EBITDA margin is calculated by dividing EBITDA by the amount of revenue for the relevant years.

## **RISK FACTORS**

*You should consider carefully the following information about the risks described below, together with the other information contained in this document. If any of the following risks actually occurs, our business, financial condition, operating results or cash flow could be materially and adversely affected. Additional risks or uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. There can be no assurance that any of the events discussed in the risk factors below will not occur.*

### **RISKS RELATING TO OUR BUSINESS**

#### ***The success of our business significantly depends on the automakers in several aspects***

As our new automobile sales business accounts for a substantial portion of our revenue, we depend significantly on the automakers in several aspects. Automakers may act in a manner or be subject to events that in turn could cause us to incur costs, expenses or experience delivery delays. As a result, our business, results of operations, financial condition and growth prospects could be materially and adversely affected by such actions or events. We depend on the automakers for, among other things:

#### ***Supply of high-quality and popular new automobiles and spare parts***

Our new automobile sales are influenced by the automakers' abilities to anticipate changes in consumer tastes, preferences and requirements, including those driven by cultural or environmental changes, and to manufacture and deliver to us in sufficient quantities and on a timely basis, a desirable, high-quality and price competitive mix of new automobiles and spare parts to sell to our customers.

In addition, the automakers' ability to supply high-quality and popular new automobiles and spare parts may be affected by a variety of factors, including economic downturns or recessions, force majeure events such as earthquakes and tsunamis, increases in interest rates, and/or poor product mix or unappealing design, resulting in a change in demand for their automobiles and/or spare parts. The automakers may also alter their annual output due to reasons mentioned above, thus altering the supply of automobiles to all their 4S dealerships, including us. The automakers may also fail to supply us with the automobiles we expect to receive under our allocated sales quota. If the automakers are materially affected and their abilities to design, market or manufacture new automobiles or spare parts are impacted, or if the automakers decide unilaterally to alter the supply of automobiles to us, our business operation will be disrupted and our results of operations, financial condition and growth prospects may be materially and adversely affected.

Specifically, the recent catastrophic earthquake and related tsunami in Japan has also led to a reduction or postponement in production for certain Japanese automakers, including Toyota. We are currently unable to quantify with any degree of certainty the effects of such reduction or postponement in production, as there had been, and we expect there will continue to be, changes to the production schedules of many Japanese automakers. If the reduction or postponement in production of the brands of automobile we retail continues, our business, financial condition and results of operations may be adversely affected.

#### ***Product defects and automobile recalls***

The automakers may be adversely affected by product defects and automobile recalls. During the three years ended December 31, 2010, the automakers conducted automobile recalls for a number of their automobile models that we sold. Such recalls have not caused any material adverse impact on our business, our operational and financial performance as at the date of this document. However, we cannot assure you that such recalls will not materially and adversely affect our revenue and results of operations in the future. Please refer to the section entitled "Our Business — After-sales businesses — Automobile recalls" in this document for details of the automobile recalls conducted by the automakers during the three years ended December 31, 2010.

We cannot assure you that there will not be future automobile recalls affecting the automakers or the models we sell, or that the automakers will conduct future automobile recalls in the same manner as in the past, in particular, a number of recalls of Toyota and Lexus automobiles have been conducted recently. Our customers' confidence in the quality and safety of the automobiles may be impaired due to the recalls, and any product defects or automobile recalls may have an adverse effect on the automakers' and our Group's reputation. As a result, the recalls may lead to cancellation of orders placed by our customers and a drop in demand for our automobiles, which in turn may materially and adversely affect our results of operations and financial condition. Given that Toyota and Lexus are our two largest automobile brands in terms of sales and accounted for approximately 53.0%, 49.5% and 42.3% (in the case of Toyota), and 24.7%, 17.4% and 12.8% (in the case of Lexus) of our revenue generated from new automobile sales for the three years ended December 31, 2008, 2009 and 2010, respectively, we cannot assure you that the recalls by the automakers will not materially and adversely affect our results of operations, financial condition and growth prospects going forward.

*Advertising, marketing and promotional activities of the automakers*

Our new automobile sales business is strongly influenced by the promotional and marketing activities of the automakers designed to spur consumer demand for automobiles. The automakers periodically offer discounts, complimentary products or services, and/or extended product warranties.

The automakers assist us with our advertising, marketing and promotional activities and the production of flyers, brochures and other promotional and point-of-sale materials, as well as other items for our 4S dealerships. In addition, we rely on the automakers for the training of our sales personnel and automotive engineers and technicians to a certain extent. The repair and maintenance services we provide our customers under automobile warranties are part of the automakers' marketing plans and the costs for such services are billed to the relevant automaker instead of the customer.

As a result, changes in these promotional and marketing activities by the automakers may materially and adversely affect our results of operations, financial condition and growth prospects.

***We rely on our dealership agreements with the automakers for the rights to operate our 4S dealerships and for our supply of new automobiles and spare parts***

We rely on the automakers for the rights to operate our 4S dealerships and for the supply of new automobiles and spare parts. Sales of new automobiles account for a substantial portion of our revenue. For the three years ended December 31, 2008, 2009 and 2010, revenue from new automobile sales accounted for 91.9%, 90.8% and 91.2% of our Group's revenue, respectively. Our rights to operate our 4S dealerships and the supply of new automobiles and spare parts are governed by the dealership agreements we entered into with the automakers.

All of our dealership agreements are non-exclusive, must generally be renewed periodically and typically have a term of one year. The automakers have the right to terminate our dealership agreements with prior written notice for a variety of reasons, including failure to rectify performance deficiencies and changes in ownership or management structure that affect our ability to meet our contractual obligations without their prior consent. Please see the section entitled "Business — Our 4S Dealerships" in this document for more information on our dealership agreements.

There can be no assurance that we will be able to renew our dealership agreements on a timely basis, on commercially acceptable terms, or at all, or that our dealership agreements will not be terminated by the automakers for various reasons, including changing their business strategies or taking direct control of the distribution of their automobiles in the PRC.

There can be no assurance that the automakers will not make any decision to restrict, limit or reduce the number of 4S dealerships available to us as part of any change in their future strategies. Should the automakers decide to restrict, limit or reduce the number of 4S dealerships they allow us to operate, or fail to renew or terminate our dealership agreements, our results of operations, financial condition and growth prospects may be materially and adversely affected.

***Our business operations are subject to restrictions imposed by, and significant influence from, the automakers***

The automakers may subject our business operations to various restrictions including:

- setting geographical limitation on our business, restricting our ability to establish or acquire new 4S dealerships;
- precluding us from obtaining additional dealership rights for failing to meet the relevant automaker's performance criteria including criteria relating to sales results, customer satisfaction ratings and store presentation at our 4S dealerships;
- setting price guidelines for the retail sale of their new automobiles or certain spare parts;
- restricting our ability to provide guarantees or other forms of security, thus adversely impacting our ability to obtain financing for our business; and
- influencing the management of our 4S dealerships.

The restrictions imposed by, and significant influence from, the automakers on our business could materially and adversely affect our results of operations, financial condition and growth prospects.

***We rely on dealership agreements with our major suppliers of new automobiles to generate a significant portion of our revenue and profit***

During the three years ended December 31, 2010, Toyota and Lexus (the luxury automobile division of Toyota Motor Corporation) were the two largest automobile brands in our new automobile portfolio based on revenue and volume, and in the case of Toyota, accounting for 53.0%, 49.5% and 42.3%, and in the case of Lexus, accounting for 24.7%, 17.4% and 12.8%, of our revenue generated from new automobile sales for the three years ended December 31, 2008, 2009 and 2010, respectively. Our Toyota and Lexus automobiles are supplied by members or affiliates of the same corporate group, Toyota Motor Corporation. Should Toyota Motor Corporation and/or certain of its subsidiaries or divisions terminate or not renew their agreements with our Group, our results of operations, financial condition and growth prospects may be materially and adversely affected.

***There can be no assurance that we will continue to receive rebates from the automakers***

Our purchase arrangements with the automakers often include volume-based rebates, which are decided with reference to the units of new automobiles purchased, and are adjusted based on our satisfaction of certain targets set by the relevant automakers, including sales targets, customer satisfaction indices, and dealership presentation standards. For the three years ended December 31, 2008, 2009 and 2010, we recorded rebates of approximately RMB171.2 million, RMB252.7 million and RMB872.3 million, respectively. There can be no assurance that the automakers will continue to grant us rebates, or that they will pay any rebate under existing purchase arrangements. Should some or all of the automakers cease to offer such rebates, or alter the conditions by which such rebates are granted, our financial condition and results of operations may be materially and adversely affected.

***We are dependent on third parties for the supplies of automobile accessories***

We are dependent on independent suppliers for the automobile accessories we sell. The success of our after-sales businesses is dependent on these suppliers' abilities to anticipate changes in consumer tastes, preferences and requirements and deliver to us in sufficient quantities and on a timely basis a desirable, high-quality and price competitive mix of automobile accessories to sell to our customers. If our suppliers' products fail to meet our customers' expectations or if we are unable to stock a sufficient range of products, or if our suppliers increase their prices due to increasing demand for their products from other dealerships, our profit margins of these products may be affected, which in turn could materially and adversely affect our results of operations and financial condition.

***Our ability to meet consumer demands for new automobiles, spare parts and automobile accessories, is dependent in part on our ability to maintain a reasonable level of inventory of these products***

We aim to stock a reasonable level of inventory of new automobiles, spare parts and automobile accessories, to respond to customer demand effectively and maintain a diverse range of products at our 4S dealerships and at our automobile accessories exhibition centers. We aim to actively control our inventory turnover efficiency, as slow-moving inventories may be more difficult to sell, be returned to suppliers and/or result in higher levels of write-offs, thereby increasing our overall cost of sales and reducing our profit margins. If we overstock inventory, our required working capital may increase and we may incur additional financing costs. If we understock inventory, our ability to meet our customers' demands may be affected, which may in turn affect our reputation, cause us to forgo revenue, and materially and adversely affect our results of operations and financial condition.

***Our sales may be affected by seasonality***

All of our revenue is derived from our operations in the PRC. We believe that there is a seasonal pattern in the spending behavior of PRC consumers. Periods prior to major holidays in the PRC, such as the Chinese New Year and the National Day holiday in October, have typically coincided with higher revenue recorded for our new automobile sales business. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance.

***The Founders are able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions***

As of the date of this document, approximately 65.29% of our outstanding shares are beneficially owned by the Mr. Huang Yi and Mr. Li Guoqiang (the "Founders"). Subject to compliance with applicable laws, by maintaining such ownership, the Founders are able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In addition, the Founders are also executive directors of the Company and are able to exercise substantial control over our business. In particular, the strategic goals and interests of the Founders may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base.

***We are dependent on our management team, and our business may be severely disrupted if we lose their services***

We believe that our success is largely dependent upon the continued service of the members of our management team, who are critical to establishing our corporate strategies and focus, and ensuring our continued growth. In particular, the Founders, Mr. Huang Yi and Mr. Li Guoqiang, both with over 20 years' experience and expertise in the PRC automobile industry, are crucial to our success.

Our continued success will depend on our ability to attract and retain a qualified and competent management team in order to manage our existing operations and support our expansion plans. We do not maintain keyman insurance for members of our management team. Although we have entered into employment agreements and non-competition agreements with certain members of our management team, the loss of the services of any member of our management team and/or the failure to recruit suitable or comparable replacements on a timely basis could have a significant impact on our ability to manage our business effectively and may reduce our competitiveness, and in turn materially and adversely affect our results of operations, financial condition and growth prospects. We cannot assure you that we will be able to retain our management team or attract and/or integrate suitable or comparable replacements on a timely basis or at all to meet our needs.

***We are dependent on the continued service of, and our ability to attract, train, motivate and retain, our store management, sales personnel and automotive engineers and technicians***

We are dependent on the continued service of, and our ability to attract, train, motivate and retain, our store management, sales personnel and automotive engineers and technicians for the performance and continued success of our business. Due to the strong growth of the PRC economy and the PRC automobile industry, the competition for such personnel is intense. There can be no assurance that we will be able to attract, train, motivate and retain the necessary personnel to grow and develop our business, continue to deliver high-quality sales or customer service, or open new 4S dealerships, quick service shops or automobile accessories exhibition centers. Our financial condition, management and results of operations may be materially and adversely affected if we fail to attract and retain the experienced personnel we need.

***We may not be able to obtain adequate financing on acceptable terms***

Our businesses require significant capital expenditure. In addition to purchasing automobiles, spare parts, automobile accessories, and other automobile-related products, we also require capital to establish and acquire new 4S dealerships, refurbish and maintain existing 4S dealerships, quick service shops and automobile accessories exhibition centers and upgrade our information technology and billing systems.

Our capital expenditures for the three years ended December 31, 2008, 2009 and 2010 were RMB204.9 million, RMB323.0 million and RMB858.9 million, respectively.

Our business also requires adequate financing for our increasing level of inventory and prepayments for new automobiles that we purchase from the automakers. We expect our financing costs to increase as our inventory level and prepayments for new automobiles increase due to the continuing expansion of our businesses.

We have experienced a fluctuation in average selling price of our new automobiles during the three years ended December 31, 2010. Please refer to the section headed “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” for more details. Therefore, there can be no assurance that the cash flow generated by our operations will be sufficient to fund our future operations and expansion plans. We have generally relied on cash generated from our operations as well as bank loans to fund our operations and expansion. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as other factors beyond our control including the global and PRC economies, interest rates, applicable laws, rules and regulations, and the conditions of the PRC automobile market, the PRC automobile dealership industry and the geographical regions we operate in. If we are unable to obtain financing in a timely manner, at a reasonable cost or on reasonable terms, the implementation of our expansion plans may be delayed and our competitive position and growth prospects may be adversely affected.

***Our business is affected by the economic conditions of the PRC and the market conditions where we operate. If we experienced an economic downturn, it could adversely affect our business, liquidity, financial conditions, results of operations and prospects***

Our business is affected by the economic conditions of the PRC and the market conditions where we operate. Demand for our automobiles and other products may decrease if we experienced a downturn, which would adversely impact cash flow generated from our operations. In addition, some of the automakers may also be adversely impacted with declines in profits and production output. Furthermore, the availability of credit to entities, such as ourselves, operating within emerging markets, could be significantly influenced by levels of investor confidence in such markets as a whole and any factors that may impact market confidence could affect the costs or availability of funding for entities within any of these markets. Any challenging market conditions could result in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. If we experienced any prolonged economic downturn or there are prolonged disruptions to the credit markets, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive, and our business may be exposed to a downturn in sales that might be caused by such tightening of credit conditions, and our results of operations, financial condition and prospects may be materially and adversely affected.

***We rely on computer equipment and software systems to manage our operations***

We are dependent on an integrated information management system to manage, supervise and improve ordering, inventory and logistics management and financial and cash management, minimize the costs of maintaining inventory and to improve our overall sales performance. We intend to keep upgrading our existing information technology systems across our distribution network to operate a uniform platform which complements the expansion of our business. In late 2008, we completed the roll-out of our enterprise resource planning system, or ERP, which maintains in a single database the data needed for a variety of business functions such as quota, inventory, financial, human resources and customer relationship management. As our ERP system is newly installed, we cannot assure you that, the transition to our new ERP system, or any future upgrades to our ERP system will not cause disruptions to our business and operations. If our computer equipment or software systems fail, our businesses and operations may be disrupted. Although we believe that our disaster recovery plan and data back-up systems are designed to handle system failures, there can be no assurance that we will be able to implement our disaster recovery plan on a timely basis or at all, or that our data back-up systems will not also be subject to failures. Any failure in our computer equipment and/or software systems could have a material adverse effect on our business, financial condition and results of operations. Our growth may also be restricted by the capacity of our computer equipment and/or software systems to meet the increased needs of larger scale operations.

***We cannot assure you that we will continue to receive the preferential tax treatment currently enjoyed by our Group***

Certain subsidiaries of our Company enjoyed preferential corporate income tax rates which were lower than the standard tax rate during the three years ended December 31, 2010 as approved by the relevant tax authorities or operated in areas with preferential corporate income tax policies in the PRC. In addition, certain subsidiaries, being newly incorporated trading enterprises in the PRC, have obtained approvals from the relevant tax authorities in the PRC for their entitlement to exemption from corporate income tax for the first year after their respective incorporation date.

On March 16, 2007, China's new Enterprise Income Tax Law ("New EIT Law") was announced, followed by the announcement of the related detailed implementation regulations on December 6, 2007, with both taking effect on January 1, 2008. Under the New EIT Law, foreign-invested enterprises and domestic companies are subject to a uniform tax rate of 25%, which is lower than the previous uniform tax rate of 33%. Changes to the PRC taxation laws, rules and regulations mean that comparisons between our past post-tax financial results may not be meaningful and should not be relied upon as indicators of our future performance. Furthermore, there can be no assurance that there will be no further changes to the PRC tax laws that could adversely affect our Group. In addition, any increase in our EIT rate in the future due to the introduction of the New EIT Law could have an adverse effect on our financial condition and results of operations.

***There are significant uncertainties under the New EIT Law relating to our PRC enterprise income tax liabilities***

Under the New EIT Law, the profits of a foreign invested enterprise arising in 2008 and onwards which are distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10.0%. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5.0% if a Hong Kong resident enterprise owns over 25% of a PRC company. Further, according to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知), which became effective on October 1, 2009, the 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under relevant taxation treaties. However, according to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. We cannot assure you that the PRC tax authorities will not levy a higher withholding tax rate to dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

***Under the New EIT Law, we may be classified as a “resident enterprise” of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders***

Under the New EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. As no official interpretation or application of this new “resident enterprise” classification is currently available, it is unclear how the PRC tax authorities will determine whether an entity will be classified as a “resident enterprise”.

If the PRC tax authorities determine that our Cayman Islands holding company is a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations.

In addition to the uncertainty as to the application of the new “resident enterprise” classification, there can be no assurance that the PRC Government will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the New EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the New EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur and/or if such changes are applied retroactively, such changes could materially and adversely affect our results of operations and financial condition.

### ***Implementing our growth strategy may expose us to certain risks***

Our Group's operations have grown rapidly from 15 operating 4S dealerships at the beginning of 2006 to 98 operating 4S dealerships as of the date of this document, and our revenue and profit have grown accordingly. Our growth strategy is to consolidate and retain our position as a leading national automobile dealership group in the PRC by strategically expanding our 4S dealership network, growing each of our after-sales businesses and entering into other automobile-related businesses, including used automobile sales.

There are significant risks involved in our expansion plan, including whether we will be able to: (a) access adequate financial resources; (b) timely determine the magnitude of our expansion; (c) hire, train and maintain sufficient qualified staff; (d) negotiate the terms of new leases, concessions or land use rights successfully for properties in desired locations; (e) obtain appropriate licenses, permits and approvals from relevant PRC governmental authorities on a timely basis; and (f) enter into dealership agreements after a memorandum of cooperation is entered into between our operating entity and the automakers for a specific 4S dealership.

In addition, various factors beyond our control may significantly influence the results of our growth strategy, including general economic conditions in China, particularly in the automobile market and the automobile dealership industry and the specific geographical areas we operate in. Business or operational strategies and policies adopted by the automakers, other suppliers and competitors may also significantly influence the results of our growth strategy.

Our growth strategy includes establishing new 4S dealerships. There can be no assurance that we will be able to identify and secure suitable locations, or that we will be able to enter into new 4S dealership arrangements with the automakers on a timely basis or at all for such new 4S dealerships. The new 4S dealerships may result in additional indebtedness, costs and contingent liabilities and may fail to generate sufficient revenue for us to recover such debt, costs or liabilities. We also intend to grow by, among other strategies, acquiring existing 4S dealerships from third parties and improving their performance. There can be no assurance that we will be able to identify and secure suitable acquisition opportunities, or that we will be able to improve the performance of such acquired 4S dealerships on a timely basis.

The development of our used automobile sales business is also dependent on our ability to procure used automobiles, secure appropriate locations, properly evaluate the potential resale value of used automobiles, detect possible defects in used automobiles.

There can be no assurance that we will be able to sustain our revenue growth or profit margins at historical levels or that we will be able to manage our growth successfully. Should any or all of the risks in relation to our expansion plan eventuate, our results of operations, financial position, and growth prospects could be materially or adversely affected.

### ***We had net cash outflows for operating activities for the year ended December 31, 2010***

We had net cash outflows for operating activities of RMB 855.7 million for the year ended December 31, 2010, primarily due to the opening of a large number of new 4S dealership stores in 2010 as part of our growth strategy.

We cannot assure you that we will not experience periods of net cash outflow for operating activities in the future. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations to meet our debt obligations as they become due and on our ability to maintain adequate external financing to meet our future capital commitments. Any prolonged or significant decrease in our operating cash flows could materially and adversely affect our financial position.

## **RISKS RELATING TO THE PRC AUTOMOBILE INDUSTRY**

### ***Our performance and growth prospects may be adversely affected by the increasingly competitive nature of the PRC automobile industry***

Our business operations are located in the PRC, where market practice allows the automakers to grant non-exclusive dealership rights in the same geographical area. As a result, our results of operations may be affected not only by competition between the automakers in terms of quality, delivery time and price, but also by competition from other dealerships in the same region selling the same brands and models of automobiles as our Group.

An increased number of the automakers and dealers in the PRC automobile industry could impact our market share and result in a decrease in revenue and profit in new automobiles sales, repair maintenance and detailing services and automobile accessories sales, and our growth prospects may be adversely affected.

### ***Strict or stricter fuel economy standards and emission standards, high fuel prices and taxes on automobile consumption and registration restriction rules may restrict the supply of and/or reduce the demand for automobiles, spare parts and automobile accessories in the PRC***

The implementation and enforcement of strict or stricter fuel economy standards and emission standards for automobiles are likely to raise manufacturing and distribution costs for all the automakers. The automakers may raise their pricing guidelines for their automobiles, and consumer demand for automobiles (particularly more expensive automobiles such as the mid-to-high end and luxury brand automobiles retailed by our Group), spare parts, and automobile accessories may decline as a result.

The PRC Government currently subsidises the retail price of petrol. The PRC Government may adjust the domestic oil supply price by considering several factors, including change in global crude oil price. The PRC Government has adjusted the retail petrol price several times in 2010. The fluctuation of petrol prices have led to noticeable changes in the level of demand for fuel in the PRC and disparities in the cost and availability of petrol between different parts of China and made the cost of petrol in the PRC less predictable. If the demand for fuel increases in the PRC, fuel shortages or price increases may occur. Consumers may avoid increased or unpredictable costs or shortages and utilize alternative means of transport such as bicycles, public buses and subways, or purchase more fuel-efficient automobiles.

The PRC Government adopted an automobile consumption tax on April 1, 2006. The increase of applicable tax rates on automobiles with large cylinder capacities took effect on September 1, 2008 pursuant to the “Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles”(關於調整乘用車消費稅政策的通知) as released by the PRC Ministry of Finance and the State Administration of Taxation. Certain of the automobiles we sell have large cylinder capacities and are subject to relatively higher automobile consumption tax rates.

In addition, the reduced automobile consumption tax rate applicable to automobile with an engine capacity of 1.6 liters or less has been increased from 5% to 7.5% with effect from January 1, 2010. We confirm that we have not yet experienced any material impact of the aforementioned policy on our general operations as at the date of this document, and we consider that the increase of the reduced automobile consumption tax rate should not have any significant impact on our Group’s operation and business performance given the contribution of revenue by automobile with capacity of 1.6 liters or less during the three years ended December 31, 2010 was not significant.

In addition, the Beijing municipal government announced on December 23, 2010 the “Provisional Rules on the Control of Passenger Vehicles in Beijing Municipality” (北京市小客車數量調控暫行規定) (“registration restriction rules”) which restricts the number of passenger vehicles that can be registered in Beijing each year.

There can be no assurance that the PRC government will not implement stricter fuel economy standards, emission standards, further increase fuel prices or automobile consumption tax rates, or impose additional restrictions or taxes, or reduce or abort automobile consumption tax cuts or impose registration restriction rules in other cities on the PRC automobile industry. We may not be able to pass on increased costs to consumers, or may face a decline in sales as a result of lower demand or higher prices, and there may be a material and adverse effect on our revenue, profits, and growth prospects.

***Any failure to comply with applicable laws, rules and regulations governing the automobile dealership industry may adversely affect our business***

We operate in a highly regulated industry. We are required to maintain various approvals, licenses and permits for our operations that are specific to the automobile dealership industry. There can be no assurance that the PRC government will not amend or revise existing laws, rules or regulations to require additional approvals, licenses or permits, or to impose stricter requirements to obtain or maintain the approvals, licenses or permits required for our business operations. Any loss of or failure to obtain or renew our approvals, licenses, or permits could disrupt our operations and any fines or other penalties imposed by the PRC government could materially and adversely affect our results of operations, financial position and reputation. Please see the section entitled “Regulations” in this document for more details.

***We are dependent on the automakers and our other suppliers to adhere to all relevant laws and regulations and to avoid material disputes***

We do not exercise any control over the operations of the automakers and other suppliers and we can provide no assurance of their compliance with all applicable laws, rules and regulations, or that they will not be subject to labor disputes or strikes. Any violation of applicable laws, rules and regulations by the automakers and suppliers may have negative consequences, including automobile and other product recall activities and negative publicity.

***There is uncertainty on the interpretation of the current PRC legal position in relation to foreign investment in automobile dealership groups in the PRC***

Automobile distribution in China is a highly regulated industry. Prior to 2001, an automobile dealership group with 30 or more 4S dealerships in the PRC was not permitted to have foreign investment in excess of 49.0% (“30 Dealerships Limitation”).

During China’s accession to the World Trade Organization in 2001, China made a commitment to abolish the 30 Dealerships Limitation within five years of its accession<sup>1</sup>. Accordingly, each of the 2004 Edition of the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄(2004)年修訂) (“Catalogue”) promulgated by the NDRC and MOFCOM on October 30, 2004 which became effective on January 1, 2005, the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) jointly promulgated by MOFCOM, NDRC and the State Administration for Industry and Commerce (“SAIC”) on February 21, 2005 which became effective on April 1, 2005, and the Measures for the Administration on Foreign Investment in Commercial Sector 《外商投資商業領域管理辦法》promulgated by the MOFCOM on April 16, 2004 which became effective on June 1, 2004, provides that the 30 Dealerships Limitation would terminate on December 11, 2006. However, the 2007 Edition of the Catalogue promulgated by the NDRC and MOFCOM on November 30, 2007 which became effective on December 1, 2007, included the 30 Dealerships Limitation. As such, there is uncertainty as to the interpretation of the current PRC legal position in relation to foreign investment in automobile dealership groups with 30 or more 4S dealerships in the PRC.

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<sup>1</sup> China has entered into the Accession to WTO Agreement (中國加入世貿組織議定書) on December 11, 2001, which states that the 30 Dealerships Limitation as stipulated under Annex 9 “Schedule of Specific Commitments on Services” shall be eliminated after five years from the date of accession (i.e. December 11, 2006) when foreign chain store operators shall have the freedom of choice of any partners, legally established in China in accordance with PRC laws and regulations.

Our PRC legal advisers, King & Wood, have advised that the Accession to WTO Agreement is an international treaty which was approved at the 17th meeting of the Standing Committee of the 9th National People's Congress, and the approval of China's accession to the WTO was endorsed by the President of the PRC; whereas the 2007 Edition of the Catalogue was a domestic regulation approved by the relevant domestic ministries and might be revised or interpreted by the relevant authorities. King & Wood have advised that the Accession to WTO Agreement, which is an international treaty, should take precedence over domestic laws and regulations promulgated by the State Council or the relevant ministries or departments (including the 2007 Edition of the Catalogue). King & Wood have further advised that decisions of the approving authorities should not conflict with China's commitment to the WTO regarding the 30 Dealerships Limitation when handling any individual case. Such view has been confirmed by verbal consultations with the competent officials of the relevant approving authority conducted by our Company and King & Wood and supported by the fact that none of our 4S dealerships has encountered any restriction in obtaining approvals from the relevant PRC approving authorities for the incorporation, acquisition and/or operation of additional 4S dealerships of our Group, notwithstanding the number of our 4S dealerships has already exceeded the 30 Dealerships Limitation. Accordingly, King & Wood have advised that it is unlikely that MOFCOM will interpret the 30 Dealerships Limitation differently in the future, which would in turn impact on the approval of new establishment and acquisition of 4S dealerships by our Group.

We plan to establish and acquire additional 4S dealerships in the future and will seek approval from MOFCOM as required under PRC law. Our Group has not encountered any restriction in connection with the 30 Dealerships Limitation as at the date of this document, and King & Wood have advised that regardless of the future interpretation of the 30 Dealerships Limitation, the 30 Dealerships Limitation will not apply retrospectively to the existing dealerships operated by our Group and that the approvals granted to the dealerships of our Group would remain legal, valid and effective for the following reasons: (i) the application for the establishment or acquisition of the dealerships of our Group have been reviewed and approved by MOFCOM or its local counterparts where required; (ii) our Group has applied to appropriate authorities for the approvals in accordance with the relevant laws and regulations; (iii) our Group has provided all information required by the relevant laws and regulations to the relevant authorities; (iv) MOFCOM or its local counterparts have granted such approvals within their jurisdiction; and (v) the competent officials of the relevant approving authority have confirmed, in response to the verbal consultations conducted by our Company and King & Wood, that the 30 Dealerships Limitation was no longer enforced since December 11, 2006 and they approve the establishment and/or acquisition of foreign invested automobile dealerships in accordance with the Measures for the Administration on Foreign Investment in Commercial Sector and the Measures for the Implementation of the Administration of Branded Automobile Sales (both of which provide that the 30 Dealerships Limitation would have been terminated on December 11, 2006) as well as confirmed that our Group will not be penalized for exceeding the 30 Dealerships Limitation.

As such, King & Wood have further advised that the business and 4S dealership network of our Group which have already obtained the approvals from MOFCOM or its local counterparts will not be adversely affected, and that our Group will not be subject to any penalty for exceeding the 30 Dealerships Limitation.

However, we cannot assure you that the relevant PRC authorities will not interpret PRC laws, rules and regulations relevant to our corporate structure differently in the future. If MOFCOM or its local counterparts do not approve our establishment and/or acquisitions in the future, we will not be able to implement our growth strategy by further expanding our 4S dealership network through establishing and/or acquiring additional dealerships. We would only be able to operate our existing dealership which have already obtained the approval from MOFCOM or its local counterparts and further develop our business by increasing the productivity and profitability of our existing dealerships via re-investing our retained earnings in the network.

There can also be no assurance that the PRC Government will not amend or revise existing laws, rules or regulations, or promulgate new laws, rules or regulations, which may be applicable to us, and may materially and adversely affect our corporate structure and expansion strategy. Please also refer to the sections entitled “*Regulations — Foreign Investment in Restricted Industries*” and “*Our Business — Legal Proceedings and Regulatory Compliance*” in this document.

## **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

***The business operations and future growth of our Group rely on the GDP and consumption growth in the PRC market and may be adversely affected by changes in the economic, political and social conditions, globally and in the PRC***

All of our revenue during the three years ended December 31, 2010 was derived from our operations in the PRC. We anticipate that the PRC will remain our primary market in the foreseeable future. One of our strategies is to expand our operations in the PRC. Should there be any adverse change in the GDP and/or consumer spending growth in the PRC, our results of operations, financial condition and growth prospects may be materially and adversely affected.

In the past twenty years, the PRC has been one of the world’s fastest growing economies measured in terms of GDP. However, historically, the PRC Government has taken measures to attempt to slow economic growth to a more manageable level, especially with respect to the rate of growth in industrial production, bank credit, fixed investment and monetary supply. Furthermore, a slowdown in the economies of the United States, the European Union and certain Asian countries may significantly and adversely affect economic growth in the PRC.

Since early 2008, concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the markets in the future. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged recession on a global basis. These events have led the Chinese economy to experience a slowdown. We cannot predict the extent to which the changing global economic conditions will affect GDP and consumer spending in the PRC. In addition, consumer spending can be affected by factors such as changes or developments in economic and financial condition, and social and political stability in the PRC, and other factors which are beyond our control. Any changes in any of these conditions, or any changes in PRC laws, rules and regulations or other policies in reaction to the changing economic conditions could materially and adversely affect our Group.

***Political and economic policies of the PRC Government may affect our business and results of operations and may result in our inability to sustain our growth and expansion plans***

The PRC economy differs from the economies of most developed countries in a number of respects, including the degree of government involvement, control of capital investment, and the overall level of development. Before its adoption of reform and open door policies in 1978, China was primarily a planned economy. In recent years the PRC Government has been reforming the PRC economic system and the government structure. These reforms have resulted in significant economic growth and social progress. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not continue to benefit from all, or any, of these measures. In addition, we cannot predict whether changes in the PRC’s political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition and results of operations.

***Our ability to pay dividends and utilize cash resources in our subsidiaries is dependent upon our PRC subsidiaries' earnings and distributions***

Our Company is a holding company. Our revenue is generated from our business operations conducted through our subsidiaries. Our Company's ability to make dividend payments and other distributions in cash, pay expenses, service any debts incurred, and finance the needs of other subsidiaries, depends upon the receipt of dividends, distributions or advances from our subsidiaries. The ability of our subsidiaries to pay dividends or other distributions may be subject to their earnings, financial position, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements. If any of our subsidiaries incurs debt in its own name, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us. These restrictions could reduce the amount of dividends or other distributions that our Company receives from our subsidiaries, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. Our Company's future declaration of dividends may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their respective reserve funds in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us either in the form of dividends, loans or advances. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Distributions by our PRC subsidiaries to our Company in forms other than dividends may be subject to government approval and taxes. Any transfer of funds from our Company to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration with, or approval of, the relevant PRC Government authorities. In addition, our PRC subsidiaries are not permitted to lend funds directly to each other under Chinese law. These limitations on the flow of funds between and amongst us and our PRC subsidiaries could restrict our ability to respond to changing market conditions or appropriately allocate funds to our PRC subsidiaries in a timely manner, or at all.

***It may be difficult to effect service of process upon, or to enforce against, us or our directors or members of our senior management who reside in the PRC, in connection with judgments obtained in non-PRC courts***

Almost all of our assets and our subsidiaries are located in China. In addition, most of our directors and senior management reside within China, and the assets of our directors and senior management may also be located within China. As a result, it may not be possible to effect service of process outside China upon most of our directors and senior management, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, and many other countries. As a result, recognition and enforcement in the PRC of judgments of courts in some jurisdictions is uncertain.

***The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics***

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or

epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and subsequently, resulting in tremendous loss of lives and injury and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales, which in turn may adversely affect our business, financial condition and results of operations.

In addition, the recent catastrophic earthquake in Japan has also led to a reduction or postponement in production for certain Japanese automakers, including Toyota. If the reduction or postponement in production of the brands of automobile we retail continues, our business, financial condition and results of operations may be adversely affected.

***The state of the PRC's political relationships with other nations may affect the performance of our operations***

We retail automobiles, spare parts, automobile accessories and other automobile-related products supplied by a number of automakers and suppliers. A significant number of the automakers and suppliers are foreign entities with headquarters in Japan or members of the European Union, or are joint ventures incorporated in the PRC by such foreign entities.

China's political relationships with other nations, particularly those connected or associated with the automakers or other suppliers may affect both supply and demand for the relevant automaker or supplier's products. There can be no assurance that PRC consumers will not alter their brand preferences based on the state of political relations between China and the automaker or supplier's real or perceived country of origin. Any relevant political dispute and adverse response to it by PRC automobile consumers may cause a decline in our revenue and profits and materially and adversely affect our financial condition, results of operations and prospects for growth.

## CAPITALIZATION

The following table sets forth on an actual basis, the consolidated cash and cash equivalent, bank loans and other borrowings and capitalization of our Group as of December 31, 2010.

This table should be read in conjunction with our financial statements and related notes included elsewhere in this document.

	As of December 31, 2010
	Actual
	(RMB'000)
<b>Cash and cash equivalent</b> .....	2,989,718
<b>Current liabilities:</b>	
Bank loans and other borrowings .....	4,924,455
<b>Capital and reserves attributable to owners of the parent</b>	
Share capital .....	168
Reserves .....	5,742,660
Proposed final dividends .....	192,765
Non-controlling interests .....	778,976
<b>Total equity</b> .....	6,714,569
<b>Total Capitalization</b> <sup>(1)</sup> .....	11,639,024

*Notes:*

- (1) Total capitalization represents the sum of the total borrowings under current and non-current liabilities and total equity.
- (2) As of December 31, 2010, the Company's subsidiaries had bank loans and other borrowings in the amount of RMB4,924.5 million and capital commitments of approximately RMB257.2 million.

Except as otherwise disclosed herein and other than the drawdown and repayment of bank loans and other borrowings in the normal course of business, there has been no material change in our borrowings and capitalization since December 31, 2010.

## SELECTED COMBINED AND CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected financial data as of and for the fiscal year ended December 31, 2008 is derived from our audited combined financial information included in the prospectus of the Company dated March 16, 2010 in connection with the offering of new shares of the Company on the Main Board of The Stock Exchange of Hong Kong. The selected financial data as of and for the fiscal year ended December 31, 2009 is derived from our audited combined financial statements included elsewhere in this document. The selected financial data as of and for the fiscal year ended December 31, 2010 is derived from our audited consolidated financial statements included elsewhere in this document. Our combined financial information, combined financial statements and consolidated financial statements have been audited by Ernst & Young, Certified Public Accountants. The combined financial information, combined financial statements and consolidated financial statements have been prepared and presented in accordance with HKFRS. The selected financial data below should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the combined financial information, the combined financial statements and consolidated financial statements and the notes to those statements included elsewhere in this document. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation.*”

### INCOME STATEMENTS

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue .....	10,548,577	13,722,185	24,042,907
Cost of sales and services provided .....	(9,771,214)	(12,542,762)	(21,750,181)
Gross profit .....	777,363	1,179,423	2,292,726
Other income and gains, net .....	33,412	69,203	321,779
Selling and distribution costs .....	(274,317)	(346,521)	(693,372)
Administrative expenses .....	(118,861)	(161,967)	(318,414)
Profit from operations .....	417,597	740,138	1,602,719
Finance costs .....	(104,443)	(80,688)	(226,917)
Share of profits of jointly-controlled entities .....	4,520	7,254	8,195
Profit before tax .....	317,674	666,704	1,383,997
Tax .....	(83,265)	(173,701)	(301,624)
Profit for the year/period .....	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>
<b>Attributable to:</b>			
Owners of the parent .....	218,702	470,881	1,031,190
Non-controlling interests .....	<u>15,707</u>	<u>22,122</u>	<u>51,183</u>
	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>

## STATEMENTS OF FINANCIAL POSITION

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment .....	548,779	838,379	1,788,709
Land use rights .....	256,987	422,899	700,650
Prepayments .....	33,273	56,271	703,785
Intangible assets .....	100,561	254,632	1,382,349
Goodwill .....	76,566	200,492	790,947
Interest in jointly-controlled entities .....	21,175	38,699	46,894
Available-for-sale investment .....	—	100	178,294
Held-to-maturity investments .....	5,291	5,283	—
Deferred tax assets .....	3,132	4,532	8,785
<b>Total non-current assets .....</b>	<b>1,045,764</b>	<b>1,821,287</b>	<b>5,600,413</b>
Inventories .....	1,133,415	1,024,240	3,453,046
Trade receivables .....	61,443	86,764	284,951
Prepayments, deposits and other receivables .....	724,823	1,113,186	2,615,120
Amounts due from related parties .....	459	556	2,229
Financial assets at fair value through profit or loss ...	—	—	83,369
Term deposits and pledged bank deposits .....	210,720	382,929	1,029,932
Cash in transit .....	29,690	44,542	140,852
Cash and cash equivalents .....	964,245	1,030,960	2,989,718
<b>Total current assets .....</b>	<b>3,124,795</b>	<b>3,683,177</b>	<b>10,599,217</b>
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings .....	1,157,543	1,797,149	4,924,455
Trade and bills payables .....	835,699	1,093,013	2,984,507
Other payables and accruals .....	273,201	277,702	954,396
Amounts due to related parties .....	156,774	24,236	10,026
Income tax payable .....	27,733	60,012	188,161
Dividends payable .....	—	—	919
<b>Total current liabilities .....</b>	<b>2,450,950</b>	<b>3,252,112</b>	<b>9,062,464</b>
<b>NET CURRENT ASSETS .....</b>	<b>673,845</b>	<b>431,065</b>	<b>1,536,753</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES ..</b>	<b>1,719,609</b>	<b>2,252,352</b>	<b>7,137,166</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities .....	33,838	104,545	422,597
<b>NET ASSETS .....</b>	<b>1,685,771</b>	<b>2,147,807</b>	<b>6,714,569</b>

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital .....	—	—	168
Reserves .....	1,633,098	2,110,915	5,742,660
Proposed final dividends .....	—	—	192,765
	<u>1,633,098</u>	<u>2,110,915</u>	<u>5,935,593</u>
Non-controlling interests .....	52,673	36,892	778,976
<b>Total equity .....</b>	<b><u>1,685,771</u></b>	<b><u>2,147,807</u></b>	<b><u>6,714,569</u></b>
<b>OTHER FINANCIAL DATA</b>			
EBITDA <sup>1</sup> .....	474,184	825,445	1,744,997
EBITDA margin <sup>2</sup> .....	4.5%	6.0%	7.3%

<sup>1</sup> EBITDA for any year consists of profit for the year less interest income and plus interest expense, taxation, depreciation and amortization. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, you should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. You should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

The following table reconciles our Group's profit for the year under HKFRS to our definition of EBITDA for the years indicated.

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Profit for the year .....	234,409	493,003	1,082,373
Interest expense .....	104,443	80,688	226,917
Interest income .....	(8,795)	(10,100)	(18,954)
Amortization .....	10,008	20,388	43,529
Tax expenses .....	83,265	173,701	301,624
Depreciation .....	50,854	67,765	109,508
<b>EBITDA .....</b>	<b><u>474,184</u></b>	<b><u>825,445</u></b>	<b><u>1,744,997</u></b>

<sup>2</sup> EBITDA margin is calculated by dividing EBITDA by the amount of revenue for the relevant years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following is a discussion of our financial condition and results of operations as at and for the years ended December 31, 2008, 2009 and 2010 and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our financial statements included in this document beginning on page F-1. Our Financial Statements have been prepared in accordance with the Hong Kong Financial Reporting Standards, or HKFRS.*

*In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this document, including "Risk Factors."*

### OVERVIEW

We are a leading national automobile dealership group in China by revenue from 2006 to 2009, according to ACMR. Our 4S dealerships<sup>1</sup> are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern regions of China, as well as certain selected inland areas as described in the section entitled "Business" in this document. We have grown rapidly from 15 operating 4S dealerships at the beginning of 2006 to 98 4S dealerships in operation as of the date of this document.

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini and mid-to-high end automobile brands including Toyota, Nissan and Honda. Each of our 4S dealerships is designated to sell one brand of automobiles and to operate at a single point of sales only.

We were the first company being granted dealership rights by Toyota, and one of the first authorized dealerships for Lexus and Audi in China. According to ACMR Survey, we are one of the largest automobile dealership groups in China in terms of sales volume and number of 4S dealerships for Toyota and Lexus. Toyota and Lexus are our two largest automobile brands in terms of sales.

Through our "one-stop automobile shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services. Each of the new automobile sales business and after-sales businesses has its own features in terms of business model and revenue and profitability contributions to our Group.

Our after-sales businesses provide a wide range of services and products to our customers including repair, maintenance, detailing services and automobile accessories. Services under warranties are included in the after-sales business. The profit margins for our after-sales businesses are generally higher than our profit margins for our new automobile sales business. In addition, after-sales businesses generally require relatively less working capital to operate at the 4S dealership level. For further details of our new automobile sales and after-sales businesses, please refer to the section entitled "Our Business" in this document.

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<sup>1</sup> In this document, the term "4S dealership" refers to a dealership authorized to sell the products of a single brand of automobiles. Such dealership integrates four standard automobile-related businesses: sales, spare parts, service and survey, among which survey refers to the function of collecting market information for the automakers

Our revenue for the three years ended December 31, 2008, 2009 and 2010 was RMB10,548.6 million, RMB13,722.2 million and RMB24,042.9 million, respectively, representing a CAGR of approximately 51.0% during such periods. Revenue generated from the sales of our mid-to-high end automobile brands<sup>1</sup> accounted for approximately 65.8%, 69.5% and 62.6% of our new automobile sales revenue for the three years ended December 31, 2008, 2009 and 2010, respectively, while revenue generated from the sales of our luxury automobile brands accounted for approximately 34.2%, 30.5% and 37.4% of our new automobile sales revenue for the same periods. The gross profit margin of our mid-to-high end brand automobiles was 4.0%, 4.5% and 4.4%, the gross profit margin of our luxury brand automobiles was 5.5%, 6.5% and 8.2%, and the gross profit margin of our after-sales businesses was 40.3%, 44.3% and 48.9% during the same periods, respectively. Revenue generated from our new automobile sales business accounted for approximately 91.9%, 90.8% and 91.2% and the revenue generated from our after-sales businesses accounted for approximately 8.1%, 9.2% and 8.8% of our revenue during the same periods. Our profit attributable to owners of the parent for the three years ended December 31, 2008, 2009 and 2010 was RMB218.7 million, RMB470.9 million and RMB 1,031.2 million, respectively, representing a CAGR of approximately 117.1% during such periods.

Based on the information provided by ACMR, we accounted for approximately 1.1%, 1.2% and 1.0% of the Chinese passenger car market in terms of total revenue<sup>2</sup> in 2007, 2008 and 2009, respectively. Our Group was ranked fifth, fourth and seventh among passenger car dealerships in terms of revenue in 2007, 2008 and 2009, respectively, in the PRC.

## RECENT DEVELOPMENTS

During the second half of 2010 and up to the date of this document, we completed a series of major mergers and acquisitions in order to expand our operations and enhance our competitive strength through achieving better economies of scale, including the acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd., the acquisition of 50% equity interest in B&L Motor Holding Co., Ltd. and the acquisition of 55% equity interest in New Wing Enterprises Limited.

The acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd. at the end of 2010 added 6 4S dealerships to our 4S dealership network and further expanded our operational scale and competitive advantages in Fujian Province. Our market share in Fujian Province was also further enlarged as a result.

We acquired 50% equity interest in B&L Motor Holding Co., Ltd. The acquisition of 50% equity interest in B&L Motor Holding Co., Ltd. at the end of 2010 further expanded our operational scale in Beijing and Tianjin, strengthened our market position in these areas and facilitated our ability to provide better services to the high-end customers located in these areas. In addition, the acquisition further enriched our automobile brand mix by introducing new luxurious automobile brands, such as Porsche and Lamborghini.

The acquisition of 55% equity interest in New Wing Enterprise Limited in January 2011 further expanded our operational scale and competitive advantages in Liaoning and Shaanxi Provinces, further enhanced our market position in those areas and facilitated our ability to provide better services to the customers located in those areas.

The following table summarizes our significant acquisitions from the second half of 2010 and up to the date of this document.

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<sup>1</sup> In this document, the term “revenue generated from the sales of automobiles” refers to the sales revenue generated from the sales of automobiles before deducting the applicable sales tax, unless indicated otherwise.

<sup>2</sup> The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue includes VAT.

Name of company	Date of acquisition agreements	% of equity interest held by the Company as of the date of this document	Consideration (RMB million)	Number of 4S stores	Distribution of 4S stores	Main brands
Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd. . . .	July 20, 2010, August 13, 2010 and September 16, 2010	100%	208	6	Fujian Province	DF-Nissan
B&L Motor Holding Co., Ltd . . . . .	September 29, 2010	50%	1,100	8	Beijing and Tianjin	Porsche, Mercedes-Benz, Audi, Lamborghini and GZ-Toyota
New Wing Enterprises Limited . . . . .	December 22, 2010	55%	260	15	Liaoning and Shaanxi Province	DF-Nissan, GAC-Toyota and DF-Honda

## KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following are the key factors driving our results of operations and financial condition:

### China's economic conditions

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures taken by the PRC government. China has experienced rapid economic growth over the past three decades largely as a result of the PRC government's extensive economic reforms, which have focused on transforming China's centrally planned economy to a more market-based economy. The real growth of China's overall economy, ranging from 9.1% to 14.2% annually between 2002 and 2007 and 9.6% and 9.1% in 2008 and 2009, respectively, according to the National Bureau of Statistics of China, has led to increased business activities and significant increases in personal wealth. During the second half of 2008, the global economic slowdown has resulted in an adverse impact on the overall Chinese economy, including the PRC automobile market. As the global economy began to recover at the end of 2009, the Chinese economy had reached GDP growth of 10.7% in the fourth quarter of 2009 and 10.3% in the fourth quarter of 2010 according to the National Bureau of Statistics of China.

### Demand for mid-to-high end and luxury brand automobiles in the PRC

Our results of operations are affected by the demand for mid-to-high end and luxury brand automobiles in the PRC. Market demand for automobiles in China is driven by various factors including, among others, the growth of individual wealth, continued urbanization of the Chinese people and improvement of China's road networks and other infrastructure. The rapid growth of the PRC economy has led to accelerated urbanization and an increase in living standards and per capita disposable income. Furthermore, as per capita disposable income has increased, consumers in the PRC have tended to shift their spending more towards the consumption of branded lifestyle products, including automobiles. Retail sales of mid-to-high end and luxury brand automobiles in China have grown significantly in recent years. According to ACMR, the retail market for mid-to-high end and luxury brand passenger cars in China increased from RMB258 billion in 2006 to RMB1,104 billion in 2010. ACMR also projects that retail sales of mid-to-high end and luxury brand automobiles in the PRC will reach RMB2,126 billion in 2014.

### Our 4S dealership network

Our sales are directly affected by the number, location and performance of our 4S dealerships. In response to the increasing demand for mid-to-high end and luxury brand automobiles, we have rapidly

expanded our 4S dealership network through both organic growth and acquisitions. The number of our 4S dealerships in operation increased from 27 as at January 1, 2008 to 98 as at the date of this document, while our sales volume increased from 41,349 units in 2008 to 100,187 units in 2010.

### Products and services mix

Changes in product and services mix in connection with our sale of goods and provision of services may affect our profitability and total gross profit margin.

We offer a diversified portfolio of mid-to-high end and luxury automobile brands, which bear different gross profit margins. For the three years ended December 31, 2008, 2009 and 2010, the gross profit margins of our mid-to-high end brand automobiles were 4.0%, 4.5% and 4.4%, and the gross profit margins of our luxury brand automobiles were 5.5%, 6.5% and 8.2% over the same periods, respectively. The relatively low gross profit margins of both mid-to-high end and luxury brand automobiles in 2008 reflected the impact of the global economic downturn. The aggregate gross profit margins from our new automobile sales business vary in accordance with the distribution of our sales attributable to mid-to-high end brand automobiles and luxury brand automobiles.

Our after-sales businesses generally have higher gross profit margins than our new automobile sales business. For the three years ended December 31, 2008, 2009 and 2010, the gross profit margins of our after-sales businesses were 40.3%, 44.3% and 48.9%, respectively, while the gross profit margins of our new automobile sales business for the same period were 4.5%, 5.0% and 5.8%, respectively. The gross profit margin of after-sale businesses increased continuously because (i) the sale portion of automobile accessories with high gross profit margins increased as a result of the increased market demand during the period; (ii) the Group established a central purchase department in the second quarter of 2009, which implemented a strict purchase cost control plan and helped the Group to obtain more purchase discounts from the vendors of automobile accessories; and (iii) the group enhanced internal management to reduce the consumption of materials in providing after-sales services. Our after-sales businesses accounted for 8.1%, 9.2% and 8.8% of our revenue and 44.2%, 47.2% and 44.9% of our gross profit for the three years ended December 31, 2008, 2009 and 2010, respectively. Although a substantial portion of our revenue is currently generated from our new automobile sales business, the proportion of revenue and profit contributed by our after-sales businesses has increased throughout the three years ended December 31, 2010, primarily due to the rapid expansion of our after-sales customer base and increase in demand for repair, maintenance and detailing services and automobile accessories in China. We expect to continue expanding our after-sales businesses to meet the increasing market demand.

The following table sets out the gross profit margin of our new automobile sales business and after-sales businesses for the periods indicated, respectively:

	Years ended December 31,		
	2008	2009	2010
	(%)	(%)	(%)
New automobile sales business			
Mid-to-high end automobile brands .....	4.0	4.5	4.4
Luxury automobile brands .....	5.5	6.5	8.2
Average of new automobile sales .....	4.5	5.0	5.8
After-sales businesses .....	40.3	44.3	48.9
Overall average .....	7.4	8.6	9.5

### Cost of sales and services and rebates

Our cost of sales and services primarily comprise the purchase cost of new automobiles from automakers. For the three years ended December 31, 2008, 2009 and 2010, the cost of sales and services expressed as a percentage of revenue was 92.6%, 91.4% and 90.5%, respectively. Over the same periods, the purchase costs of new automobiles represented 94.8%, 94.4% and 95.1% of our cost of sales and

services, respectively. The purchase costs of new automobiles are largely determined by the automakers, and we do not exercise any control or influence over their operations, strategies or business policies.

The other component of our cost of sales and services relates to the costs involved in our after-sales businesses, comprised primarily of the cost of purchasing spare parts for our repair, maintenance and detailing services business and the cost of purchasing automobile accessories supplied to our customers.

Our purchase arrangements with the automakers often include volume-based rebates, which are decided with reference to the units of new automobiles purchased and adjusted based on our satisfaction of certain targets set by the relevant automakers, including sales targets, customer satisfaction indices and dealership presentation standards. The automakers will settle the rebates with us from time to time taking into account the above factors by deducting the price payable by the Group in the subsequent purchases placed by the Group. For the three years ended December 31, 2008, 2009 and 2010, we recorded rebates of approximately RMB171.2 million, RMB252.7 million and RMB872.3 million, respectively. Our Company confirms that the provision of rebates by the automakers is a common industry practice and the rates of the rebates that we have received are in line with market rates.

Any significant change to our cost of sales and services, in particular the cost of new automobiles, or the rebates, will affect our results of operations and financial condition.

#### **Terms and conditions of our dealership agreements with automakers**

The automakers grant us the rights to operate our 4S dealerships and supply new automobiles and spare parts to us. Accordingly, our results of operations and financial condition are affected by the terms and conditions of our dealership agreements with the automakers. For example, the automakers may impose various restrictions on the dealership agreements, such as setting geographical limitation, precluding us from obtaining additional dealership rights, and setting retail price guidelines for new automobiles or certain spare parts. Such contractual restrictions and any future changes to them may affect our competitiveness in regard to our pricing policy, ability to meet customers' demands, product mix, management of our 4S dealerships, and other aspects of our operation, as well as our financial condition.

#### **Pricing**

We face increasing competition in the PRC and our results of operations may be affected not only by competition among automakers in terms of quality, delivery time and price, but also by competition from other dealerships in the same region who sell the same brands and models of automobiles as we do. Please see the section entitled "*Risk Factors — Risks Relating to the PRC Automobile Industry — Our performance and growth prospects may be adversely affected by the increasingly competitive nature of the PRC automobile industry*" in this document for more details.

The overall average selling price of the new automobiles sold decreased from RMB234,637 for 2008 to RMB203,083 for 2009, and increased to RMB219,189 for 2010. The decrease in overall average selling price in 2009 compared to 2008 was primarily due to a decrease in the selling prices of certain brands of new automobiles sold by us, an increase in entry-level luxury automobiles in our product mix as well as an increase in our sales of automobile models produced locally that were previously imported. The increase in the overall average selling price in 2010 compared to 2009 was primarily due to an increase in the proportion of our sales attributable to luxury automobiles compared to our sales attributable to other products, which was primarily due to the opening of new 4S stores for luxury brands.

The following table sets forth a breakdown of the average selling price of our new automobile sales for the periods indicated:

	Years ended December 31,		
	2008	2009	2010
	(RMB)	(RMB)	(RMB)
Mid-to-high end automobile brands <sup>(1)</sup> .....	184,118	162,060	164,472
Luxury automobile brands <sup>(1)</sup> .....	497,723	481,022	494,924
Overall average <sup>(2)</sup> .....	234,637	203,083	219,189

*Notes:*

- (1) The average selling price for this catalogue is calculated by dividing the revenue generated through sales of the automobiles of this catalogue, by the total number of automobiles of the catalogue sold by us during the relevant year or period.
- (2) The overall average selling price is calculated by dividing the total revenue generated through sales of automobiles, by the total number of automobiles sold by us during the relevant year or period.

## **Taxation**

During the three years ended December 31, 2010, some of our subsidiaries in the PRC enjoyed tax preferential treatments pursuant to applicable tax laws and regulations of the PRC and local policies. These subsidiaries were entitled to exemptions from and/or reductions of the state or local enterprise income tax for certain years as confirmed by the relevant tax authorities in the PRC. For the three years ended December 31, 2008, 2009 and 2010, our effective tax rate was 26.2%, 26.1% and 21.8%, respectively. According to the New EIT Law which became effective on 1 January 2008, the statutory income tax rate of domestic companies was reduced from 33% to 25%. All of our PRC subsidiaries have been subject to the statutory income tax rate of 25% since 2008, except for Shenzhen Zhongsheng Toyota Sales and Services Co., Ltd., which was, or is, as the case may be, required to pay income tax at a tax rate of 20%, 22% and 24% for 2009, 2010 and 2011, respectively, and will start paying income tax at the statutory tax rate of 25% from 2012.

Sales of new automobiles, spare parts and automobile accessories and revenues generated from our provision of repair, maintenance and detailing services are generally subject to a 17% value-added tax (VAT). Any modification of the foregoing tax treatments currently applicable to our subsidiaries and jointly-controlled entities will affect our financial condition and results of operations.

## **Seasonality**

We have over the three years ended December 31, 2010 recorded higher revenues from new automobile sales in the first and fourth quarters of each year, which reflects higher spending patterns of PRC customers coinciding with periods before major holidays in the PRC, such as the Chinese New Year in the first quarter and the National Day holiday in the fourth quarter. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between same periods in different financial years, may not be meaningful and should not be relied upon as indicators of our performance. Please see the section headed “*Risk Factors — Risks Relating to Our Business — Our sales may be affected by seasonality*” in this document.

## **BASIS OF PRESENTATION**

This document includes our combined financial statements for the year ended December 31, 2009 and the consolidated financial statement for the year ended December 31, 2010.

Through a group reorganization (the “Reorganization”) conducted in preparation for the public listing of the Company’s shares on the Main Board of Hong Kong Stock Exchange in March 2010, the Company became the holding company of the companies now comprising the Group on February 22, 2010. Since Mr. Huang Yi and Mr. Li Guoqiang (the “Controlling Shareholder”) control the Group before and after the Reorganization, the Reorganization is accounted for as a reorganization under common control using the principles of merger accounting in accordance with Accounting Guidance 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”)

The combined financial statements of the Group for the year ended December 31, 2009 and the related notes thereto have been presented in these financial statements on the principle of merger accounting such that the Company was treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on February 22, 2010. Upon completion of the Reorganization on February 22, 2010, the consolidated financial statements of the Group for the year ended December 31, 2010 and the related notes thereto have been presented in these financial statements as the Company together with its subsidiaries could be regarded and accounted for as a continuing group in the preparation of the Group’s financial statements commencing from the year ended December 31, 2010.

The acquisitions of all other subsidiaries during the three years ended December 31, 2010 were accounted for using the purchase method of accounting.

## **CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in the financial statements included elsewhere in this document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

### **Judgments and Estimates**

The preparation of our Group’s financial statements requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

## ***Judgments***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

### ***Deferred tax assets***

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets recognised were RMB3.1 million, RMB4.5 million and RMB8.8 million as at December 31, 2008, 2009 and 2010, respectively.

### ***Estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### ***Impairment of goodwill***

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were RMB76.6 million, RMB200.5 million and RMB790.9 million as at December 31, 2008, 2009 and 2010, respectively.

### ***Impairment of non-financial assets (other than goodwill)***

We assess whether there are any indicators of impairment for all non-financial assets at each reporting date. Intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, our management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### ***Impairment of available-for-sale financial assets***

We classify certain assets as available for sale and recognise movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At December 31, 2010, no impairment losses have been recognised for available-for-sale assets.

### ***Useful lives of intangible assets***

The intangible assets are depreciated on a straight-line basis by taking into account the residual value. We review the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. We will increase the amortization charges when useful lives becomes shorter than previously estimated.

## **DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS**

The following summarizes components of certain items appearing in the financial statements included elsewhere in this document, which we believe will be helpful in understanding the period-to-period discussion that follows below.

## Revenue

Our new automobile sales business generated a substantial portion of our revenue, accounting for 91.9%, 90.8% and 91.2% of our revenue for the three years ended December 31, 2008, 2009 and 2010, respectively. The remaining portion of our revenue during the three years ended December 31, 2010 was generated by our after-sales businesses. All of our revenue is derived from our operations in the PRC. We experienced a fluctuation in average selling price of our new automobiles during the three years ended December 31, 2010 and a slowdown in the growth of new automobile sales volume in 2008 as a result of the global economic downturn. Our revenue generated from our operations in Liaoning Province represented 45%, 42% and 35% of our total revenue for the three years ended December 31, 2008, 2009 and 2010, respectively. The decrease in the proportion of our revenue from Liaoning Province was primarily due to the continuing increase in revenue from other regions, which in turn reflected our business expansion in such other regions.

During the three years ended December 31, 2008, 2009 and 2010, revenue from sales of mid-to-high end brand automobiles was RMB6,386.7 million, RMB8,679.6 million and RMB 13,749.5 million, accounting for 65.8%, 69.5% and 62.6% of our revenue from new automobile sales, respectively. Revenue from sales of our luxury brand automobiles was RMB3,315.3 million, RMB3,802.5 million and RMB 8,210.3 million, accounting for 34.2%, 30.5% and 37.4% of our revenue from new automobile sales, for the same periods, respectively.

Our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services. Revenue from our after-sales businesses was RMB853.1 million, RMB 1,255.8 million and RMB 2,106.0 million for the three years ended December 31, 2008, 2009 and 2010, respectively, accounting for 8.1%, 9.2% and 8.8% of our total revenue, for the same periods, respectively. Gross profit for our after-sales businesses was RMB343.4 million, RMB556.5 million and 1,030.3 million for the three years ended December 31, 2008, 2009 and 2010, respectively, and gross profit margin of 40.3%, 44.3% and 48.9% for the same periods, respectively.

We provide repair and maintenance services under warranties which are subject to the terms of sale to our customers, who purchase new automobiles through our 4S dealerships. The automakers set the price that we charge for providing repair and maintenance services under warranties. We derive gross profit from the difference between the fee charged and the cost of providing such services. During the three years ended December 31, 2010, none of our claims for payment for repairs performed under warranty was rejected by the automaker and the contribution of revenue from repair and maintenance services under warranties to the total revenue from our after-sales businesses was insignificant.

## Cost of sales and services

Our cost of sales and services primarily comprises the cost of the new automobiles purchased from automakers, which represented 94.8%, 94.4% and 95.1% of our total cost of sales and services for the three years ended December 31, 2008, 2009 and 2010, respectively. Our cost of sales and services also includes the costs involved in our after-sales businesses, primarily the cost of purchasing spare parts for our repair, maintenance and detailing services business and the cost of purchasing automobile accessories supplied to our customers. For the three years ended December 31, 2008, 2009 and 2010, our cost of sales and services represented 92.6%, 91.4% and 90.5% of our revenue, respectively.

## Other income and gains

Our other income and gains primarily include commission received from insurance companies which provide their services to our customers at our 4S dealerships, interest income from bank deposits, net gains on disposal on property, plant and equipment and net gain on disposal of land use right.

We received RMB2.1 million, RMB0.1 million and RMB4.8 million of government grants from local government authorities for the three years ended December 31, 2008, 2009 and 2010, respectively, which were given on a non-recurring basis to encourage our business development. We understand that there is no specific standard for the entitlements to the grants and the grants received by us were given by the relevant local government authorities at their discretion.

For the three years ended December 31, 2008, 2009 and 2010, our other income and gains represented 0.3%, 0.5% and 1.3% of our revenue, respectively.

### **Selling and distribution costs**

Our selling and distribution costs primarily include salary expenses and welfare costs, advertising and promotion expenses and provisions for depreciation. For the three years ended December 31, 2008, 2009 and 2010, our selling and distribution costs represented 2.6%, 2.5% and 2.9% of our revenue, respectively.

### **Administrative expenses**

Our administrative expenses primarily include expenditure on office supplies, entertainment expenses, taxation, utilities fees and travelling expenses. For the three years ended December 31, 2008, 2009 and 2010, our administrative expenses represented 1.1%, 1.2% and 1.3% of our revenue, respectively.

### **Finance costs**

Our finance costs primarily include interest expenses on bank borrowings and other borrowings. For the three years ended December 31, 2008, 2009 and 2010, finance costs represented 1.0%, 0.6% and 0.9% of our revenue, respectively. Our business requires sufficient financing for our increasing inventory level and prepayments for new automobiles that we purchased from the automakers. We expect the finance costs of the Group to increase as our inventory level and prepayments for new automobiles increase due to the continuing expansion of our business.

### **Share of profits of jointly-controlled entities**

A jointly-controlled entity is an entity subject to joint control, resulting in none of the participating parties having unilateral control over the entity's economic activity.

Our Group has a 50% interest in Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. (廈門中升豐田汽車銷售服務有限公司) ("Xiamen Zhongsheng"), which is a 4S dealership operating Toyota brand. Xiamen Zhongsheng is accounted for as a jointly-controlled entity of our Company, not a subsidiary. Our Group's interest in Xiamen Zhongsheng is stated in the combined balance sheet at our Group's share of net assets under the equity method of accounting, less any impairment loss. Our Group's share of the results of Xiamen Zhongsheng is included in our combined income statement as share of profits of jointly-controlled entities. The remaining 50% interest in Xiamen Zhongsheng is owned by Xiamen ITG Motors Co., Ltd. (廈門國貿汽車股份有限公司), an Independent Third Party 4S dealership group and a subsidiary of Xiamen International Trade Group Co., Ltd. (廈門國貿集團股份有限公司). Xiamen International Trade Group Co., Ltd. is listed on the Shanghai Stock Exchange.

Our Group has a 50% interest in Zhongsheng Tacti Automobile Services (Dalian) Co., Ltd. ("Zhongsheng Tacti"). Zhongsheng Tacti, which provides quick automobile repair services in China, is accounted for as a jointly-controlled entity of our Company, not a subsidiary. It is not an affiliate of our Company.

### **Tax**

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet that for a period of twenty years from July 1, 2008 no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to our Company or its operations. In addition, no tax to be levied on profits, income gains or appreciations or which is in the notice of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of our Company; or (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered as business companies office only) or carry on any business in the BVI.

Our subsidiaries incorporated in Hong Kong were subject to an income tax at the rates of, 16.5%, 16.5% and 16.5% in 2008, 2009 and 2010, respectively.

The National People's Congress approved the New EIT Law on March 16, 2007 and the State Council has announced the detailed implementation regulations to the New EIT Law on December 6, 2007, both of which have been effective since January 1, 2008. According to the New EIT Law, the income tax rates for both domestic and foreign investment enterprises in the PRC were unified at 25% effective from January 1, 2008.

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. See the section entitled "*Risk Factors — Risks relating to conducting business in the PRC — There are significant uncertainties under the New EIT Law relating to our PRC enterprise income tax liabilities*".

## RESULTS OF OPERATIONS

The following table sets forth information relating to certain income and expense items from our combined/consolidated income statement, for the years indicated:

	Year ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue .....	10,548,577	13,722,185	24,042,907
Cost of sales and services provided .....	(9,771,214)	(12,542,762)	(21,750,181)
Gross profit .....	777,363	1,179,423	2,292,726
Other income and gains, net .....	33,412	69,203	321,779
Selling and distribution costs .....	(274,317)	(346,521)	(693,372)
Administrative expenses .....	(118,861)	(161,967)	(318,414)
Profit from operations .....	417,597	740,138	1,602,719
Finance costs .....	(104,443)	(80,688)	(226,917)
Share of profits of jointly-controlled entities ....	4,520	7,254	8,195
Profit before tax .....	317,674	666,704	1,383,997
Tax .....	(83,265)	(173,701)	(301,624)
Profit for the year/period .....	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>
Attributable to:			
Owners of the parent .....	218,702	470,881	1,031,190
Non-controlling interests .....	<u>15,707</u>	<u>22,122</u>	<u>51,183</u>
	<u>234,409</u>	<u>493,003</u>	<u>1,082,373</u>

The following tables set out our gross profit and gross profit margin by product and service categories for the periods indicated:

	Years ended December 31,					
	2008		2009		2010	
	Amount (RMB'000)	(%)	Amount (RMB'000)	(%)	Amount (RMB'000)	(%)
Gross profit from:						
— New automobile sales business .....	433,977	55.8	622,945	52.8	1,262,437	55.1
— After-sales businesses .....	343,386	44.2	556,478	47.2	1,030,289	44.9
	<u>777,363</u>	<u>100.0</u>	<u>1,179,423</u>	<u>100.0</u>	<u>2,292,726</u>	<u>100.0</u>

	Years ended December 31,					
	2008		2009		2010	
	(%)	(%)	(%)	(%)	(%)	(%)
Gross profit margin						
— New automobile sales business. ....		4.5		5.0		5.8
— After-sales businesses .....		40.3		44.3		48.9
Overall average .....		7.4		8.6		9.5

The following table sets forth a breakdown of sales volume of our new automobile sales for the periods indicated:

	Years ended December 31,					
	2008		2009		2010	
	Units	(%)	Units	(%)	Units	(%)
Mid-to-high end automobile brands .....	34,688	83.9	53,558	87.1	83,598	83.4
Luxury automobile brands .....	6,661	16.1	7,905	12.9	16,589	16.6
Total .....	<u>41,349</u>	<u>100.0</u>	<u>61,463</u>	<u>100.0</u>	<u>100,187</u>	<u>100.0</u>

### The year ended December 31, 2010 compared with the year ended December 31, 2009

The following discussion is based on, and should be read in conjunction with, the combined financial statements for the year ended December 31, 2009 and the consolidated financial statements for year ended December 31, 2010 included elsewhere in this document.

#### Revenue

Revenue for the year ended December 31, 2010 was RMB 24,042.9 million, an increase of RMB 10,320.7 million, or 75.2% compared to the same period of 2009. This increase was primarily due to an increase of RMB 9,470.5 million, or 76.0%, in new automobile sales compared to the same period of 2009. In addition, our revenue from our after-sales businesses increased by RMB 850.2 million, or 67.7% compared to the same period of 2009, as a result of the expansion of our business and the growing recognition of our “Zhongsheng” brand.

The increase in revenue from new automobile sales for the year ended December 31, 2010 was due to an increase in our sales volume from 61,463 units for the year ended December 31, 2009 to 100,187 units for the same period in 2010, representing an increase of 63% and an increase in the average selling

price of our new automobiles from RMB203,083 in 2009 to RMB219,189 in 2010. Such increase in average selling prices was attributable to, among other factors, an increase in the proportion of our sales attributable to luxury automobiles as compared to our sales attributable to other products, which was primarily due to the opening of new 4S stores for luxury brands.

In terms of product mix, revenue from sale of mid-to-high end brand automobiles increased by 58.4% to RMB13,749.5 million for the year ended December 31, 2010, compared to RMB8,679.6 million for the year ended December 31, 2009. Revenue from luxury brand automobiles increased by 115.9% to RMB8,210.3 million for the year ended December 31, 2010, compared to RMB3,802.5 million for the year ended December 31, 2009. Sales of mid-to-high end brand automobiles represented 69.5% and 62.6% of our total revenue from new automobile sales for the year ended December 31, 2009 and 2010, respectively. Sales of luxury brand automobiles represented 30.5% and 37.4% of our total revenue from new automobile sales for the year ended December 31, 2009 and 2010, respectively.

#### ***Cost of sales and services***

Cost of sales and services for the year ended December 31, 2010 was RMB 21,750.2 million, an increase of RMB 9,207.4 million, or 73.4% compared with the same period of 2009. The increase was attributable to the continuous expansion of our business, and was primarily due to our increased purchases of automobiles, spare parts and automobile accessories. Costs attributable to our new automobile sales business amounted to RMB 20,674.4 million for the year ended December 31, 2010, an increase of RMB 8,831.0 million, or 74.6%, from the same period in 2009. Costs attributable to our after-sales businesses amounted to RMB1,075.8 million for the year ended December 31, 2010, an increase of RMB 376.4 million, or 53.8% from the same period in 2009.

#### ***Gross profit***

Gross profit for the year ended December 31, 2010 was RMB 2,292.7 million, an increase of RMB 1,113.3 million, or 94.4% from the same period in 2009. Of which, the gross profit from new automobile sales business was RMB 1,262.4 million, an increase of RMB 639.5 million or 102.7% from the same period in 2009. Gross profit from after-sales services was RMB1,030.3 million, an increase of RMB473.8 million or 85.1% from the same period in 2009. As at December 31, 2010, the contribution to gross profit from after-sales services accounted for 44.9% of the total gross profit for the year. Our gross profit margin for the year ended December 31, 2010 was 9.5%, compared with 8.6% for the same period in 2009. The gross profit margin of new automobile sales business was 5.8% in 2010. Gross profit margin of after-sales services was 48.9% in 2010. The increase in gross profit margin in the year ended December 31, 2010 was primarily due to our brand mix optimization and our achievements in cost reduction through strengthened internal management of our 4S dealerships and centralized procurement of automobile products at the group level.

#### ***Other income and gains***

Our other income and gains were RMB321.8 million for the year ended December 31, 2010, an increase of RMB252.6 million, or 365.0%, from RMB69.2 million for the same period of 2009. This increase was primarily due to the increase in commission income received from insurance companies serving our customers in our 4S dealerships. The growth of our commission income is attributable to an increase in our new automobile sales. Commission income amounted to RMB113.6 million for the year ended December 31, 2010, an increase of RMB67.1 million, or 144.3%, from RMB46.5 million for the same period in 2009. Increase in other income and gains was also attributable to net gains on disposal of property, plant and equipment of RMB69.7 million and net gain on disposal of land use right of RMB46.0 million in 2010 in connection with the relocation of certain of our premises as a result of changes in city planning made by local governments.

#### ***Selling and distribution costs***

Selling and distribution costs for the year ended December 31, 2010 were RMB693.4 million, an increase of RMB346.9 million, or 100.1%, from RMB346.5 million for the same period in 2009. The

increase was primarily due to an increase in our salary and welfare expenses as we employed more people to support our increased sales and an increase in depreciation primarily due to the increase in the number and scale of our 4S dealerships during the period.

#### ***Administrative expenses***

Administrative expenses for the year ended December 31, 2010 were RMB318.4 million, an increase of RMB156.4 million, or 96.5%, from RMB162.0 million for the same period in 2009. This increase was consistent with our expanded operations and primarily attributable to an increase in our rental expenses for our 4S dealerships and an increase in our salaries and welfares paid to our administrative personnel, primarily due to the increase in the number and scale of our 4S dealerships during that period.

#### ***Profit from operations***

Profit from operations for the year ended December 31, 2010 was RMB 1,602.7 million, an increase of RMB862.6 million, or 116.6%, from the same period in 2009. Our operating profit margin for the year ended December 31, 2010 was 6.7%, compared with 5.4% for the same period in 2009.

#### ***Finance costs***

Our finance costs for the year ended December 31, 2010 were RMB226.9 million, an increase of RMB146.2 million, or 181.2%, from RMB80.7 million for the same period in 2009. The increase was primarily due to an increase in the average interest rate of our bank loans and other borrowings and an increase in the average balance of our loans and other borrowings attributable to the increased purchases of new cars and expansion of dealerships during the year ended December 31, 2010.

#### ***Share of profits of jointly-controlled entities***

Our share of profits of our jointly-controlled entities, Xiamen Zhongsheng and Zhongsheng Tacti, was RMB8.2 million for the year ended December 31, 2010, an increase of 0.9 million, or 12.3%, from RMB7.3 million for the same period in 2009.

#### ***Profit before tax***

Our profit before tax for the year ended December 31, 2010 was RMB1,384.0 million, an increase of RMB717.3 million, or 107.6%, from RMB666.7 million for the same period in 2009.

#### ***Tax***

Our tax for the year ended December 31, 2010 was RMB 301.6 million, an increase of RMB127.9 million, or 73.6%, from RMB173.7 million for the same period in 2009. The increase was primarily due to the significant increase in our profit before tax during the period. In addition, some of our subsidiaries in the PRC ceased to enjoy preferential tax treatments and started to pay normal income tax rate since 2010 in accordance with the New EIT Law. Please see “— *Factors Affecting Our Results of Operations — Taxation*”.

#### ***Profit for the year.***

Our profit for the year ended December 31, 2010 was RMB 1,082.4 million, an increase of RMB589.4 million, or 119.6%, from the same period in 2009. Our profit margin for the year ended December 31, 2010 was 4.5%, compared with 3.6% for the same period in 2009.

#### ***Profit attributable to owners of the parent***

Our profit attributable to equity holders of our Company for the year ended December 31, 2010 was RMB 1,031.2 million, an increase of RMB560.3 million, or 119.0%, from RMB470.9 million for the same period in 2009.

### ***Profit attributable to non-controlling interests***

Our profit attributable to non-controlling interests was RMB51.2 million for the year ended December 31, 2010, an increase of RMB29.1 million, or 131.7%, from RMB22.1 million for the same period in 2009.

### **The year ended December 31, 2009 compared with the year ended December 31, 2008**

The following discussion is based on, and should be read in conjunction with the combined financial information for the year ended December 31, 2008 and the combined financial statements for the year ended December 31, 2009.

### ***Revenue***

Revenue for the year ended December 31, 2009 was RMB13,722.2 million, an increase of RMB3,173.6 million, or 30.1% compared to the same period of 2008. This increase was primarily due to an increase of RMB2,770.9 million, or 28.6%, in new automobile sales compared to the same period of 2008. In addition, our revenue from our after-sales businesses increased by RMB402.7 million, or 47.2% compared to the same period of 2008, as a result of the expansion of our business and the growing recognition of our “Zhongsheng” brand. The increase in revenue from new automobile sales for the year ended December 31, 2009 was due to an increase in our sales volume from 41,349 units for the year ended December 31, 2008 to 61,463 units for the same period in 2009, representing an increase of 48.6%. The effect of such increase in sales volume was partially offset by the decline in the average selling price of our new automobiles from RMB234,637 in 2008 to RMB203,083 in 2009. Such decrease in average selling prices was attributable to, among other factors, a decrease in the selling prices of certain brands of new automobiles sold, an increase in entry-level luxury automobiles in our product mix as well as an increase in our sales of automobile models produced locally which were previously imported.

In terms of product mix, revenue from sale of mid-to-high end brand automobiles increased by 35.9% to RMB8,679.6 million for the year ended December 31, 2009, compared to RMB6,386.7 million for the year ended December 31, 2008. Revenue from luxury brand automobiles increased by 14.7% to RMB3,802.5 million for the year ended December 31, 2009, compared to RMB3,315.3 million for the year ended December 31, 2008. Sales of mid-to-high end brand automobiles represented 65.8% and 69.5% of our total revenue from new automobile sales for the year ended December 31, 2008 and 2009, respectively. Sales of luxury brand automobiles represented 34.2% and 30.5% of our total revenue from new automobile sales for the year ended December 31, 2008 and 2009, respectively.

### ***Cost of sales and services***

Cost of sales and services for the year ended December 31, 2009 was RMB12,542.8 million, an increase of RMB2,771.5 million, or 28.4% compared with the same period of 2008. The increase was attributable to the continuous expansion of our business, and was primarily due to our increased purchases of automobiles, spare parts and automobile accessories. Costs attributable to our new automobile sales business amounted to RMB11,843.4 million for the year ended December 31, 2009, an increase of RMB2,581.9 million, or 27.9%, from the same period in 2008. Costs attributable to our after-sales businesses amounted to RMB699.3 million for the year ended December 31, 2009, an increase of RMB189.6 million, or 37.2% from the same period in 2008.

### ***Gross profit***

Gross profit for the year ended December 31, 2009 was RMB1,179.4 million, an increase of RMB402.1 million, or 51.7% from the same period in 2008. Of which, the gross profit from new automobile sales business was RMB622.9 million, an increase of RMB189.0 million or 43.5% from the same period in 2008. Gross profit from after-sales services was RMB556.5 million, an increase of RMB213.1 million or 62.1% from the same period in 2008. As at December 31, 2009, the contribution to gross profit from after-sales services accounted for 47.2% of the total gross profit for the year. Our gross profit margin for the year ended December 31, 2009 was 8.6%, compared with 7.4% for the same period

in 2008. The gross profit margin of new automobile sales business was 5.0% for the year ended December 31, 2009, compared with 4.5% for the same period of 2008. Gross profit margin of after-sales services was 44.3% for the year ended December 31, 2009, compared with 40.3% for the same period of 2008. The increase in gross profit margin in the year ended December 31, 2009 was primarily due to the increased market demand for automobiles, the increasing diversification in the range of after-sales business products, the increased proportion of after-sales services, as well as the increase in gross profit margin of our new automobile sales and after-sales services.

#### ***Other income and gains***

Our other income and gains were RMB69.2 million for the year ended December 31, 2009, an increase of RMB35.8 million, or 107.2%, from RMB33.4 million for the same period of 2008. This increase was primarily due to the increase in commission income received from insurance companies serving our customers in our 4S dealerships. The growth of our commission income is attributable to an increase in our new automobile sales. Commission income amounted to RMB46.5 million for the year ended December 31, 2009, an increase of RMB28.5 million, or 158.3%, from RMB18.0 million for the same period in 2008.

#### ***Selling and distribution costs***

Selling and distribution costs for the year ended December 31, 2009 were RMB346.5 million, an increase of RMB72.2 million, or 26.3%, from RMB274.3 million for the same period in 2008. The increase was primarily due to an increase in our salary and welfare expenses as we employed more people to support our increased sales, and an increase in depreciation primarily due to the increase in the number and size of our 4S dealerships during the period.

#### ***Administrative expenses***

Administrative expenses for the year ended December 31, 2009 were RMB162.0 million, an increase of RMB43.1 million, or 36.2%, from RMB118.9 million for the same period in 2008. This increase was consistent with our expanded operations and primarily attributable to an increase in our rental expenses for our 4S dealerships and an increase in our salaries and welfares paid to our administrative personnel, primarily due to the increase in the number and scale of our 4S dealerships during that period.

#### ***Profit from operations***

Profit from operations for the year ended December 31, 2009 was RMB740.1 million, an increase of RMB322.5 million, or 77.2%, from the same period in 2008. Our operating profit margin for the year ended December 31, 2009 was 5.4%, compared with 4.0% for the same period in 2008.

#### ***Finance costs***

Our finance costs for the year ended December 31, 2009 were RMB80.7 million, a decrease of RMB23.7 million, or 22.7%, from RMB104.4 million for the same period in 2008. The decrease was primarily due to a decrease in the interest rate of our average bank loans and other borrowings during the year ended December 31, 2009.

#### ***Share of profits of jointly-controlled entities***

Our share of profits of our jointly-controlled entities, Xiamen Zhongsheng and Zhongsheng Tacti, was RMB7.3 million for the year ended December 31, 2009, an increase of 2.8 million, or 62.2%, from RMB4.5 million for the same period in 2008.

#### ***Profit before tax***

Our profit before tax for the year ended December 31, 2009 was RMB666.7 million, an increase of RMB349.0 million, or 109.9%, from RMB317.7 million for the same period in 2008.

## ***Tax***

Our tax for the year ended December 31, 2009 was RMB173.7 million, an increase of RMB90.4 million, or 108.5%, from RMB83.3 million for the same period in 2008. The increase was primarily due to the significant increase in our profit before tax during the period. In addition, some of our subsidiaries in the PRC ceased to enjoy preferential tax treatments and started to pay normal income tax rate since 2009 in accordance with the New EIT Law. Please see “— *Factors Affecting Our Results of Operations — Taxation*”.

## ***Profit for the year***

Our profit for the year ended December 31, 2009 was RMB493.0 million, an increase of RMB258.6 million, or 110.3%, from RMB234.4 million for the same period in 2008. Our profit margin for the year ended December 31, 2009 was 3.6%, compared with 2.2% for the same period in 2008.

## ***Profit attributable to owners of the parent***

Our profit attributable to equity holders of our Company for the year ended December 31, 2009 was RMB470.9 million, an increase of RMB252.2 million, or 115.3%, from RMB218.7 million for the same period in 2008.

## ***Profit attributable to non-controlling interests***

Our profit attributable to non-controlling interests was RMB22.1 million for the year ended December 31, 2009, an increase of RMB6.4 million, or 40.8%, from RMB15.7 million for the same period in 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to pay for our indebtedness, to fund our working capital and normal recurring expenses, and to establish new 4S dealerships and acquire additional 4S dealerships. We finance our liquidity requirements through a combination of cash flow generated from our operating activities, funds raised from the offering of securities and bank loans and other borrowings.

The following table presents selected cash flow data from our combined/consolidated cash flow statements for the periods indicated:

	<b>Years ended December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>(RMB'000)</b>
Net cash generated from/(used in) operating activities . . . . .	327,885	189,317	(855,680)
Net cash used in investing activities . . . . .	(545,688)	(435,967)	(2,300,512)
Net cash generated from financing activities . . . .	832,979	316,757	5,150,605
Net increase in cash and cash equivalents . . . . .	615,176	70,107	1,994,413
Cash and cash equivalents at the end of the year .	964,245	1,030,960	2,989,718

## ***Cash flow generated from/(used in) operating activities***

For the year ended December 31, 2010, our net cash used in operating activities was RMB855.7 million, consisting primarily of an increase in inventories of RMB1,763.4 million, an increase in pledged bank deposit of RMB647.0 million and an increase in prepayments, deposits and other receivables of RMB627.0 million, primarily offset by profit before taxation of RMB1,384.0 million and an increase in

trade and bills payable of RMB1,068.2 million. Our net cash outflow for operating activities for the year ended December 31, 2010 primarily resulted from the opening of a large number of new 4S dealership stores in 2010.

For 2009, our net cash generated from operating activities was RMB189.3 million, consisting primarily of profit before taxation of RMB666.7 million, a decrease in inventories of RMB309.9 million and an increase in trade and bills payable of RMB42.7 million, primarily offset by an increase in prepayments, deposits and other receivables of RMB565.3 million and an increase in pledged bank deposits of RMB182.8 million.

For 2008, our net cash generated from operating activities was RMB327.9 million, consisting primarily of profit before taxation of RMB317.7 million, partially adjusted for finance costs by RMB104.4 million, a decrease in prepayments, deposits and other receivables of RMB181.7 million, an increase in trade and bills payables of RMB178.8 million, and primarily offset by an increase in inventories of RMB407.7 million.

#### ***Cash flow used in investing activities***

For the year ended December 31, 2010, our net cash used in investing activities was RMB2,300.5 million, consisting primarily of purchases of property, plant and equipment of RMB627.3 million, purchases of land use rights of RMB588.5 million, prepayment for potential acquisition of RMB265.2 million and acquisition of subsidiaries of RMB604.6 million, all of which were used for the expansion of our network of 4S dealerships, partially offset by proceeds from disposal of items of property, plant and equipment of RMB103.4 million.

For 2009, our net cash used in investing activities was RMB436.0 million, consisting primarily of purchases of property, plant and equipment of RMB219.0 million, RMB199.0 million relating to acquisition of subsidiaries, and purchases of land use rights of RMB108.2 million, all of which were used for the expansion of our network of 4S dealerships.

For 2008, our net cash used in investing activities was RMB545.7 million, consisting primarily of advances to third parties of RMB159.7 million for subsidiaries to be acquired, purchases of property, plant and equipment of RMB137.0 million, RMB121.5 million relating to acquisition of 4S dealerships, and purchases of land use rights of RMB75.7 million, all of which were used for the expansion of our network of 4S dealerships.

#### ***Cash flow generated from financing activities***

For the year ended December 31, 2010, our net cash generated from financing activities was RMB5,150.6 million, consisting of proceeds from bank loans and other borrowing of RMB10,423.3 million and net proceeds from issue of new shares in connection with the listing of RMB2,910.5 million, partially offset by repayment of bank loans and other borrowings of RMB7,943.4 million and interest paid of RMB238.4 million.

For 2009, our net cash generated from financing activities was RMB316.8 million, consisting primarily of proceeds from bank loans and other borrowings of RMB5,267.2 million, partially offset by repayment of bank loans and other borrowings of RMB4,663.6 million, repayment of advances from the Controlling Shareholders of RMB80.7 million and repayment of advances from third parties of RMB93.6 million.

For 2008, our net cash generated from financing activities was RMB833.0 million, consisting primarily of proceeds from bank loans and other borrowings of RMB4,493.3 million, contributions from the then equity holders of the subsidiaries of RMB746.7 million and advances from third parties of RMB93.6 million, partially offset by repayment of bank loans and other borrowings of RMB4,383.9 million and interest paid of RMB104.4 million.

## Net current assets and liabilities

The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated below:

	As at December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
<b>CURRENT ASSETS</b>			
Inventories	1,133,415	1,024,240	3,453,046
Trade receivables	61,443	86,764	284,951
Prepayments, deposits and other receivables	724,823	1,113,186	2,615,120
Amounts due from related parties	459	556	2,229
Financial assets at fair value through profit or loss	—	—	83,369
Term deposits and pledged bank deposits	210,720	382,929	1,029,932
Cash in transit	29,690	44,542	140,852
Cash and cash equivalents	964,245	1,030,960	2,989,718
Total current assets	3,124,795	3,683,177	10,599,217
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings	1,157,543	1,797,149	4,924,455
Trade and bills payables	835,699	1,093,013	2,984,507
Other payables and accruals	273,201	277,702	954,396
Amounts due to related parties	156,774	24,236	10,026
Income tax payable	27,733	60,012	188,161
Dividends payable	—	—	919
Total current liabilities	2,450,950	3,252,112	9,062,464
<b>NET CURRENT ASSETS</b>	<u>673,845</u>	<u>431,065</u>	<u>1,536,753</u>

As at December 31, 2010, we had net current assets of RMB 1,536.8 million, representing an increase of RMB 1,105.7 million from our net current assets of RMB431.1 million as at December 31, 2009. The increase in our net current assets was primarily attributable to the net proceeds we received from our initial public offering.

As at December 31, 2009, we had net current assets of RMB431.1 million, representing a decrease of RMB242.7 million from our net current assets of RMB673.8 million as at December 31, 2008. The decrease in our net current assets was primarily due to our capital expenditures incurred in the year ended December 31, 2009.

We intend to continue to rely on existing financial resources and cash generated from operations to fund our future business development. We may also increase our financial resources in line with our future development or for other purposes, when appropriate. Our ability to obtain adequate financing to satisfy our business development or debt service requirements may be limited by our financial condition and the results of business operations, as well as the liquidity of international and domestic financial markets. Any failure to achieve timely extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with trade and bills payables, debt service and/or other liabilities when they become due and payable. See “*Risk Factors — Risks Relating to Our Business — We may not be able to obtain adequate financing on acceptable terms*”.

## Capital expenditure and investment

Our capital expenditures comprised expenditures on property, plant and equipment and land use rights. During the three years ended December 31, 2008, 2009 and 2010, our total capital expenditures were RMB204.9 million, RMB323.0 million and RMB858.9 million, respectively.

The following table sets out our expenditures on property, plant and equipment and land use rights for the years indicated:

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Capital expenditure			
Property, plant and equipment .....	135,568	218,993	636,171
Land use rights .....	69,371	104,007	222,719
Total .....	<u>204,939</u>	<u>323,000</u>	<u>858,890</u>

## Capital commitments

The following table sets out our capital commitments in respect of property, plant and equipment, potential acquisition and land use rights, for the years indicated.

	Years ended December 31,		
	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)
Contracted, but not provided for: .....			
— Land use rights and buildings .....	37,071	97,866	171,619
— potential acquisition .....	—	—	85,605
Authorized, but not contracted for: .....			
— Land use rights and buildings .....	18,159	6,755	—
Total .....	<u>55,230</u>	<u>104,621</u>	<u>257,224</u>

## INDEBTEDNESS

### Bank loans and other borrowings

Our bank loans and other borrowings as at December 31, 2008, 2009 and 2010 were RMB1,157.5 million, RMB 1,797.1 million and RMB 4,924.5 million, respectively. Our bank loans and other borrowings increased during the three years ended December 31, 2010 as we had to finance our expanded operations.

	As at December 31,		
	2008	2009	2010
	(RMB,000)	(RMB,000)	(RMB,000)
Current bank borrowings and other borrowings representing:			
— secured .....	52,000	117,076	859,384
— entrusted .....	20,000	30,000	20,000
— guaranteed .....	403,000	448,500	1,182,000
— unsecured .....	682,543	1,201,573	2,863,071
	<u>1,157,543</u>	<u>1,797,149</u>	<u>4,924,455</u>

### ***Pledged Asset***

As of December 31, 2010, certain of our bank loans were secured by mortgages or pledges over our land use rights, buildings and inventories, and/or guaranteed by our Controlling Shareholders and third parties. The pledged buildings had an aggregate net book value of RMB79.0 million, RMB79.6 million and RMB89.7 million as at December 31, 2008, 2009 and 2010, respectively, while the pledged land use rights had an aggregate net book value of RMB38.5 million, RMB41.7 million and RMB87.2 million, respectively, as at the same dates. The pledged inventories had an aggregate net book value of RMB30.3 million, RMB76.7 million and RMB 711.4 million as at December 31, 2008, 2009 and 2010, respectively.

As at December 31, 2010, we had total bank loan facilities of approximately RMB5,400 million, of which approximately RMB4,489 million was utilized.

### ***Contingent liabilities***

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As at the date of this document, we did not have any material contingent liabilities or guarantees.

### ***Off-balance sheet commitments and arrangements***

As at the date of this document, we had not entered into any off-balance sheet transactions.

## **MARKET RISK DISCLOSURE**

We are exposed to various types of market risks, including interest rate risks and liquidity risk.

### **Interest rate risks**

We are exposed to interest rate risks resulting from fluctuations in interest rates on our debt. A substantial portion of our bank borrowings consists of variable rate debt obligations with an original maturity of one year. Increases in interest rates could result in an increase in our cost of borrowing. If this occurs, it could adversely affect our revenue, profit and other financial condition. The interest rate on bank loans and overdrafts in the PRC depends on PRC regulations. We do not currently use any derivative instruments to manage our interest rate risks as such risks are considered minimal.

### **Liquidity risks**

We are exposed to liquidity risks. The cash management of all our operating entities in the PRC is centralized, including the raising of loans to cover expected cash demands. Our individual operating entities outside the PRC are responsible for their own cash management. Our policy is to regularly monitor current and expected liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient cash inflows from operations, reserves of cash, and external financing to meet our liquidity requirements in the short and longer term.

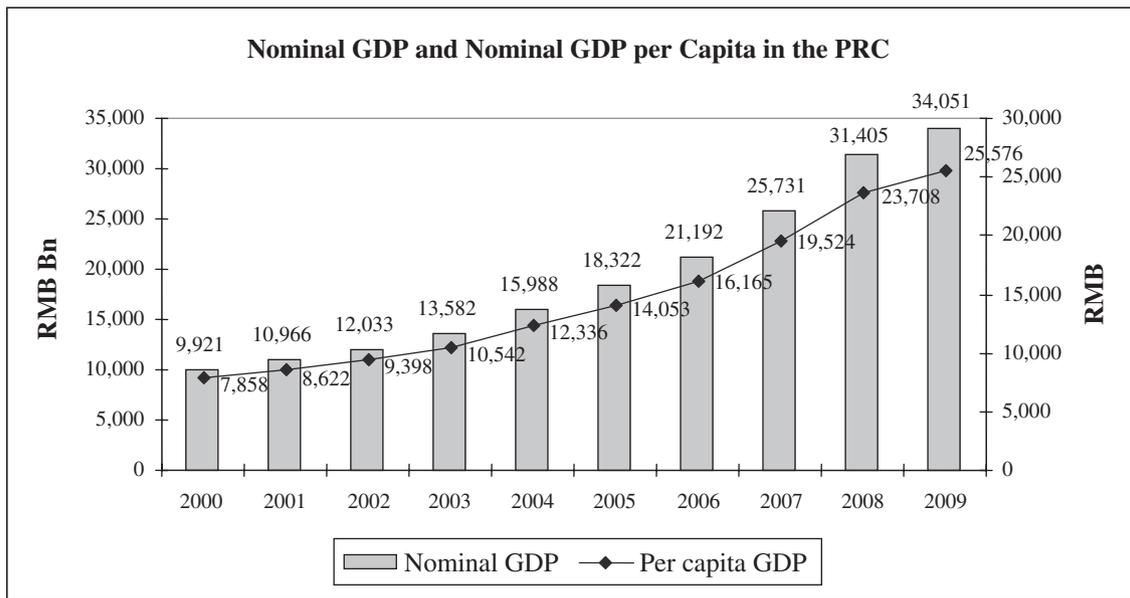
## INDUSTRY OVERVIEW

The information and statistics set out in this section have been derived, in part, from various government publications and databases. The information and statistics set out in this section may not be consistent with other information and statistics compiled within or outside the PRC. Our Company commissioned ACMR, an independent specialist Chinese market research company, to conduct research and prepare ACMR Survey. ACMR received a commission of RMB150,000 for the research and preparation of ACMR Survey included in this document.

### RAPID ECONOMIC GROWTH IN THE PRC

#### Growth of the Chinese economy

The Chinese economy has expanded rapidly since the PRC Government began implementing their “open door” policies in the late 1970s. Since then, the PRC Government has actively sought to become engaged in international trade. Economic growth was further promoted by the launch of special economic zones along China in the early 1980s. According to the National Bureau of Statistics of China, the PRC’s nominal GDP grew at a CAGR of approximately 14.7% from 2000 to 2009, demonstrating rapid expansion of the PRC economy. The chart below sets out the nominal GDP and nominal GDP per capita in the PRC during the period from 2000 to 2009.

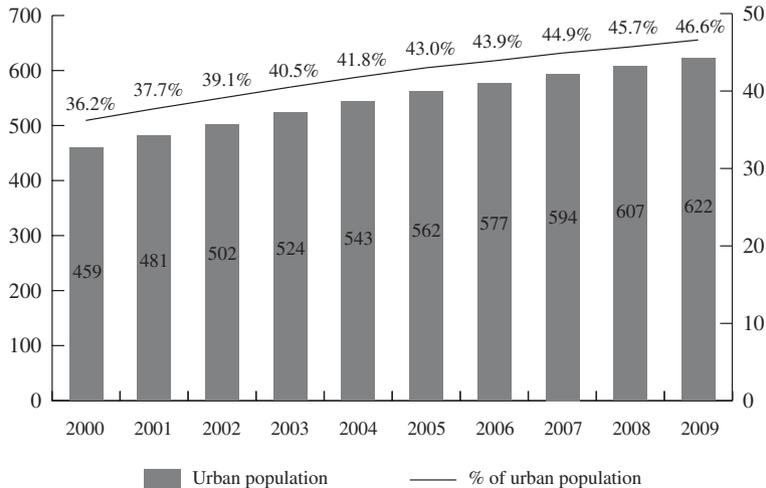


Source National Bureau of Statistics of China

**Accelerating urbanization and increasingly affluent urban residents**

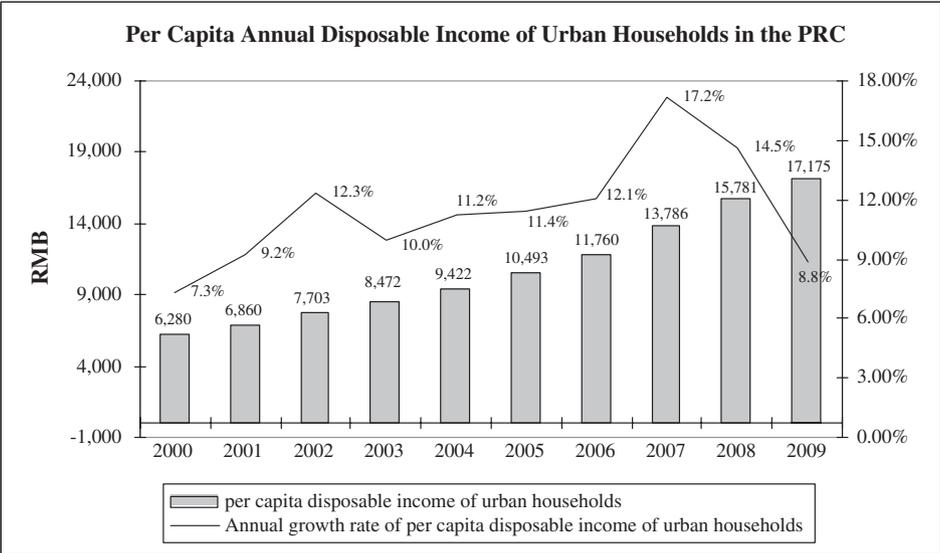
Urbanization has accelerated in the PRC as a result of rapid economic growth. Populations in urban areas have swelled with the influx of people from rural and less developed areas. Between 2000 and 2009, the total urban population in the PRC increased by approximately 163 million or approximately 35.5%. In 2009, the total urban population in China was approximately 622 million and accounted for approximately 46.6% of the total population. The table below shows the growth of the urban population in the PRC during the period from 2000 to 2009.

**Growth of the Urban Population in the PRC**



Source National Bureau of Statistics of China

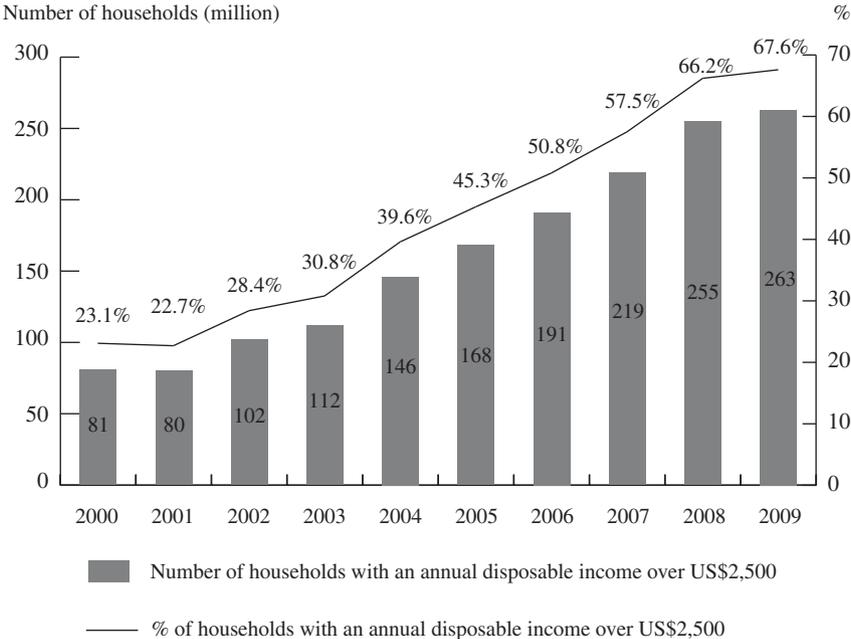
The growth in GDP and the rate of urbanization have led to an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban residents have increased substantially since 2000. During the period from 2000 to 2009, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 to RMB17,175, representing a CAGR of approximately 11.8%.



Source National Bureau of Statistics of China

The PRC’s market for consumer goods has expanded rapidly in the past few years led by the PRC’s strong economy, growing middle class and increasing affluence. For example, the number of households with an annual disposable income of over US\$2,500 more than tripled, from approximately 81 million in 2000 to approximately 263 million in 2009. This income group accounted for 67.6% of total households in 2009, showing substantial increase from 23.1% in 2000.

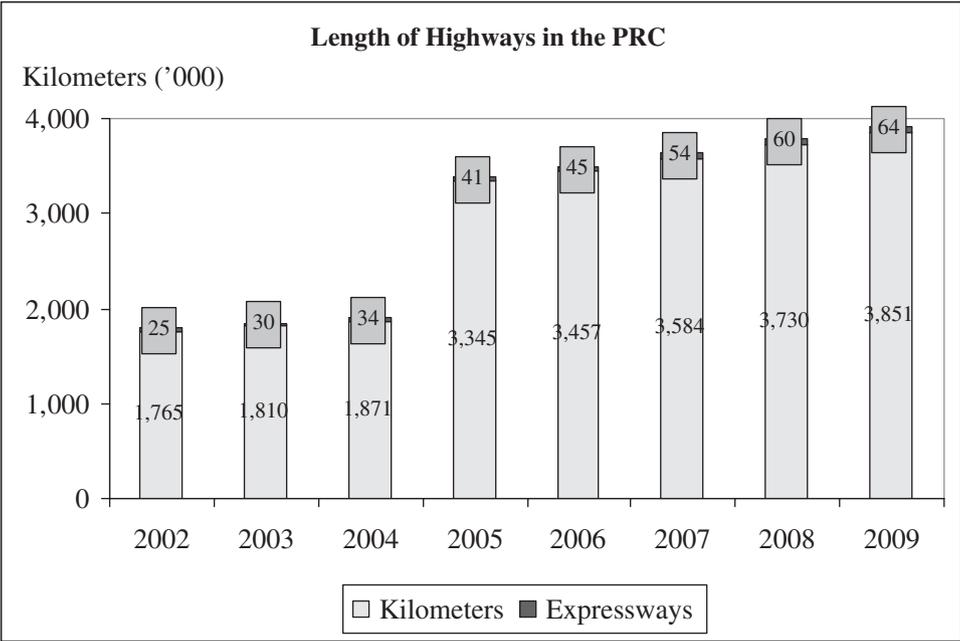
**Number of Households with Annual Disposable Income of Over US\$2,500 in the PRC and percentage-wise thereof**



Source Euromonitor International (“Euromonitor”) is an Independent Third Party. Founded in 1972, Euromonitor is a privately owned company with offices in London, Chicago, Singapore, Shanghai and Vilnius. All information relating to “Number of Households with Annual Disposal Income of Over US\$2,500 in the PRC and percentage-wise thereof” were derived from Euromonitor’s database, which maintains a large number of internationally comparable country statistics.

**Increased investment in improving transportation and other infrastructure**

The growth in GDP and the rate of urbanization are related to the substantial investments by the PRC Government in the construction of transportation infrastructure. The length of China’s highway network has grown at a CAGR of 11.7% from approximately 1.77 million kilometers in 2002 to approximately 3.85 million kilometers in 2009. Further, between 2002 and 2009, the length of China’s expressways grew from approximately 25,100 kilometers in 2002 to approximately 64,400 kilometers in 2009, representing a CAGR of 14.4%.<sup>(1)</sup>



Source National Bureau of Statistics of China

(1) A highway is defined as public main road, especially roads connecting towns and cities. An expressway is defined as a road designed for high-speed travel, having few or no intersections.

The increasing length of highways and expressways greatly facilitates inter-city travel. According to the PRC Government’s Expressway Construction Plan (國家高速公路發展規劃), it is also projected that, by 2010, approximately 90% of the cities in the PRC with a population of more than 200,000 people will be linked by expressways. Improvement in transportation infrastructure is a key driver for the growth of automobile consumption in China.

## THE PRC PASSENGER CAR MARKET<sup>(1)</sup>

The PRC passenger car industry has experienced tremendous growth. China has become a major player in the global passenger car market both in terms of production and sales volumes. Driven by growing individual wealth, favorable government policies, aggressive entrances by global automakers, declining automobile prices and the emergence of automobile financing, the Chinese passenger car market has been augmenting quickly. In 2006, approximately 4.5 million new passenger cars were sold in China, ranking China third in the world behind the U.S. and Japan. In 2009, China has become the largest passenger car market with over approximately 8.8 million new passenger cars sold. In the past seven years, the passenger cars produced domestically increased from approximately 2.0 million units in 2003 to 8.4 million units in 2009, representing a CAGR of approximately 26.8%. During the same period, the volume of new passenger car sales increased from approximately 2.1 million units to approximately 8.8 million units, representing a CAGR of approximately 27.2%, and the value of new passenger car sales grew from approximately RMB320 billion to RMB1,317 billion, representing a CAGR of approximately 22.4%. Given the robust growth, it is expected that the total sales of new passenger cars will grow at a CAGR of approximately 10.0% from approximately RMB1,317 billion in 2009 to RMB3,329 billion in 2014.

### Top 10 Passenger Car Markets<sup>(2)</sup>

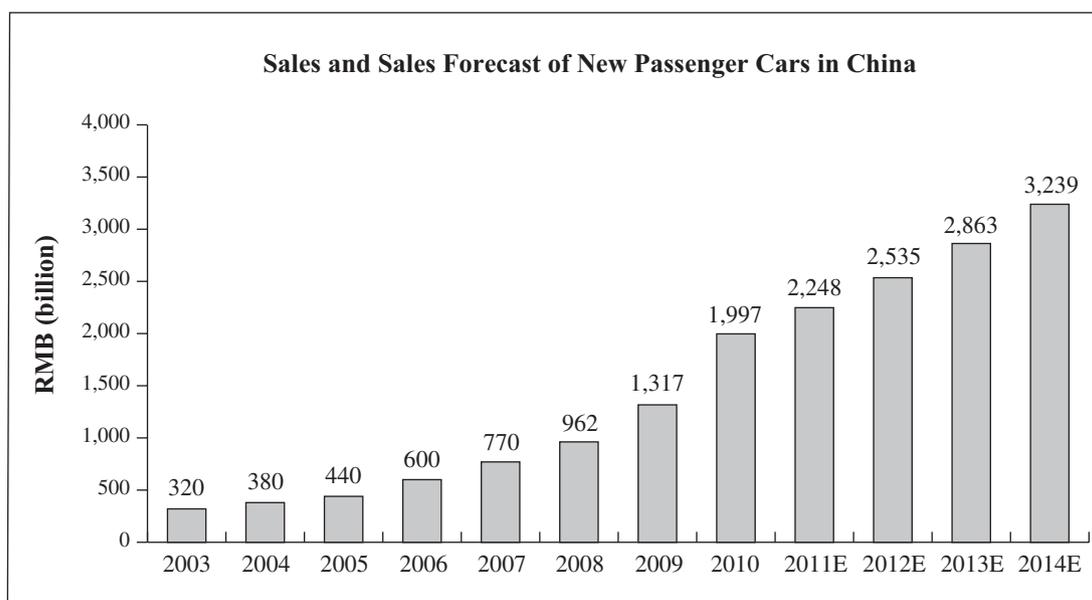
Rank Number	Country	2006	2007	2008	2009	CAGR (06-09)
of new passenger cars sold/registered (million)						
1	China . . . . .	4.45	5.58	6.06	8.75	25.3%
2	USA . . . . .	7.79	7.60	6.81	5.46	-11.2%
3	Japan . . . . .	4.64	4.40	4.23	3.92	-5.4%
4	Germany . . . . .	3.47	3.15	3.09	3.81	3.2%
5	Brazil . . . . .	1.56	1.98	2.67	3.01	24.6%
6	France . . . . .	2.00	2.06	2.05	2.27	4.3%
7	Italy . . . . .	2.33	2.49	2.16	2.16	-2.5%
8	UK . . . . .	2.34	2.40	2.13	1.99	-5.2%
9	Korea . . . . .	1.20	1.27	0.96	1.17	-0.8%
10	Spain . . . . .	1.63	1.61	1.16	0.95	-16.5%

Source ACMR Survey

Assuming that the macroeconomic environment continues to develop in a steady manner, consumer market growth, including the market for private transportation, is expected to continue through 2020. The penetration rate of passenger cars in China was only approximately 3.2 per 100 people in 2009, far lower than the developed countries approximately 66.2 in Germany, 56.5 in France, 52.9 in UK, 51.2 in US and 50.6 in Japan. The low penetration rate indicates that China's passenger car market has great potential for growth.

(1) Passenger car in this document is defined to include basic passenger car, multi-purpose vehicle (MPV), and sport utility vehicle (SUV). All revenue in ACMR Survey includes VAT.

(2) Ranked by new car sales/registration volume in 2009



Source ACMR Survey

ACMR was established in 1992 as a specialized company engaged in providing commercial information and market research. Since its incorporation, ACMR has been affiliated with the State Statistical Bureau of China (“SSB”). ACMR is authorized by SSB to mine and commercialise statistical data. The forecasts and projections from the ACMR Survey were based on ACMR’s analysis of historical data and trends. This information was obtained by ACMR from various sources, including relevant PRC Government departments and established PRC industry organizations such as SSB, the China Association of Automobile Manufacturers (“CAAM”) and the China Automobile Dealers Association (“CADA”). In the course of preparing the forecast and projection, ACMR has also consulted the PRC State Development and Reform Commission and CADA. Certain assumptions, for instance, the continuous growth of the PRC economy and the price of automobiles will remain stable are based on consultation with various industry organizations.

The following tables list the top ten PRC passenger vehicle manufacturers in 2009 and 2008 by sales volume respectively.

**Top Ten Passenger Vehicle Manufacturers in the PRC (2009)**

<b>Manufacturer</b>	<b>Total Sales Volume (Units: thousand)</b>
Shanghai Volkswagen Motors Co., Ltd. ....	728
Shanghai General Motors Co., Ltd. ....	708
FAW-Volkswagen Automotive Co., Ltd. ....	669
Beijing Hyundai Motor Co., Ltd. ....	570
Dongfeng Nissan Passenger Vehicle Co., Ltd. ....	519
Chery Automobile Co., Ltd. ....	484
BYD Co., Ltd. ....	448
FAW Toyota Motor Sales Co., Ltd. ....	417
Guangzhou Honda Motors Co., Ltd. ....	366
Geely Holding Group. ....	329

## Top 10 Passenger Vehicle Manufacturers in the PRC (2008)

	<u>Total Sales Volume</u> (Units: thousand)
<b>Manufacturer</b>	
FAW-Volkswagen Automotive Co., Ltd . . . . .	499
Shanghai Volkswagen Motors Co., Ltd. . . . .	490
Shanghai General Motors Co., Ltd . . . . .	445
FAW Toyota Motor Sales Co., Ltd . . . . .	366
Chery Automobile Co., Ltd . . . . .	356
Dongfeng Nissan Passenger Vehicle Co., Ltd . . . . .	351
Guangzhou Honda Motors Co., Ltd . . . . .	306
Beijing Hyundai Motor Co., Ltd . . . . .	295
Geely Holding Group . . . . .	222
Changan Ford Mazda Automobile Co. Ltd. . . . .	205

Source ACMR Survey

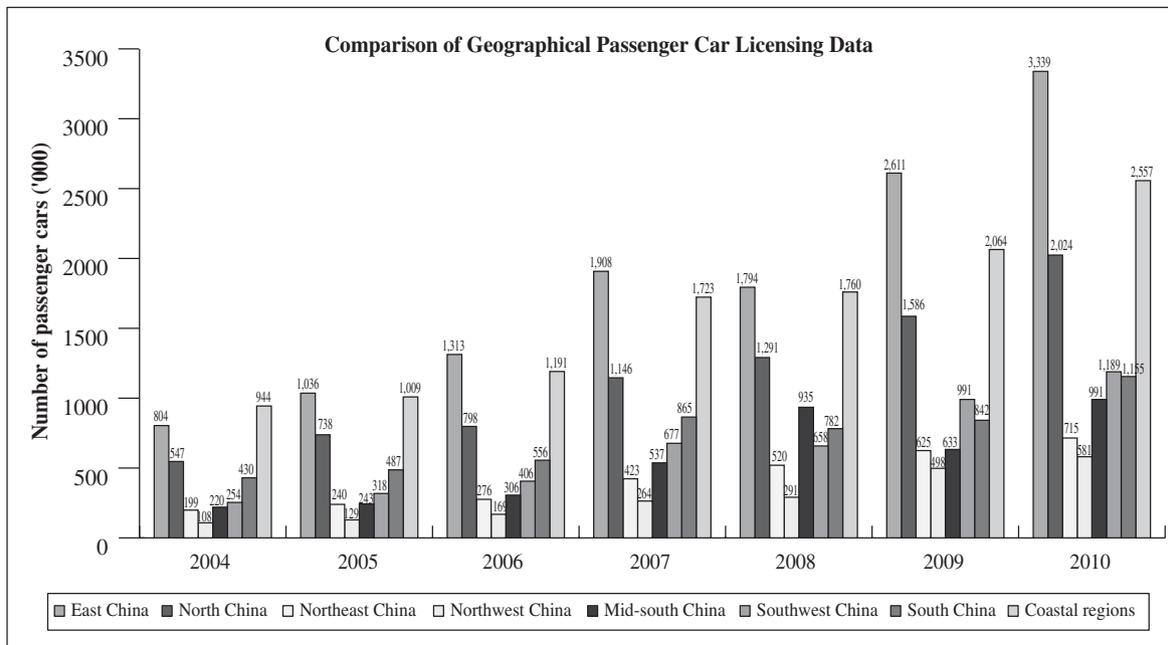
Taken collectively, the automobile manufacturing industry in the PRC recorded aggregate revenues of approximately RMB1,188 billion in 2008, with a pre-tax profit of approximately RMB86.6 billion and an overall pre-tax profit margin of approximately 7.3%.

### Features of the Chinese passenger car market

The Chinese passenger car market has been rapidly expanding, with a sales increase of approximately 8.9 million units from 2005 to 2010, and has the following features:

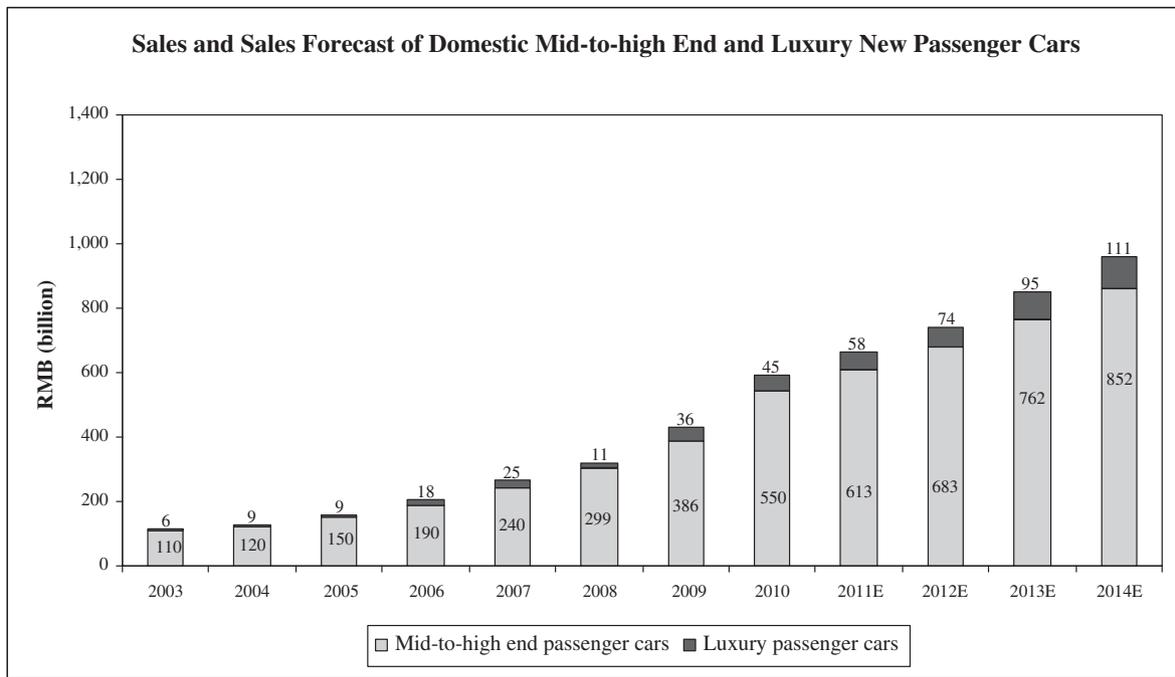
First, regions, which include provinces in Northeast China, East China and South China, are the largest and fastest growing passenger car markets in China. In terms of geographical distribution, the Chinese passenger car market shows obvious geographical differentiation. The passenger car market in regions in general is larger than that of the other parts of the country. Sales of passenger cars in regions grew steadily from 2004 to 2010, accounting for about one-third of total passenger car sales in China. Rapid and steady economic growth, higher disposable income and more developed road infrastructures in regions are the main drivers for higher passenger car consumption. High volumes of new passenger car sales in regions indicate a large passenger car consumer base and strong growth potential for after-sales businesses, used passenger car sales and other passenger-car related businesses.

<u>Geographical Division</u>	<u>Provinces Included</u>
East China . . . . .	Shanghai, Jiangsu, Shandong, Jiangxi, Zhejiang, Anhui
North China . . . . .	Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia
Northeast China . .	Heilongjiang, Jilin, Liaoning
Northwest China . .	Xinjiang, Ningxia, Gansu, Shaanxi, Qinghai
Mid-south China . .	Henan, Hubei, Hunan
Southwest China . .	Guangxi, Sichuan, Guizhou, Yunnan, Tibet, Chongqing
South China . . . . .	Fujian, Hainan, Guangdong
Coastal regions . . .	Liaoning, Shandong, Jiangsu, Zhejiang, Guangdong, Fujian, Shanghai, Tianjin, Hebei

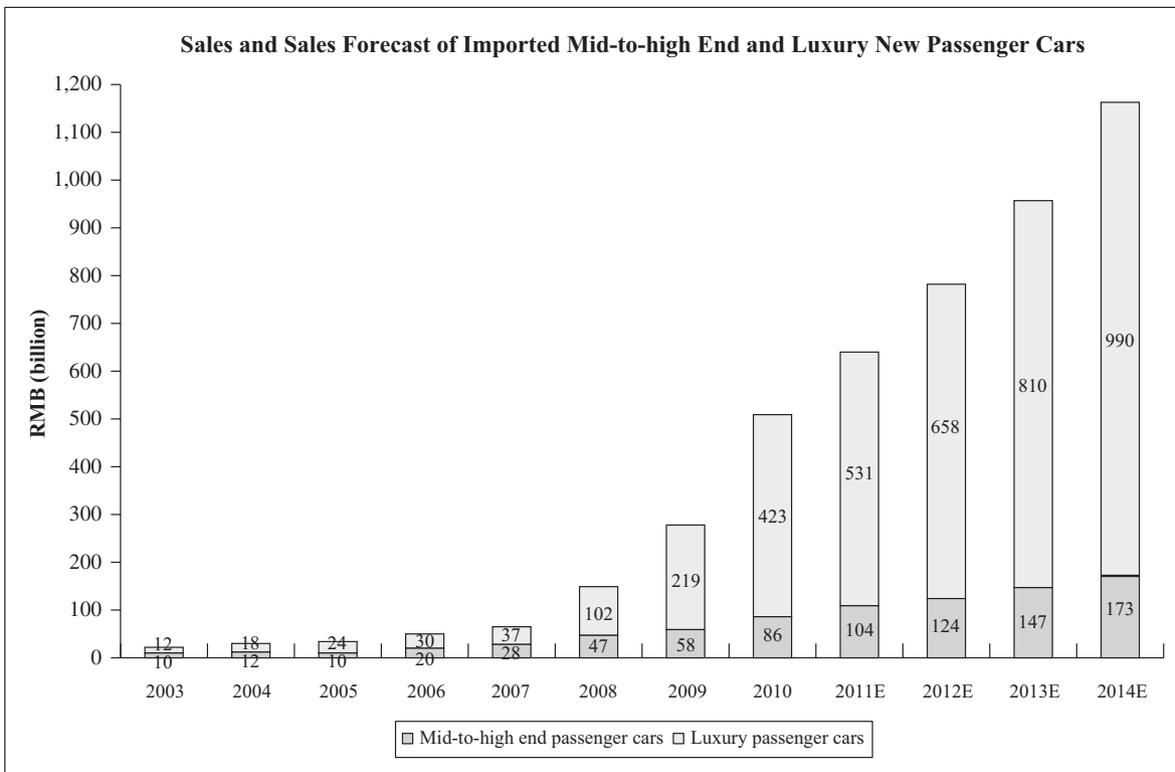


Source Automobile Output & Sales Express, ACMR Survey

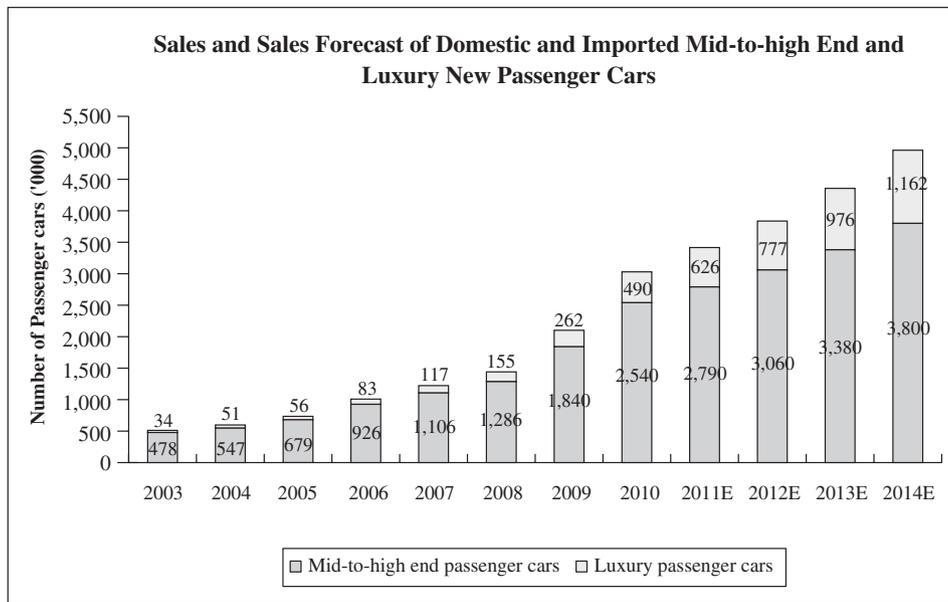
Second, mid-to-high end passenger cars typically priced above RMB200,000 and luxury passenger cars typically priced above RMB500,000 have shown higher growth than the industry average. In 2003, approximately 510,000 units of mid-to-high end and luxury new passenger cars (domestic and imported) were sold in China. In 2010, the figure was approximately 3,030,000 units, representing a CAGR of approximately 29.0%. From 2003 to 2010, sales of domestic mid-to-high end and luxury new passenger cars grew from approximately RMB116 billion to RMB596 billion, representing a CAGR of approximately 26.3%. It is expected that sales in this segment will grow at a CAGR of approximately 12.7% from approximately RMB596 billion in 2010 to RMB963 billion in 2014. Imported mid-to-high end and luxury brand passenger cars also witnessed strong sales growth, rising from approximately RMB22 billion in 2003 to RMB509 billion in 2010, representing a CAGR of approximately 56.6%. Sales in this segment are projected to grow at a CAGR of approximately 22.9% from approximately RMB509 billion in 2010 to RMB1,163 billion in 2014. As both the Chinese economy and its middle class are growing steadily, the demand for mid-to-high end and luxury passenger cars is expected to continue to rise.



Source ACMR Survey



Source ACMR Survey



Source ACMR Survey

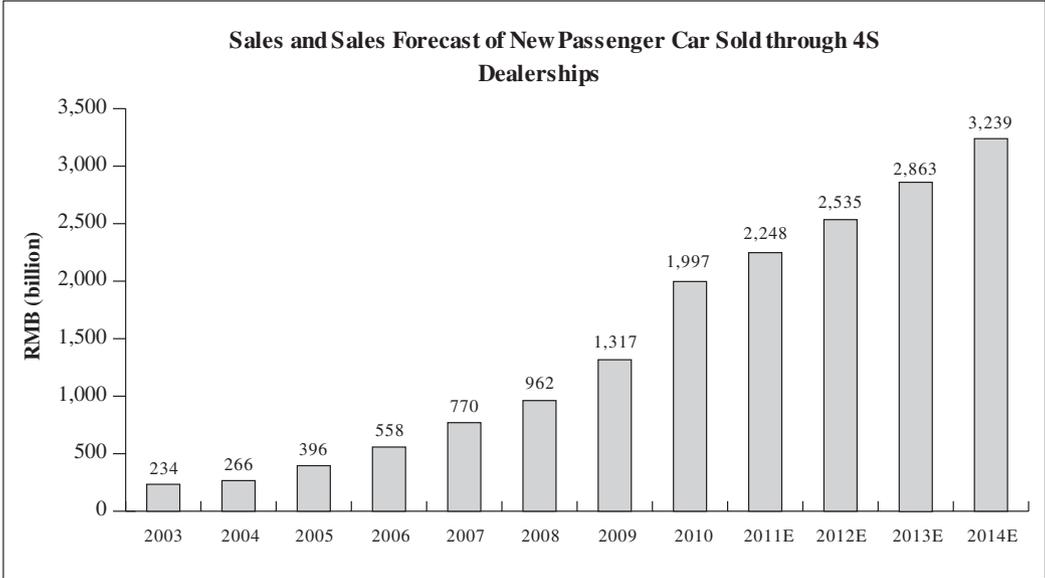
Third, Japanese automobile brands, especially Toyota, being one of the market leaders and the largest automobile brands in terms of sales, has been steadily gaining market share in China in mid-to-high end automobile brand segment in recent years. According to ACMR, between 2003 and 2008, Toyota, Honda and Nissan's PRC market shares within the mid-to-high end passenger car brand segment increased from approximately 4.9% to 20.8%, 21.4% to 23.2% and 3.7% to 5.2% respectively, and Lexus' PRC market share within the luxury passenger car brand segment increased from approximately 8.1% to 19.8%.

Fourth, with living standards improving in China, the percentage of passenger car ownership has been growing rapidly year-on-year and the consumption structure of the Chinese automobile market has changed greatly. In the "Tenth Five Year" period (2001–2005), the Chinese automobile consumption structure has changed fundamentally, markedly shifting from government consumption to private consumption, with private consumers becoming the major consumers of passenger cars in China. Approximately 48% of automobiles sold in 2001 were purchased by private consumers, whereas approximately 86% of automobiles sold in 2010 were purchased by private consumers, who are now the primary driving force in the Chinese automobile industry.

### **Retail platforms for the Chinese passenger car market**

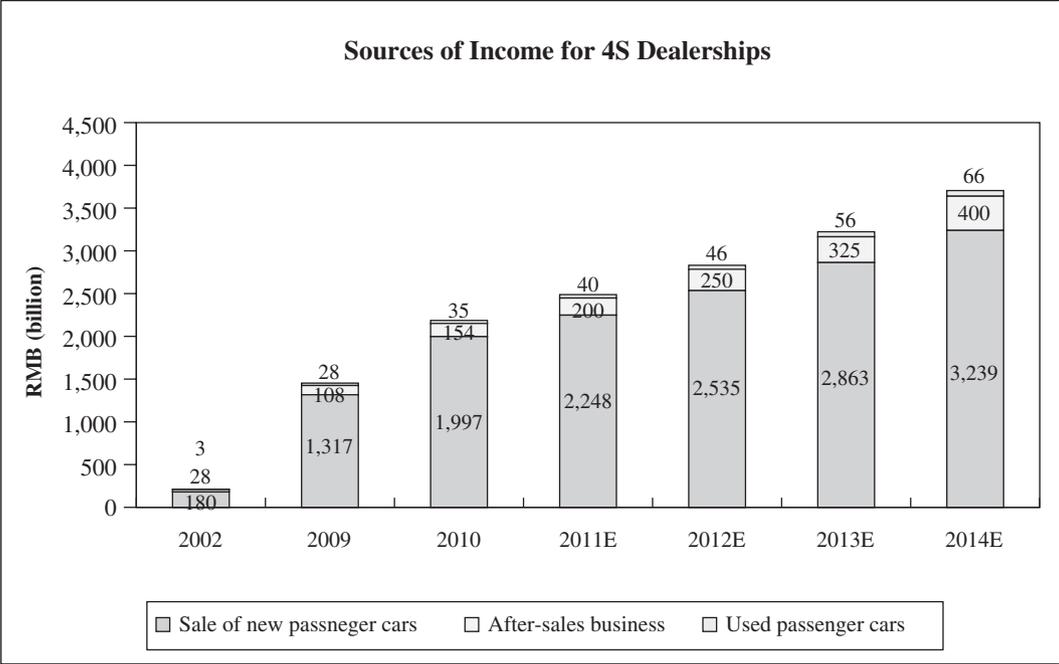
The dominant retail platform in the Chinese passenger car market is the specialized automobile dealerships, known as the "4S dealership" where 4S refers to sales, spare parts, service and survey. Automakers generally enter agreements with the dealers who run 4S dealerships, authorizing them to conduct marketing activities for specified automobile brands within a specified territory. Such agreements generally set forth the requirements with regard to sales and publicity formats, service standards, sales processes, and corporate identities.

The dominance of the 4S dealership as the established retail platform was strengthened by the Measures for the Implementation of the Administration of Branded Automobile Sales 《汽車品牌銷售管理實施辦法》 (“Measures”) promulgated by MOFCOM in February 2005. The Measures stipulate that all automobile dealers must obtain permission from automakers before retailing their brands. As a result of the introduction of the Measures, other types of automobile sales platforms including automobile trading markets and automobile supermarkets, began to diminish in importance. From 2003 to 2010, total sales of passenger car through 4S dealerships grew from approximately RMB224 billion to RMB1,997 billion, representing a CAGR of approximately 36.7%. Given this growth, it is expected that total sales of automobiles through 4S dealerships will grow at a CAGR of approximately 12.9% from approximately RMB1,997 billion in 2010 to RMB3,239 billion in 2014.



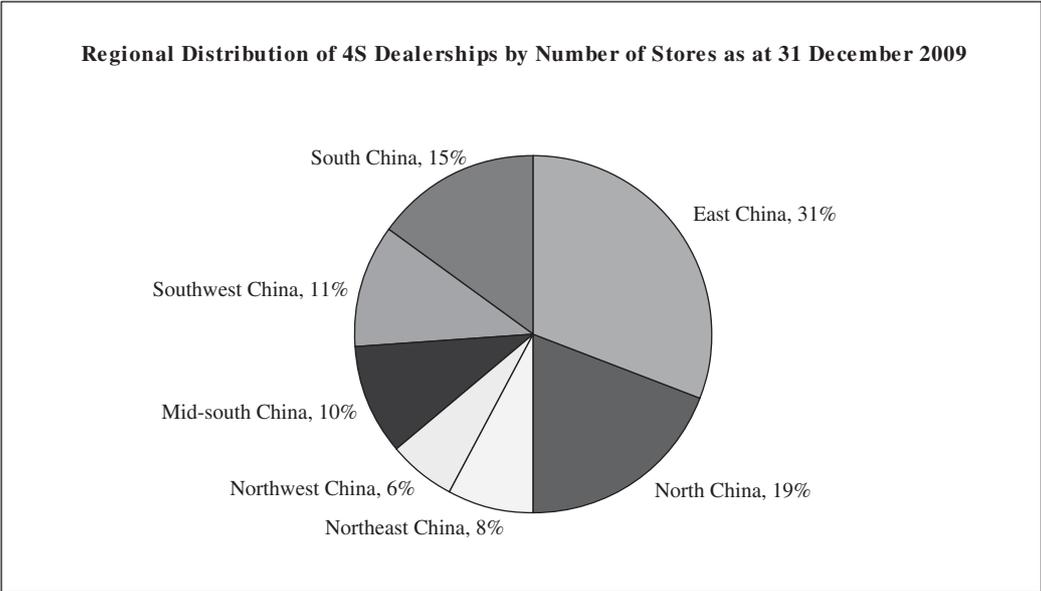
Source ACMR Survey

The 4S dealership retail platform was introduced to China in the mid-1990s. Most passenger car brands have at least 100 4S dealerships across China, among which FAW-Volkswagen, Shanghai Volkswagen and Beijing Hyundai have over 800 4S dealerships. Since 2008, the sales income of 4S dealerships have largely corresponded to total sales of new automobiles in China. For the same period, the after-sales income of 4S dealerships (primarily from the provision of maintenance, repair and detailing services) accounted for approximately 55% of the after-sales income of the passenger car market in China.



Source ACMR Survey

As at December 31, 2009, the total number of 4S dealerships in the PRC was approximately 15,000, mostly distributed in East China. Approximately 7,650 4S dealerships were located in regions, accounting for approximately 51% of all 4S dealerships in PRC as at December 31, 2009.



Source ACMR Survey

The market for new passenger cars in China is fragmented. However, passenger car dealers are gradually becoming group-oriented, whereby one dealer sets up multiple dealerships to acquire dealership agreements with multiple automobile brands. With competition intensifying, regional leadership and economies of scale have emerged to be among the most important success factors for dealers engaged in new automobile sales. Large dealership groups are able to gain operational strengths in personnel training, brand recognition, capital investment and the integration of regional market resources, which present strong competitive advantages against smaller dealers. In addition, large automobile dealership groups also enjoy strong advantage in penetrating second and third-tier markets as well as with respect to the developing used automobile market in China, which is expected to be a new growth area. Stronger cooperative relationships with automakers provide large automobile dealership groups strategic advantages in developing new market channels, retail strategies, and in capitalising on business opportunities. Accordingly, the development of large-scale, trans-regional operations is a main growth trend for automobile dealership groups operating in China.

In 2008, the top ten automobile dealership groups in the PRC accounted for only approximately 11.4% of the passenger car market's total revenue<sup>(1)</sup>. Of these ten, eight possessed 4S dealerships located across a number of provinces in the PRC as at year end of 2008, in aggregate accounting for approximately 9.8% market shares in 2008. Our Group was ranked fifth, fourth and seventh among the top ten automobile dealership groups in terms of revenue in 2007, 2008 and 2009 respectively.

<b>Trans-regional dealership groups<sup>(2)</sup></b>	<b>2009 Market share</b>
Dealership group 1 .....	2.4%
Dealership group 2 .....	2.2%
Dealership group 3 <sup>(3)</sup> .....	1.5%
Dealership group 4 .....	1.4%
Dealership group 5 .....	1.0%
Dealership group 6 .....	1.0%
Our Group .....	0.9%
Dealership group 7 <sup>(4)</sup> .....	0.8%
Dealership group 8 .....	0.7%
Dealership group 9 .....	0.7%

### **Chinese passenger car after-sales market**

The Chinese passenger car after-sales market is generally divided into the market for repair, maintenance, and detailing services, and the market for automobile accessories and spare parts.

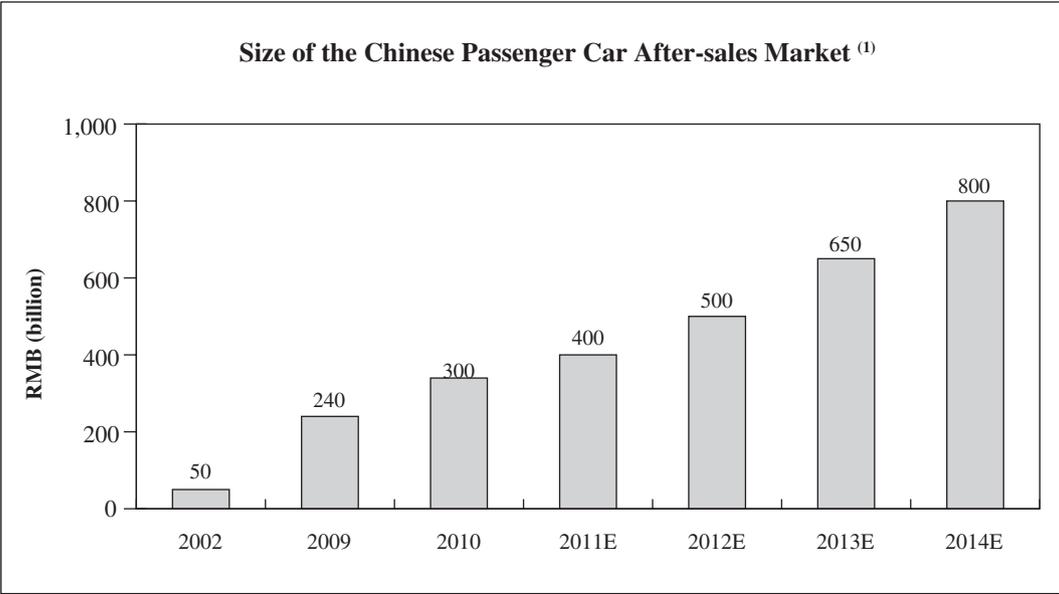
Driven by the increase in private automobile ownership, the Chinese passenger car after-sales market is facing new opportunities for development. By the end of 2008, China had approximately 26.3 million passenger car owners, approximately 19.5 million of which were private owners. Private owners are now the primary consumers of passenger cars in China, and they have their own requirements for automobile brands, performance and individualism which are essentially different from those of government consumers. Private owners, particularly owners of mid-to-high end and luxury automobiles, tend to give high priority to service quality. Approximately 80% of this consumer group choose to have their automobiles serviced in 4S dealerships, which provide luxury fittings and have high credibility and service standards. It is expected that the number of private passenger car owners in the PRC will increase from approximately 19.5 million in 2008 to 49.6 million by 2012. The rapid expansion of private passenger car ownership has become a major driver for the PRC passenger car after-sales market.

*Notes:*

- (1) The revenue includes revenue from new car sales, after-sales businesses and used car business.
- (2) Trans-regional dealership groups as at year end of 2008 and ranked by 2008 revenue.
- (3) This dealership group was not a trans-regional dealership group in 2006 and 2007.
- (4) This dealership group was not ranked among top ten in 2006 and 2007.

The gradual ageing of passenger cars also offers the Chinese passenger car after-sales market new opportunities for development. The demand for after-sales services is expected to be largest when passenger cars are in the fourth to ninth years of their service lives. It is expected that the percentage of passenger cars that have been in use for more than three years in the PRC will rise from approximately 50% in 2008 to 66% by 2012, indicating that the number of passenger cars in need of maintenance and repair should grow significantly. The size of the Chinese passenger cars after-sales market in 2002 was approximately RMB50 billion, more than double the figure of approximately RMB23 billion in 1997. By 2010, the market had grown to approximately RMB240 billion, and it is expected to further grow to approximately RMB486 billion by 2014.

In addition to services provided through existing 4S dealerships, new service platforms such as quick service shops and accessory retailers are emerging. Quick service shops are aimed at providing fast and efficient repair, maintenance and detailing services, while accessory retailers are especially designed to provide a variety of automobile accessories to customers at a centralized location. Such alternative after-sales services platforms benefit extensively when established in conjunction with an existing 4S dealership network, providing opportunities to leverage the customer base, operational expertise, human resources and financial resources.

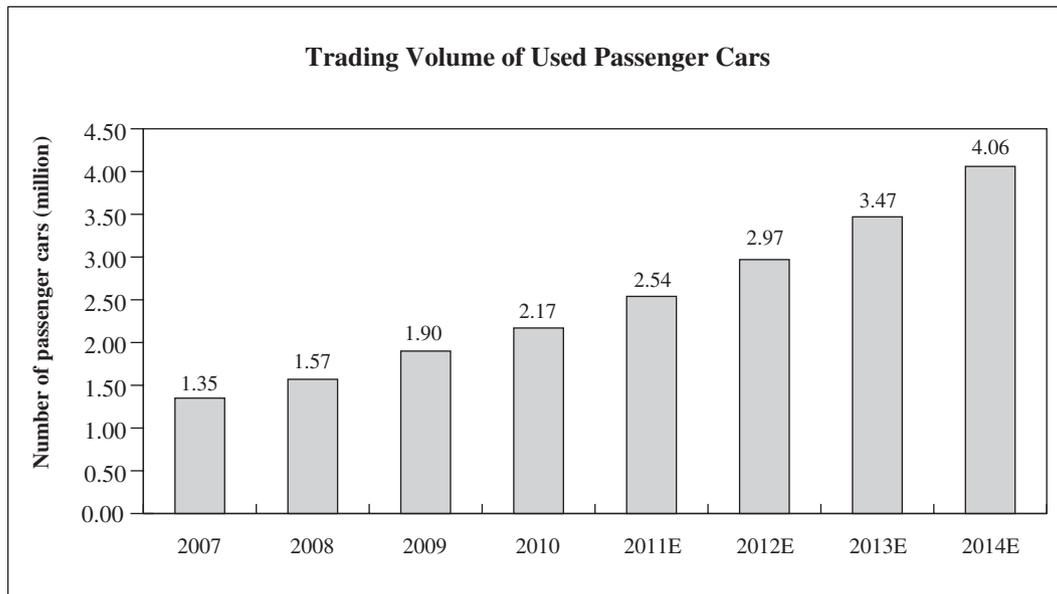


Source ACMR Survey

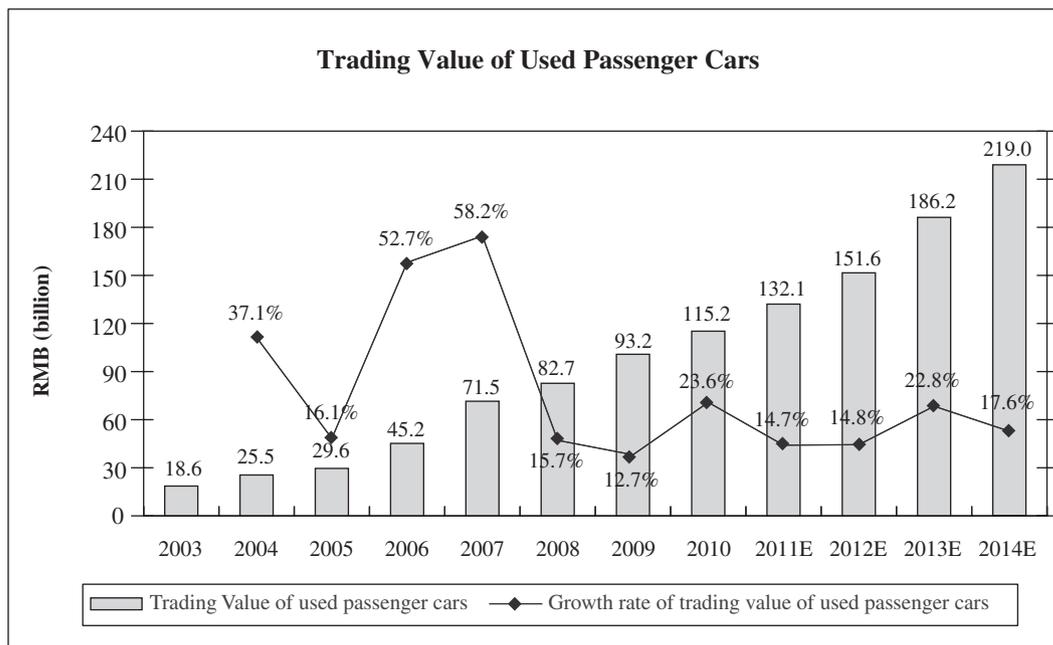
(1) Including the sales of automobile accessories and spare parts as well as repair, maintenance and detailing services.

## Chinese used passenger car market

In line with the production and sales levels of new passenger cars in China, the Chinese used passenger car market is growing rapidly and also has significant growth potential. According to ACMR, approximately 2.2 million used passenger cars were sold in 2010, showing a year-on-year increase of approximately 15.8% compared with 2009. The used passenger car market in China is expected to continue to grow from 2010 to 2014, and there is great potential for further development in this market. It is expected that the volume of used passenger car sales will increase from approximately 2.2 million units in 2010 to approximately 4.1 million units in 2014, with total sales increase from approximately RMB115 billion in 2010 to approximately RMB219 billion in 2014.



Source ACMR Survey



Source ACMR Survey



## BUSINESS

### OVERVIEW

We are a leading national automobile dealership group in China by revenue from 2006 to 2009, according to ACMR. Our 4S dealerships are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern regions of China, as well as selected inland areas. We have grown rapidly from 15 operating 4S dealerships at the beginning of 2006 to 98 4S dealerships in operation as of the date of this document.

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus Audi, Porsche and Lamborghini and mid-to-high end automobile brands including Toyota, Nissan and Honda. Each of our 4S dealerships is designated to sell one brand of automobile and typically only permitted to operate at a single point of sale.

We were the first company to be granted dealership rights by Toyota in China, and one of the first authorized dealerships for Lexus and Audi in China. According to ACMR Survey, we are one of the largest automobile dealership groups in China in terms of sales volume and number of 4S dealerships for Toyota and Lexus. Toyota and Lexus are our two largest automobile brands in terms of sale.

Through our “one-stop automobile shop” business model, we offer a comprehensive range of new automobiles, after-sales products and services in each of our 4S dealerships to our customers. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services. Each of the new automobile sales business and after-sales businesses has its own features in terms of business model and revenue and profitability contributions to our Group.

Our revenue for the three years ended December 31, 2008, 2009 and 2010 was RMB10,548.6 million, RMB13,722.2 million and RMB 24,042.9 million, respectively, representing a CAGR of approximately 51.0% during such periods. Revenue generated from the sales of our mid-to-high end automobile brands accounted for approximately 65.8%, 69.5% and 62.6% of our new automobile sales revenue for the three years ended December 31, 2008, 2009, 2010, respectively, while revenue generated from the sales of our luxury automobile brands accounted for approximately 34.2%, 30.5% and 37.4% of our new automobile sales revenue for the same periods. The gross profit margin of our sales of mid-to-high end brand automobiles was 4.0%, 4.5% and 4.4%; the gross profit margin of our sales of luxury brand automobiles was 5.5%, 6.5% and 8.2%; and the gross profit margin of our after-sales businesses was 40.3%, 44.3% and 48.9% during the same periods, respectively. Revenue generated from our new automobile sales business accounted for approximately 91.9%, 90.8% and 91.2% and the revenue generated from our after-sales businesses accounted for approximately 8.1%, 9.2% and 8.8% of our revenue during the same periods. Our profit attributable to owners of the parent for the three years ended December 31, 2008, 2009 and 2010 was RMB218.7 million, RMB470.9 million and RMB 1,031.2million, respectively, representing a CAGR of approximately 117.1% during such periods.

Based on the information provided by ACMR, we accounted for approximately 1.1%, 1.2% and 1.0% of the Chinese passenger car market’s total revenue<sup>1</sup> in 2007, 2008 and 2009, respectively. Our Group was ranked fifth, fourth and seventh among passenger car dealerships in terms of revenue in 2007, 2008 and 2009, respectively, in the PRC.

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<sup>1</sup> The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue referred therein includes VAT.

As a leading national automobile dealership group in the PRC, we believe that as a result of our strong portfolio of luxury and mid-to-high end automobile brands and strategic positioning as a “one-stop automobile shop”, we are well-placed to benefit from the growth of China’s middle-class and the continued rise in the per capita disposable income of Chinese consumers, and further consolidate our market leadership position.

## **RECENT DEVELOPMENT**

During the second half of 2010 and till the date of the document, we completed a series of significant mergers and acquisitions in order to expand our operations and enhance our competitive strength through achieving better economies of scale, including the acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd., the acquisition of 50% equity interest in B&L Motor Holding Co., Ltd. and the acquisition of 55% equity interest in New Wing Enterprises Limited. For further details, please see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments.*”

## **OUR COMPETITIVE STRENGTHS**

We believe that our success and potential for future growth can be attributed to a combination of our competitive strengths.

**We are a leading national automobile dealership group in the PRC by revenue according to ACMR, with a strong presence of 4S dealerships in cities with relatively affluent populations in multiple regions**

We have a strong presence of 4S dealerships in cities with relatively affluent populations located in the northeastern, northern, eastern and southern regions of China, as well as selected inland areas.

### ***Liaoning Province***

We are the largest automobile dealership group in Dalian City. Dalian City is a major Chinese port, and a transportation hub for northeastern China. Our Lexus 4S dealership in Dalian City was awarded the distinguished dealership by Lexus in term of sales, after-sales services, customer satisfaction and overall performance every year from 2007 to 2010. Our operations in Dalian City also include Toyota’s top-ranking PRC dealership, measured by national customer and service satisfaction indices.

Apart from Dalian City, our 4S dealership network also covers other major cities in Liaoning Province, including Shenyang City, the provincial capital of Liaoning Province. As of the date of this document, we operated a total of 31 4S dealerships in Liaoning province, offering automobile brands including Mercedes-Benz, Lexus, Audi, Toyota, Nissan and Honda.

### ***Yunnan Province***

We are the largest dealership group offering Toyota and the only dealership group offering Lexus in Yunnan Province. In addition, we also operate Mercedes-Benz, Honda and Nissan 4S dealerships in Yunnan Province. As of the date of this document, we operated a total of 10 4S dealerships in Yunnan Province.

### ***Beijing and Tianjin Municipalities***

We acquired a 50% equity interest in B&L Motor in 2010, which operates 4S dealerships in Beijing and Tianjin to enhance the Group’s brand portfolio. As of the date of this document, we operated a total of eight 4S dealerships in Beijing and Tianjin municipalities, offering luxury automobile brands including Mercedes-Benz, Audi, Porsche, Lamborghini and Toyota.

### ***Fujian Province***

We also have an established market position in Fujian Province, where we operated a total of 12 4S dealerships as of the date of this document, including in Xiamen City and Fuzhou City, two of Fujian Province's most affluent cities. We operate Mercedes-Benz, Lexus, Toyota and Nissan 4S dealerships in Fujian Province.

### ***Guangdong Province***

We have an established market position in Guangdong Province operating a total of six 4S dealerships in major cities in Guangdong Province, including Dongguan City, Shenzhen City and the provincial capital, Guangzhou City as of the date of this document. We operate Mercedes-Benz, Lexus and Toyota 4S dealerships in Guangdong Province.

### ***Shandong Province***

We operate a total of nine 4S dealerships in Shandong Province as of the date of this document. We operate 4S dealerships including Audi, Toyota and Nissan in Shandong Province.

### ***Other strategic markets***

We have also established 4S dealerships in other strategic markets which have large, affluent consumer bases and/or well-established road networks. These include: one 4S dealership in Shanghai Municipality, five 4S dealerships in Zhejiang Province; five 4S dealerships in Jiangsu Province; three 4S dealerships in Sichuan Province; five 4S dealerships in Shaanxi Province; two 4S dealerships in Jilin Province; and one 4S dealership in Heilongjiang Province as of the date of this document.

### **We have a diversified portfolio of luxury and mid-to-high end automobile brands**

We have a diversified portfolio of luxury and mid-to-high end automobile brands. We have dealership agreements with various leading global automakers and/or their PRC joint venture corporations, including luxury automobile brands such as Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini and mid-to-high end automobile brands such as Toyota, Nissan and Honda. We are one of the largest automobile dealers in China, both by sales volume and number of 4S dealerships for Toyota and Lexus, according to ACRM.

We believe our automobile brands are popular among Chinese consumers and have experienced sustained sales growth in the PRC. According to a PRC market survey conducted by JD Power in 2009, our luxury and mid-to-high end automobile brands, Mercedes-Benz, Lexus, Audi, Toyota, Nissan, Honda and others, are the most highly-rated automobile brands in terms of overall service satisfaction based on service initiation, service advisor, service facility, automobile pickup and service quality. According to ACRM, between 2003 and 2008, Mercedes-Benz, Lexus and Audi, recorded a CAGR for their total sales in the Chinese market of approximately 34.7%, 63.4% and 12.1%, respectively, whereas Toyota, Nissan and Honda recorded a CAGR for their total sales in the Chinese market of approximately 62.5%, 30.9% and 23.9%, respectively.

### **Our customer-focused philosophy and store-level operational expertise have resulted in our highly-ranked 4S dealerships with consistent quality service and satisfactory customer experience**

As our business is retail in nature, we understand and place great emphasis on customer service. Our corporate motto is "Zhongsheng — Lifetime Partner", which is central to our corporate culture. We believe that providing high-quality services to each of our customers is the key to building long-lasting customer relationships, and to attracting new customers for each of the businesses offered by our "one-stop automobile shop" business model. In line with this core principle, we provide systematic training courses to our customer-facing employees such as our sales personnel, and structure our employee compensation system with the aim of promoting high customer satisfaction.

In order to serve our customers better, we have developed a detailed customer database containing customer records from all of our 4S dealerships, which allows us to track our customers' usage patterns and preferences for our products and services. This in turn allows us to understand and anticipate each of our customer's needs and requirements.

As a result of our customer-focused philosophy, several of our 4S dealerships operating Mercedes-Benz, Lexus, Toyota and Nissan brands achieved high ranking in terms of customer satisfaction indices among 4S dealerships in their respective cities or region in 2010. Our Group was also rated by the China Automobile Dealers Association in 2008 as one of the ten most influential automobile dealership groups in the industry for the 30 years since China's adoption of reform and opening-up policy. We were also awarded Outstanding Award in Management Model in China 2010 for our creative service model. In addition, our individual 4S dealerships received various kinds of awards in recognition of their outstanding customer service. Recent awards we received in 2010 include:

- Excellent Dealer Award for one of our Lexus dealerships in Dalian awarded by Lexus.
- Best Dealer Store Award in terms of comprehensive assessment for one of our FAW-Toyota dealerships in Dalian awarded by FAW Group.
- Best Customer Satisfaction Dealer Store Award (North Region)\_ for one of our Mercedes-Benz dealerships in Dalian awarded by Mercedes-Benz.
- Diamond Dealer Store Award for one of our DF-Nissan dealerships in Dalian awarded by DF-Nissan.
- Top SSI (Sales Satisfaction Index) Award for one of our DF-Nissan dealerships in Qingdao City awarded by DF-Nissan.

### **We have strong and established working relationships with leading automakers**

We have strong and established working relationships with leading global automakers and/or their PRC joint venture corporations. We were the first PRC dealerships granted with dealership rights by Toyota, which was our largest new automobile supplier as of December 31, 2010. We were also one of the first authorized dealerships in the PRC for Audi and Lexus. We are now one of the largest automobile dealers for both Toyota and Lexus in China, both by sales volume and by number of 4S dealerships.

Automakers in China have become increasingly selective in entering into new dealership arrangements, and tend to favor high performance dealerships. In particular, certain of the automakers are increasingly limiting new 4S dealership arrangements to top performing dealers in each region. In light of these developments, we believe our strong and established relationships with the automakers, strong sales, high customer satisfaction and track record, position us well to expand our network of 4S dealerships further in China.

### **Our large scale operations allow us to achieve economies of scale**

Our large scale operations allow us to achieve economies of scale from the human resources, business and financial perspectives.

#### ***Human resources***

As a result of our large scale operations, we have been able to implement a systematic approach to foster capable and experienced managers. One of our corporate policies is to promote capable personnel within the Group's operations and provide a clear career path to those personnel, thus forming a large pool of motivated and experienced employees to support our business expansion plans.

By leveraging our strong operational expertise accumulated throughout our national store network, we frequently apprentice new recruits to our best performing 4S dealerships for training, before rotating them to 4S dealerships in other locations. We believe this ensures best practice sharing and the accumulated business expertise in our best-performing 4S dealerships can be replicated at all of our 4S dealerships.

In addition, as we are a leading national automobile dealership group in the PRC with a diversified portfolio of automobile brands, we are able to offer our employees with a clear career path encompassing a variety of opportunities to work with different automobile brands as well as work in other regions in China, and we believe this would increase our employee retention rates in the face of intense competition for human resources.

### ***Business***

With an extensive 4S dealership network across various regions, we are able to coordinate and aggregate orders for new automobiles, as well as spare parts, automobile accessories and other automobile-related products. This allows us to exercise better inventory control for automobiles, spare parts, automobile accessories and other automobile-related products, which in turn helps us to optimize the mix of automobiles and automobile-related products in each of our 4S dealerships.

In addition, the size of our 4S dealership network and our strong financial resources with large purchase amount yields us stronger bargaining power. We believe that as compared with our competitors, we are in a strong position to bargain for better commercial terms from suppliers of spare parts, automobile accessories and other automobile-related products.

### ***Financial***

Our financial resources provide each of our 4S dealerships ready access to funds, which enables us to order sufficient quantities of automobiles as well as spare parts, automobile accessories and other automobile-related products from our automakers and other suppliers to meet the demands of our large customer base. In addition, through a centralized budgeting and management process, we are able to allocate our financial resources more efficiently across our entire 4S dealership network. Furthermore, with our financial resources, we are in a stronger position in funding potential acquisitions in a timely manner without interrupting our existing 4S dealerships' businesses.

## **We are able to grow rapidly both organically and through acquisitions**

### ***Organic growth***

As a leading national automobile dealership group in China, we have significant expertise in operating 4S dealerships and a deep bench of capable store managers and other personnel. We can set up and operate new 4S dealerships swiftly and successfully by leveraging our industry know-how, brand recognition, established working relationships with automakers, and our experienced personnel from existing 4S dealerships. As of the date of this document, 40 of our 98 4S dealerships in operation were established by ourselves.

We also strive to improve the performance of our dealerships by rigorously executing our strict in-house requirements and standards, tracking store management indicators, training and motivating our staff, expanding into high value-added automobile-related businesses, while emphasizing our customer-focused philosophy. In addition, we have a team of experienced managers who regularly travel throughout our 4S dealerships network to provide on-site guidance and support.

## *Acquisitions*

We carried out a series of acquisitions in 2010 to further enhance our brand portfolio and expand our 4S dealership network. We acquired a 50% equity interest in B&L Motor, which helps us to add new luxury automobile brands, Porsche and Lamborghini, to our existing brand portfolio and enter into the markets of Beijing and Tianjin municipalities. We also fully or partly acquired interests in companies which operate 4S dealerships in Liaoning, Shandong, Fujian, Sichuan, Zhejiang and Jiangsu provinces to strengthen our presences in these regions.

We believe that our aggregated group resources enable us to capitalize on acquisition opportunities in a timely manner. We have a well-established track record of acquiring 4S dealerships and successfully integrating the acquired 4S dealerships with a significant improvement in their performance. We utilize the benefits of our wide network of 4S dealerships and management expertise to improve the operation of newly acquired 4S dealerships, including the appointment of management teams to the newly-acquired 4S dealerships to share best practices, conduct on-site training, and resolve any existing issues.

For example, according to the national ranking prepared by the automakers to evaluate the performance of their 4S dealerships in the PRC, based on various performance indicators, including the sales performance and customers satisfaction, the national ranking of the 4S dealership for FAW-Toyota we acquired in Chengdu City, Sichuan province in February 2007, rose from 139th in 2006 to 90th by end of 2008. According to the automakers, the national rankings of two dealerships for FAW-Toyota and Audi we acquired in Yantai City, Shandong Province in January 2008 and February 2009, rose from 234th and 102nd as of the time of their respective acquisitions, to 65th and 75th, respectively as of October 2009. The ranking of another dealership for DF-Nissan we acquired in Kunming City, Yunnan Province in March 2008, rose from last place among 24 dealerships in the Southwest region to one of the top five performing dealerships in the region. As of the date of this document, 58 of our 98 4S dealerships in operation were acquired from third parties.

### **We have an experienced senior management team, a deep bench of high-caliber store managers, and access to reliable source of skilled technical personnel**

Our senior management comprises industry veterans with extensive in-depth experience in the PRC automobile industry. Our founders, Mr. Huang Yi and Mr. Li Guoqiang, each has over 20 years' industry experience, and remain actively involved in our management and day-to-day operations. Our vice-president of our new automobile sales business, Mr. Wu Hailong, has over 17 years' relevant experience and has been with our Group since 1998. Mr. Zhang Zhicheng, our vice-president of brand automobile sales business, has over five years' relevant experience and in-depth expertise in the PRC automobile industry, and has held numerous key positions with our Group. Mr. Liu Geng, our vice-president of our after-sales and accessories businesses, has over 16 years' relevant experience, and has been with our Group since 2000. We consider the leadership of our experienced senior management competitive advantage and a key factor in our success and achievements.

In addition, we have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers are internally trained and promoted, and have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager to different positions in a 4S dealership, including deputy-store manager, sales director, service director and finance director, to ensure that our store managers are familiar with all operational aspects of a 4S dealership.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For example, we believe our extensive relationship with Toyota provides us a significant advantage by enabling us to draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist in designing the curriculum for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, which has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

## **We have efficient information technology systems to support our business**

We have set up advanced information technology systems in our headquarters and across our 4S dealership network as a uniform platform which facilitate the expansion of our business. In late 2008, we completed the roll-out of our enterprise resource planning system which maintains in a single database the information needed for a variety of business functions such as quota, inventory, financial, human resources and customer relationship management.

We also use our information technology systems to identify fast and slow-selling automobile models or spare parts, accessories or other automobile-related products, analyze the sales trends of different products in different regions based on the historical data of purchase orders and sales data, and improve the mix of products and services offered at each of our 4S dealerships.

Our efficient information technology systems have significantly improved our ordering, inventory and logistics management as well as financial and cash management, and have helped us to minimize the costs of maintaining inventory and improve our overall sales performance.

We will continue to upgrade our information technology systems on an ongoing basis as necessary. We believe that an upgraded information technology system will continue to facilitate the exchange of information between our headquarters and our 4S dealership network, and enable us to improve our data analysis to support the formation and execution of our business and operational strategies.

## **OUR STRATEGIES**

Our aim is to further strengthen our position as a leading national automobile dealership group in the PRC. To accomplish this, we intend to expand our business by strategically expanding our 4S dealership network, further increasing productivity and profitability, improving customer service quality at each of our 4S dealerships, continuing to strengthen our after-sales businesses, developing our used automobile sales business, and augmenting our employee talent pool.

### **Increasing the size of our 4S dealership network through both organic growth and acquisitions**

We believe that by increasing the size of our 4S dealership network through both organic growth and acquisitions, we can further improve the mix of automobile brands in our portfolio and the products and services we offer and maximize profitability. We intend to capitalize on our strong cash flow and aggregated financial resources to increase the size of our 4S dealership network.

#### ***Organic growth***

Our 4S dealerships are strategically concentrated in cities with affluent populations in the northeastern, northern, eastern and southern regions of China, including Dalian City, Harbin City, Shenyang City, Changchun City, Qingdao City, Yantai City, Beijing Municipality, Shanghai Municipality, Tianjin Municipality, Nanjing City, Wenzhou City, Shenzhen City, Dongguan City, Xiamen City, Fuzhou City and Guangzhou City, as well as selected cities in inland China, including Chengdu City, Xian City and Kunming City. We believe these cities and regions have significant market potential, and demand for automobiles, spare parts, automobile accessories and other automobile-related products, and repair, maintenance, and detailing services, will increase in these cities and regions because of expected rises in per capita disposable income and/or the nature of the local transportation requirements and networks.

We intend to capitalize on our local know-how, relationships and positive brand image built up by our existing 4S dealerships, as well as our in-depth industry expertise, to establish successful new 4S dealerships rapidly in the same regions or adjacent regions. We believe that our strong and established working relationships with leading global automakers and their PRC joint venture corporations will also enable us to acquire additional 4S dealership licenses to further expand our distribution network of 4S dealerships in the PRC.

## ***Acquisitions***

We expect the increasingly competitive nature of the PRC automobile dealership industry and automakers' tendency to consolidate the PRC automobile dealership industry by entering new dealership arrangements only with their top performing dealers to present acquisition opportunities for our Group. We believe we are well-positioned to take advantage of such opportunities to further expand our business and consolidate our market leadership position.

We continue to look for and hold constant dialogue with potential acquisition targets that are strategically important to our automobile brands and geographical coverage. While our Board and senior management team will set the overall strategy, our business development team will conduct market research and due diligence on the identified targets. Other departments serve as an integral team to provide support both during the pre-acquisition phase, such as conducting financial and legal due diligence, and during post-acquisition integration, such as appointing management team to each newly-acquired 4S dealership to share best practice, conduct on-site training, and improve operational efficiency. We intend to utilize our wide network of 4S dealerships, automakers' support and significant operational expertise to quickly integrate and achieve significant improvements in the acquired 4S dealerships.

### **Further increasing productivity and profitability as well as promoting customer service quality of each of our 4S dealerships**

Even though our 4S dealerships have had outstanding business performance during the three years ended December 31, 2010, we still aim to further increase productivity and profitability of each of our 4S dealerships, and to further promote service quality of each of our 4S dealerships. We believe by better utilizing our group resources and more efficient management, there is still growth potential for even the most profitable 4S dealership in our network.

### ***Measures taken at the Group level***

At the Group level, we will continue to utilize our economies of scale as a group, to formulate overall growth strategy and detailed execution plan and organize implementation in each store, to allocate our Group's resources efficiently, and to promote healthy competition and successful experience sharing among our 4S dealerships. These measures are aimed to promote profitability of individual 4S dealerships through the collective strength of our Group. For example, we will continue utilizing our aggregate ordering and procuring power to obtain better commercial terms from the suppliers of spare parts, automobile accessories and other automobile-related products. Please refer to the section entitled "*Our Business — Our Competitive Strengths — Our large scale of operations allow us to achieve economies of scale*". Through our Group's general budget plan and resources allocation, we are able to adjust the automobile quotas to our 4S dealerships to some extent to achieve a better mix of automobile and automobile-related inventory for our 4S dealerships. In addition, through internal auditing and incentive scheme mechanism at the Group level, we can increase our management efficiency and strengthen our Group's management of 4S dealerships.

### ***Measures taken at the 4S dealership level***

At the 4S dealerships level, we will continue improving key performance indicators ("KPI") for our 4S dealerships. Through tracking and reviewing the KPI, we can promote management efficiency and customers satisfaction, thus improving the profitability of each 4S dealership. For example, general managers at 4S dealership level will closely monitor market trends and sales performance of each type of automobiles for sale and make corresponding adjustments to the types of automobiles to procure and types of services to provide. In addition, based on the customers requirements for different services and taking into account the level of profitability of different services, our 4S dealership will undertake decoration, renovation, and upgrades of the physical site. Some of our 4S dealerships have modified the interior design of exhibition rooms, including, for example, opening a designated area of retailing automobile accessories to promote the sales of types of automobile accessories which are popular among customers and with higher profitability.

We will also continue improving and implementing policies to rotate our 4S store managers among different 4S dealerships, to ensure successful experience sharing and enhance service quality. This policy is part of an effort to accelerate the growth of our newly built 4S dealerships, and to help them quickly reach the same level of operation efficiency and profitability as our well-established 4S dealerships. Our newly acquired 4S dealerships will receive the same support to improve performance in a short period of time. We will also reinforce training programs for ground sales personnel, client service staff, and after-sales services engineers and technicians to promote the quality and efficiency of service provided and to enhance our customers' satisfaction.

In addition, we will continue adopting new measures to expand our high value-added automobile-related business to promote the profitability of our 4S dealerships. While our new automobile sales, repair and maintenance services are steadily growing, we will expand the scope of our automobile decoration and accessories businesses to explore the potential value in our automobile-related business chain. We will also expand other revenue streams by facilitating automobile insurance agency, automobile finance agency and automobile licensing related services.

All the measures we have taken at 4S dealerships level aim to increase our sales, promote our customers' satisfaction and increase the efficiency of services provided, which we believe will help us attract more customers and reduce costs at our existing 4S dealerships, thus further enhancing each of our 4S dealership's revenue and profitability.

#### **Utilizing our existing resources and customer base in new automobile sales to promote our after-sales businesses, including retailing spare parts, providing repair, maintenance and detailing services, and retailing automobile accessories**

Our customer-focused philosophy has historically resulted in high customer satisfaction with our new automobile sales, which we believe will drive more sales and increased patronage of our after-sales businesses. Our after-sales businesses offer our customers a wide range of automobile-related products and services at several locations across the PRC, including spare parts, automobile accessories and other automobile-related products and repair, maintenance, detailing and other automobile-related services through our extensive network of 4S dealerships and our "one-stop automobile shop" business model.

We intend to expand our business operations by utilizing our existing resources and customer base to continue to strengthen our after-sales businesses. According to the, China's automobile market is dominated by first-time buyers, evidencing rapid growth in the number of new automobile consumers. We expect that this increase in new automobile consumers in the PRC will lead to greater demand for our after-sales businesses.

We believe that through the expansion of the after-sales businesses at our existing 4S dealerships, we will increase the overall profitability of each 4S dealership, as our after-sales businesses yield higher profit margins when compared to our new automobile sales business. Our after-sales businesses are a stable source of revenue for our 4S dealerships.

#### ***Repair, maintenance and detailing services***

We intend to expand our repair, maintenance and detailing services through our existing 4S dealerships and by developing alternative service platforms such as quick service shops.

- Existing 4S dealerships

We intend to increase the efficiency of our repair, maintenance and detailing businesses at our existing 4S dealerships. To this end, we aim to increase the number of customers in these businesses so that our repair, maintenance and detailing businesses can operate closer to full capacity. We plan to retain existing customers and attract new customers and retain existing or acquired customers through effective marketing and promotional activities tailored to our repair, maintenance and detailing businesses. Additionally, we will continuously train our technical personnel and review and reconfigure our service operations and processes to improve the quality and efficiency of the services we provide.

- Quick service shops

We plan to enhance our market position in automobile after-sales services market and to expand our existing services network through establishing quick service shops in the vicinity of each of our 4S dealerships to provide fast and efficient repair, maintenance and detailing service, in addition to the services which we already provide at each of our 4S dealerships. Our quick service shops will provide fast and efficient repair, maintenance and detailing services as an extension to our existing 4S dealership network, and to complement the more complicated repair, maintenance and detailing services provided at our 4S dealerships.

We believe that we will be able to leverage our in-depth business and operational know-how and our strong brand image and reputation to quickly build a comprehensive network of quick service shops. We will seek to ensure effective expertise transfer by bringing experienced general managers and automotive engineers and technicians from our 4S dealerships to supervise the operations of our quick service shops.

### *Automobile accessories*

We have accumulated significant experience in the automobile accessories retailing business through our operational expertise, highly-trained service teams and extensive market knowledge. The automobile accessories we retail can be broadly categorized into automobile electronics (including GPS systems, audio and video equipment), automobile styling products (including decals, seat covers and floor mats) and automobile care products (including care products for engine, handling and braking products, tires, waxes and polishes). We believe that the increasing demand for automobile styling and care products, together with our large customer base derived from our new automobile sales business, provide significant growth potential for our automobile accessories business.

Currently, most of our automobile accessories are obtained from independent suppliers. We intend to maintain and strengthen our relationships with these suppliers to ensure that we retail a wide range of high-quality automobile accessories and continue to provide the latest and most advanced products at attractive prices. We also aim to become the sole distributor of certain automobile accessories.

We intend to continue to offer and expand the range of our own line of high-quality automobile accessories, drawing from our extensive experience and in-depth knowledge of the PRC automobile market.

- Existing 4S dealerships

An automobile accessories division has been established in each of our 4S dealerships, comprising dedicated sales personnel and automotive engineers and technicians. Our automobile accessories will be displayed both in dedicated showrooms in the 4S dealerships, as well as within the new automobiles exhibited in our 4S dealerships.

- Automobile accessories exhibition centers

In addition to expanding our automobile accessories business through our existing 4S dealerships, we also intend to build automobile accessories exhibition centers to increase our sales of automobile accessories and market exposure. We have constructed three automobile accessories exhibition centers in Dalian City and one automobile accessories exhibition center in Kunming City, which we believe are strategically located in an area with a high concentration of our 4S dealerships.

We believe that our automobile accessories business will strongly benefit from our reputation for quality customer service and automotive technical excellence, and that we will be able to leverage on our large customer base, deep bench of high-caliber personnel, extensive distribution network, and in-depth knowledge and understanding of the PRC automobile market to expand our automobile accessories business quickly.

### **Expanding our business operations by developing our used automobile sales business to complement our existing businesses**

We believe that the current PRC used automobile market will mature and expand in line with the large increase in automobile purchases in China. According to ACMR, between 2006 and 2010, the used passenger car market in the PRC recorded a CAGR of approximately 26.4% in terms of sales value, and is expected to further grow at a CAGR of approximately 18.4% from 2011 to 2014. We believe that we will be able to secure supplies of used automobiles from our large existing customer base, and that we will be able to grow our used automobile sales business rapidly with our extensive 4S dealership network, strong reputation, large pool of experienced and highly-skilled automotive engineers and technicians, and in-depth knowledge and understanding of the PRC automobile market.

In order to address the common concerns of PRC consumers in relation to used automobiles, we intend to adopt a number of strategies, including applying strict procurement standards, leveraging our reputation for quality customer service and automotive technical excellence in relation to the restoration and/or repair work carried out on our used automobiles, and partnering with the automakers to provide official certification and manufacturer warranties for our used automobiles. We also plan to source our used automobiles primarily and directly from private sellers. These include individuals seeking to trade in their existing automobiles for new automobiles. We believe that we can capture market share quickly through our existing dealership network.

### **Enlarging our employee talent pool to support our continued growth**

Our employees are critical to our success. We have invested, and intend to continue to invest, substantially in our employees in order to recruit, integrate and retain the best personnel for our businesses. We have a systematic approach to recruit talents to suit our business development needs. For example, we have formed and will maintain and enhance our strategic relationship with local education institutes to ensure our continued access to highly-skilled automotive engineers and technicians. We will also continue to regularly review and improve our training programs for multiple levels of our employees, from senior management teams to our trainee managers and newly recruited sales and service personnel, to improve our employees' productivity and service quality. Furthermore, we have established and will continue to promote our KPI-driven corporate culture with a clear career and promotion system to motivate our employees. Our employees are provided with rotation opportunities both cross-stores and cross-functions to develop their skills and their own career path with us.

**OUR BUSINESS**

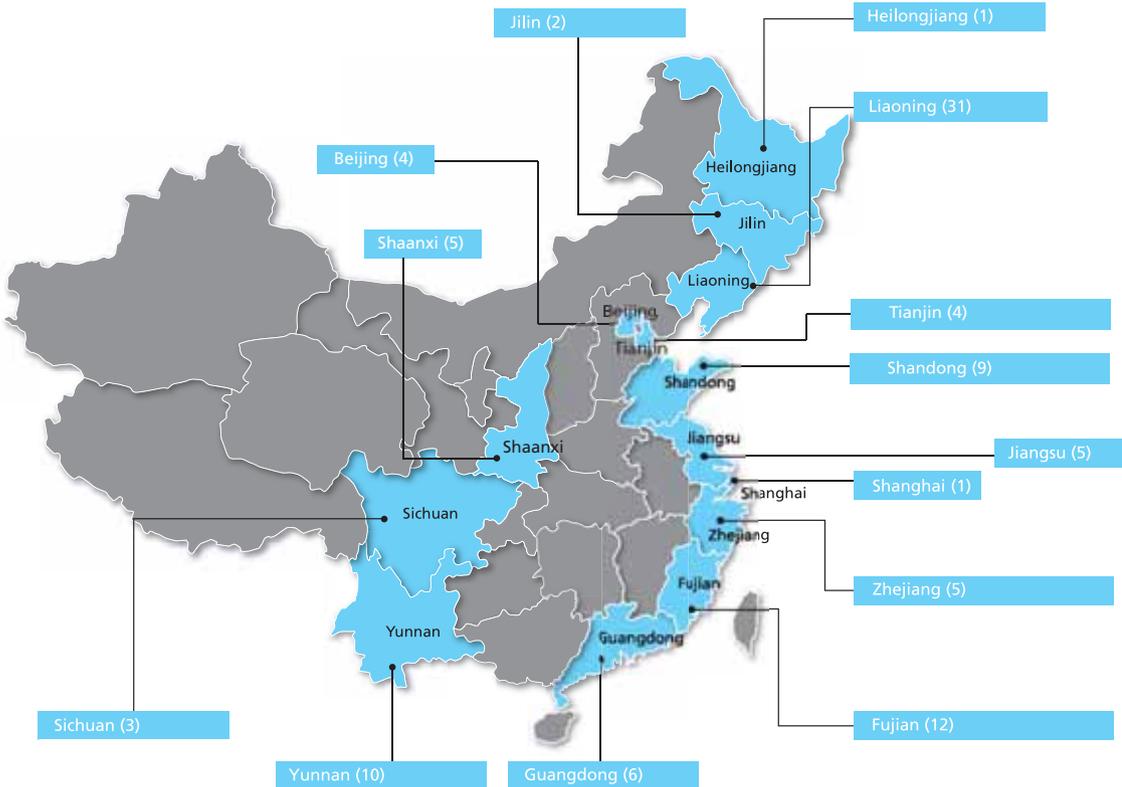
**Our 4S Dealership Network**

We are a leading national automobile dealership group in the PRC according to ACMR. We have a strong presence of 4S dealerships in cities with relatively affluent populations in the northeastern, northern, eastern and southern regions of China, as well as selected inland areas. Following our listing on the Hong Kong Stock Exchange at the beginning of 2010, we have fully or partly acquired interests in companies which operate 4S dealerships in Beijing, Tianjin municipalities, Liaoning, Shandong, Fujian, Sichuan, Zhejiang, Jiangsu and Shaanxi provinces to strengthen our presences in these regions and established new 4S dealerships by ourselves. The total number of our 4S dealerships in operation has grown from 47 as of December 31, 2009 to 98 as of the date of this document.

The following table sets out certain information with respect to our 4S dealership network as at the date indicated:

	December 31,					Date of this document
	2005	2006	2007	2008	2009	
Number of 4S dealerships <sup>3</sup> . . . . .	15	21	27	30	47	98

The following map illustrates the geographic coverage of our 4S dealership network as of the date of this document.



As of the date of this document, our 4S dealership network included 98 4S dealerships in operation across 14 provinces and municipalities in China.

In terms of geographical coverage, our 4S dealership network are located in the northeastern region, including Liaoning Province, Jilin Province and Heilongjiang Province; the northern region, including Beijing Municipality and Tianjin Municipality; the eastern region, including Shandong Province, Jiangsu Province, Zhejiang Province, and Shanghai Municipality; the southern region, including Fujian Province and Guangdong Province; and selected inland areas, including Yunnan Province, Shaanxi Province and Sichuan Province.

The following table sets forth the percentages of revenue and gross profit attributed to each of the regions for the three years ended December 31, 2008, 2009 and 2010, respectively.

	Years ended December 31,		
	2008	2009	2010
Revenue (%)			
Notheastern region	45	42	39
Northern region	–	–	7
Eastern region	10	18	17
Southern region	21	19	19
Selected inland areas	24	21	18
Total	100	100	100
Gross profit (%)			
Notheastern region	48	41	39
Northern region	–	–	10
Eastern region	6	14	15
Southern region	19	21	19
Selected inland areas	27	24	17
Total	100	100	100

### Our 4S Dealerships

A 4S dealership refers to a dealership authorized to sell the products of a single automobile brand. 4S dealerships integrate four standard automobile-related businesses: sales, spare parts, service and survey. In China, the majority of automobiles are retailed through 4S dealerships.

The operations of each of our 4S dealerships are governed by a dealership agreement with the relevant automaker. Each of our 4S dealerships is operated by a member or members of our Group, with each 4S dealership selling only one brand of automobile and typically only permitted to operate at a single point of sale. These agreements are non-exclusive, must generally be renewed periodically and typically have a term of one year. The automakers have the right to terminate our dealership agreements with prior written notice for a variety of reasons, including failure to rectify performance deficiencies and unapproved changes in ownership or management structure that affect our ability to meet our contractual obligations. As at the date of this document, all of our dealership agreements had been renewed or are in the process of being renewed with the relevant automakers. During the three years ended December 31, 2010, none of our dealership agreements was terminated by the automakers, nor did any automaker refuse to renew dealership agreements governing our 4S dealerships.

The time required for our newly established or acquired 4S dealerships to reach a steady level of revenue and profit comparable with those of our existing dealership network depends on many factors, including but not limited to, the popularity of brand it offers among the local customers, the level of competitiveness in the local market, the affluence level in the region, and the experience of management team of the dealership. In general, such required time span ranges from two to three years.

## **Salient terms of our automobile dealership agreements**

The following terms are typical in most of our existing dealership agreements. These terms set out our general rights and obligations under the dealership arrangements.

- We are generally required to meet the layout and design standards required by each automaker, and we agree to permit the relevant automaker to conduct on-site performance assessments periodically.
- We are generally required to follow annual sales plans that are set by the automakers, however, our dealership agreements typically do not provide any minimum purchase or sales requirements.
- We are typically entitled to use the trade names, trademarks and other branding matters in a manner consistent with the standards set by the relevant automaker to promote the brand awareness of automobiles we sell through our 4S dealerships.
- The automakers may specify the geographical limitation within which our 4S dealership must operate, as well as recommend price guidelines for new automobiles. Our dealership agreements typically allow the relevant automakers to adjust the geographical limitation within which a particular 4S dealership may operate. We also have flexibility in adjusting the selling price notwithstanding the price guidelines from the automakers.
- We are generally prohibited from knowingly selling automobiles to any customers whose intention is to resell or export automobiles outside the PRC.
- We are prohibited from retailing more than one brand of new automobile in any of our 4S dealerships. We are not required to register our dealership agreements with any relevant authorities.
- We take ownership of the automobiles from the automakers upon delivery of the automobiles.
- The automakers usually engage logistic companies to deliver automobiles to designated locations. The automakers usually bear all the transportation costs and insurance fees incurred during such process.
- Dealership agreements usually specify the business model of a particular 4S dealership. The business model of each of our 4S dealership is to provide one-stop services for a particular brand of automobile by combining the sales of new automobiles, sales of spare parts and after-sale services with an aim to provide efficient and standardized service to the end customers.
- The automakers have rights to conduct inspection of and site-visits to our 4S dealerships to appraise the performance of our 4S dealerships and their compliance with the dealership agreements, and provide various advices to our 4S dealerships. The automakers conduct such inspections and site-visits on irregular basis and may take the review results into account when considering the renewal of the dealership agreements with us.
- Dealership agreements usually have a term of one year. The automakers have the right to terminate our dealership agreements with prior written notice for a variety of reasons, including failure to rectify performance deficiencies and changes in ownership or management structure that affect our ability to meet our contractual obligations without their prior consent. One of our dealership agreements for Mercedes-Benz provided a term from 13 July 2009 to December 31, 2012, and can be extended for another two years unless each party can terminate with six month's written notice.

In addition, our 4S dealerships are also required to satisfy certain procedural requirements and obtain certain permits, licenses and approvals from relevant PRC Government authorities. Depending on

the location of each 4S dealership, these could include archival filing with MOFCOM for new automobile sales, archival filing with SAIC for new automobile sales, project initiation approvals from the Ministry of Transport, road transport licenses from the relevant provincial counterpart of the Ministry of Transport for repair and maintenance or licenses for concurrent insurance agency. All of the permits, licenses and approvals required by our Group are subject to different renewal and validity conditions depending on the location of particular 4S dealerships and the businesses engaged in by that 4S dealership.

### **Our “One-stop Automobile Shop”**

Through our “one-stop automobile shop” business model, we offer our customers new automobiles and after-sales services. Our new automobile sales business retails luxury and mid-to-high end brands automobiles. Our after-sales businesses offer spare parts, provide repair, maintenance and detailing services, and retail automobile accessories.

The table below provides revenue information for each of our new automobile sales business and our after-sales businesses for the years indicated.

	Year ended December 31,		
	2008	2009	2010
Revenue from:			
— New automobile sales business . . . . .	91.9%	90.8%	91.2%
— After-sales businesses . . . . .	8.1%	9.2%	8.8%

### ***New automobile sales***

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands such as Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini and mid-to-high end automobile brands such as Toyota, Nissan and Honda. The automobiles we retail through our 4S dealerships include both imported automobiles and automobiles produced domestically by the automakers and/or their PRC joint venture corporations. For the three years ended December 31, 2008, 2009 and 2010, revenue from Toyota brand automobiles accounted for approximately 53.0%, 49.5% and 42.3% of our revenue from new automobile sales, respectively, while revenue from Lexus brand automobiles accounted for approximately 24.7%, 17.4% and 12.8% of our revenue from new automobile sales for the same periods, respectively. The selling prices of domestically manufactured models are generally lower than those of imported models. While different models may vary in their profit margins, risk profiles and other aspects, such differences are not attributed to whether the vehicles are domestically or overseas produced.

The tables below provide certain information about the luxury and mid-to-high end automobile brands that we had 4S dealership arrangements for, as of the date of this document.

### ***Our Automobile brands***

We had dealership arrangements with 15 automakers as of December 31, 2010:

- Mercedes-Benz . . . . . We operated several 4S dealerships retailing Mercedes-Benz automobiles. Mercedes-Benz supplies us with a range of models including their A-class, B-class, C-class, E-class, S-class and other series of product offering.
- FJ-Daimler . . . . . We operated several 4S dealerships retailing FJ-Daimler automobiles. FJ-Daimler supplies us with a range of models including Vito, Viano and other series of product offering.

Lexus . . . . .	We operated several 4S dealerships retailing Lexus automobiles. Lexus supplies us with more than ten models including the ES240 which was our best selling Lexus model by volume for the year ended December 31, 2010.
Audi . . . . .	We operated several Audi 4S dealerships. Audi supplies us with a range of different models, such as A4, A6 and A8.
FAW-Toyota . . . . .	FAW-Toyota supplies us with some of our most successful models in terms of sales volume, including Corolla, Reiz, Vios, Vito, Prado, Land Cruiser and Crown. We operated a number of 4S dealerships which retail FAW-Toyota automobiles.
GZ-Toyota . . . . .	We operated several GZ-Toyota 4S dealerships. GZ Toyota supplies us with Camry, Alphard, Highlander and Yaris models.
Nissan . . . . .	We operated several 4S dealerships retailing Nissan automobiles. Nissan supplies us with a range of models including Teana and Bluebird.
DF-Honda . . . . .	We operated several DF-Honda 4S dealerships. DF-Honda supplies us with CR-V, Spirior and Civic models.
GZ-Honda . . . . .	We operated several 4S dealerships retailing GZ-Honda automobiles.
Porsche . . . . .	We operated several 4S dealerships retailing Porsche automobiles.
Lamborghini . . . . .	We operated one 4S dealerships retailing Lamborghini automobiles.
Others . . . . .	We also operated several 4S dealerships retailing automobiles of other four brands.

***Luxury brands***

<b>Automaker</b>	<b>Models offered include</b>	<b>Location of 4S dealerships as of the date of this document</b>
Mercedes-Benz . . . . .	A-class, B-class, C-class, E-class, S-class, M-class, GLK and SLK series, G series,, Viano, Vito	Liaoning, Beijing, Jiangsu, Zhejiang, Fujian, Yunnan, Guangdong
Lexus . . . . .	ES240, ES350, IS300, GS300, LS460, RX350, GS430, SC430, LS600, RX400, LX470, LS430, RX300, GX series	Liaoning, Yunnan, Guangdong, Fujian
Audi . . . . .	A3, A4, A5, A6, A8, Q7, TT, R8, S8, Q5	Liaoning, Beijing, Tianjin, Shandong
Porsche . . . . .	Porsche 911, Prosche 918, Boxster, Cayenne, Carrera GT, Cavman, Panamera	Beijing, Tianjin
Lamborghini . . . . .	Aventador, Gallardo, Murcielago, Reventon	Tianjin

### *Mid-to-high end automobile brands*

<b>Automaker</b>	<b>Models offered include</b>	<b>Location of 4S dealerships as of the date of this document</b>
FAW-Toyota . . . . .	Vios, Corolla, Reiz, Crown, Prius, RAV4, Prado, Land Cruiser, Vito	Liaoning, Yunnan, Guangdong, Fujian, Jiangsu, Sichuan, Shanghai, Heilongjiang, Shandong, Zhejiang
GZ-Toyota . . . . .	Alphard, Camry, Highlander, Yaris, FJ Cruiser	Liaoning, Yunnan, Jilin
Nissan . . . . .	Geniss, Bluebird, Paladin, Pickup, Tiida, Teana, March Sunny, Sylphy, Livina, Fuga, Quest, X-Trail	Liaoning, Yunnan, Shandong, Fujian, Sichuan, Shaanxi
DF-Honda . . . . .	CR-V, Civic, Spirior	Liaoning, Yunnan, Zhejiang
GZ-Honda . . . . .	Fit, Accord, Odyssey, City	Liaoning, Zhejiang
Others . . . . .		Shandong, Liaoning, Yunan

In addition to our diverse portfolio of mid-to-high end and luxury automobile brands, we also retail a small number of new commercial vehicles and other automobiles manufactured by certain of the automakers and supplied to us under our 4S dealerships arrangements with them.

### **After-sales businesses**

Our after-sales businesses provide a wide range of services and products to our customers including repair, maintenance, detailing services and automobile accessories. After-sales businesses set high service standards, and focus on providing quality customer-oriented services to satisfy our customers' needs. Services under warranties are included in the after-sales businesses. The target markets for our after-sales businesses are large and growing strongly, driven by our rapidly expanding customer base as the number of automobile owners continues to increase. In addition, the profit margins for our after-sales businesses are generally significantly higher than the profit margin for our new automobile sales business. As a result, a relatively mature 4S dealership, in term of operating history, is expected to have a large portion of profits derived from after-sales businesses.

As a result of its recurrent business nature, the revenue and income from after-sales businesses are more steady compared with those derived from the new automobile sales. In addition, after-sales businesses require relatively less working capital to operate. Such inventories can be procured on credit terms that vary from product to product.

The primary customers for our after-sales businesses are those who purchase new automobiles from our 4S dealerships. The after-sales businesses may also bring new automobile sales business. A 4S dealership with quality after-sales service and high customer satisfaction will not only retain existing customers, but also attract more new customers for new automobile sales and after-sale businesses. We have and will continue to adopt various marketing campaigns, including without limitation, one-on-one client surveys, major client visits, automobile club activities and client referral programs, to identify and procure potential customers of after-sales businesses.

The following is a detailed description of the types of after-sales businesses we operate during the three years ended December 31, 2010.

### ***Repair, maintenance and detailing services***

We strive to provide quality repair, maintenance and detailing services to our customers. As a result of our customer-focused philosophy, several of our 4S dealerships operating Toyota, Lexus, Nissan and Mercedes-Benz brands achieved high ranking in terms of customer satisfaction indices among 4S

dealerships in their respective cities or region in 2010. Our Group was rated by the China Automobile Dealers Association in 2008 as one of the ten most influential automobile dealership groups in the industry for the 30 years since China's adoption of reform and opening-up policy. We were also awarded Outstanding Award in Management Model in China 2010 for our creative service model. In addition, our individual 4S dealerships received various kinds of awards in recognition of their outstanding customer service. Recent awards we received in 2010 include:

- Excellent Dealer Award for one of our Lexus dealerships in Dalian awarded by Lexus.
- Best Dealer Store Award in terms of comprehensive assessment for one of our FAW-Toyota dealerships in Dalian awarded by FAW Group.
- Best Customer Satisfaction Dealer Store Award (North Region) for one of our Mercedes-Benz dealerships in Dalian awarded by Mercedes-Benz.
- Diamond Dealer Store Award for one of our DF-Nissan dealerships in Dalian awarded by DF-Nissan.
- Top SSI (Sales Satisfaction Index) Award for one of our DF-Nissan dealerships in Qingdao City awarded by DF-Nissan.

We provide repair and maintenance services under warranties and we are subject to the terms of sale to our customers, who purchase new automobiles through our 4S dealerships. The automakers set the price we charge our customers for providing repair and maintenance services under warranties. We derive gross profit from the difference between the fee charged and the cost of providing such services.

We also provide repair, maintenance and detailing services to the general public. We use spare parts, accessories and tools primarily produced by the relevant automakers and/or other independent suppliers. In order to cope with greater demand for our repair, maintenance and detailing services and to expand our service and market coverage, we are in the process of establishing and intend to continue to establish quick service shops in the vicinity of each of our 4S dealerships to provide fast and efficient repair, maintenance and detailing services to our customers as an extension to our existing 4S dealership network, and to complement the repair, maintenance and detailing services provided at our 4S dealerships. We endeavor to ensure effective expertise transfer by bringing experienced general managers and automotive engineers from our 4S dealerships to our quick service shops to supervise the operations of our quick service shops, and we intend to leverage on our strong reputation for customer service and automotive technical excellence, to build a comprehensive network of quick service shops rapidly.

On June 9, 2009, Zhongsheng Holdings and Japan Tacti entered into an agreement to establish a joint venture company, Zhongsheng Tacti, to conduct quick automobile repair services in China. Pursuant to the terms of the joint venture agreement, each of Zhongsheng Holdings and Japan Tacti holds a 50% interest in Zhongsheng Tacti. Our cooperation with Japan Tacti is strategic in nature. Japan Tacti has a proven track record in operating quick automobile repair services in Japan and it offers high end brands of automobile accessories. We intend to capitalize on the experience of Japan Tacti in quick automobile repair services by establishing Zhongsheng Tacti as our model quick service shop. We plan to establish more quick service shops to be wholly owned by our Group in the future based on our successful experience in Zhongsheng Tacti. We will also cooperate with Japan Tacti by introducing its high end brands of automobile accessories to enrich the ranges of automobile accessories we sell and enhance our automobile accessories sales performance in the future.

We plan to expand our existing services network through establishing quick service shops in the vicinity of our 4S dealerships, especially those dealerships that are already operating at their full capacity in terms of after-sales service in order to provide fast and efficient repair, maintenance and detailing services. With the establishment of quick service shops, going forward, our 4S dealerships will focus on the more complicated repair and whole vehicle maintenance services and will direct the simpler and regular repair, maintenance and detailing services to the quick service shops.

We envisage that the location of our quick service shops will be less premier when compared with our 4S dealerships and that they will require fewer skilled technicians and equipment and could thus lower the operating cost and offer services to our customers at lower prices. We believe this would attract a new group of customers who are more sensitive to price level than the existing customers of our 4S dealerships. Moreover, while our 4S dealerships only offer repair, maintenance and detailing services to automobiles of a specific brand, our quick service shops are not subject to such limitation and we believe this would also broaden our customer base.

### ***Services under warranty***

The product warranty period for new automobiles typically lasts between 24 to 48 months, beginning on the date the automobile is delivered to the customer. In relation to components such as the battery and expendable parts including oil, fuel and air-conditioner filters, brake pads and spark plugs, the warranty period is typically six to 12 months generally, the product warranty is only valid within the PRC.

We examine each automobile brought to our 4S dealerships for repairs to determine the cause of the problem before beginning work. In situations covered by the relevant product warranty, we request our customers to complete and sign a form setting out details of the problem(s) with the automobile. After the repairs are completed, the automobile is returned to the customer, and we send the forms to the relevant automakers on a regular basis for payment.

The automakers typically do not pay for repair of component claims not covered by the relevant warranty and for damage caused by wear-and-tear or normal usage, such as punctured tyres and broken glass. During the three years ended December 31, 2010, none of our claims for payment for repairs performed under warranty were rejected by the automakers, as each of our automotive engineers and technicians has been trained to be familiar with the scope of the automakers' warranty coverage, and instructed to liaise with the automakers in any event of doubt prior to commencing repair works.

### ***Automobile recalls***

We also assist in automobile recalls conducted by the automakers. It is sometimes necessary for automakers to conduct automobile recalls to minimize the risks to consumers in the event of defects and in turn minimize the potential damage to their brand image. In such case, our Group typically rectifies the defect according to the relevant automaker's instructions, rather than returning the entire automobile to the automaker. Although each automaker conducts recalls differently, typically, in the event of a recall campaign, the automaker notifies us prior to the commencement of the campaign, and provides us with various documents including repair instructions and the automaker's responses to customers' frequently asked questions. Using our database of customer records, we contact the relevant customers and request them to bring their automobiles to our 4S dealerships for inspection and repair where necessary. The automakers also provide information to the public about the recall campaign via additional channels, such as press releases, telephone hotlines and websites. In certain situations where the time required to complete the repairs may be longer, we also provide substitute automobiles to our customers and/or a door-to-door delivery service. We maintain records of all relevant correspondence with our customers, and provide regular updates to the automaker regarding the recall campaign. Work done in connection with a recall campaign is not charged to the customer but to the automaker, using claim or reimbursement forms provided by the automaker.

During the three years ended December 31, 2010, the automakers conducted automobile recalls for a number of their automobile models that we sold. We are not liable for any damages caused by the automobiles under the recalls. We will provide assistance for automobile recalls conducted by the automakers and charge fees for our services. Any work done in connection with the recalls is not charged to the customer but to the automaker, using claim or reimbursement forms provided by the automaker.

During the three years ended December 31, 2010, the automakers conducted automobile recall activities for a number of their automobile models. The following table lists the automobile recall activities conducted by the automakers for models we sell in the PRC which commenced during the three years ended December 31, 2010.

<u>Commencement Date</u>	<u>Automaker Conducting Recall</u>	<u>Recalled Model(s)</u>	<u>Affected Component(s)</u>
November 15, 2010 .	Tianjin FAW Toyota Motor Co., Ltd.	Crown and Reiz	Brake
October 28, 2010 . . .	Dongfeng Motor Co., Ltd.	TIIDA	Ignition relay
April 30, 2010 . . . . .	Dongfeng Motor Co., Ltd.	Sylphy	Gearbox
February 28, 2010 . . .	Tianjin FAW Toyota Motor Co., Ltd.	RAV4	Accelerator pedal
December 30, 2009 . .	Toyota Motor (China) Investment Co., Ltd.	Lexus ES350, Lexus RX350 and Highlander	Engine oil tube of Variable Valve Timing Intake (VVT-i) System
October 14, 2009 . . .	Dongfeng Motor Co., Ltd.	X-Trail	Steering box
October 7, 2009 . . . .	FAW-VW Automobile Co., Ltd.	Audi TT	Fluid temperature sensor
September 29, 2009. .	Guangzhou Honda Automobile Co., Ltd.	Accord	Air bag
September 14, 2009 .	Daimler AG	Viano and Vito	Front hinge of rear ventilation window
August 25, 2009 . . . .	GAC Toyota Motor Co., Ltd.	Camry and Yaris	Power window
August 25, 2009 . . . .	Tianjin FAW Toyota Motor Co., Ltd.	Vios and Corolla	Power window
June 12, 2009 . . . . .	Dongfeng Motor Co., Ltd.	Teana	Engine air tube
June 11, 2009 . . . . .	Sichuan FAW Toyota Motor Co., Ltd., Changchun Fengyue Company	Land Cruiser	Front Supplemental Restraint System (“SRS”) airbag
April 24, 2009 . . . . .	GAC Toyota Motor Co., Ltd.	Camry	Vacuum booster
April 24, 2009 . . . . .	Shanghai General Motors Co., Ltd.	Excelle	Skylight glass

<u>Commencement Date</u>	<u>Automaker Conducting Recall</u>	<u>Recalled Model(s)</u>	<u>Affected Component(s)</u>
March 27, 2009 . . . . .	Dongfeng Motor Co., Ltd.	Sunny	Front suspension
February 18, 2009 . . .	Mercedes-Benz (China) Ltd.	Benz S-class	Front shock absorber
December 26, 2008 . .	Tianjin FAW Toyota Motor Co., Ltd.	Crown and Reiz	Electric Power Steering
December 25, 2008 . .	Toyota Motor (China) Investment Co., Ltd.	Lexus GS300, Lexus GS430, Lexus IS300 and Lexus RX400h	Electric Power Steering
November 3, 2008 . .	Tianjin FAW Toyota Motor Co., Ltd.	Vios and Corolla	Manual transmission
October 21, 2008 . . .	Guangzhou Honda Automobile Co., Ltd.	City	Rear wheel brake shoe component
May 30, 2008 . . . . .	FAW-VW Automobile Co., Ltd.	Audi A4 and Audi A6	Engine ignition coils
May 30, 2008 . . . . .	FAW-VW Automobile Co., Ltd.	Audi A6	Fuel tank ventilation valve
March 27, 2008 . . . . .	Dongfeng Motor Co., Ltd.	Teana	Muffler

### ***Automobile accessories***

We have accumulated significant experience in this area by leveraging on our existing resources including our operational experience, highly trained service teams and extensive market knowledge. The automobile accessories we retail may be broadly categorized into automobile electronics (including GPS systems, audio and video equipment), automobile styling products (including decals, seat covers and floor mats) and automobile maintenance products (including maintenance products for engine, handling and braking products, tires, waxes and polishes). We believe the increasing demand for automobile styling and automobile care products, together with our large customer base derived from our new automobile sales business, will provide significant growth potential for our automobile accessories business.

We source all of our automobile accessories from suppliers which are Independent Third Parties. We sometimes instruct the automobile accessories suppliers to attach the label of our Group to those accessories and give instruction to the suppliers as to the design, types, and specifications of the automobile accessories, in order to provide tailor-made accessories to our customers. Our strong and established relationships with these suppliers enable us to retail a wide range of high-quality automobile accessories, the latest and most advanced products at attractive prices. We also aim to become the sole distributor of certain automobile accessories. The revenue contribution from the sale of such labelled accessories was insignificant during the three years ended December 31, 2010.

An automobile accessories division has been established in each of our 4S dealerships, comprising dedicated sales personnel and automotive engineers and technicians. Our automobile accessories are displayed both in dedicated showrooms in the 4S dealerships, and in the new automobiles exhibited in our 4S dealerships.

In addition to expanding our automobile accessories business through our existing 4S dealerships, we also intend to build automobile accessories exhibition centers to increase our sales of automobile accessories and market exposure. We have constructed our first automobile accessories exhibition center, the Kunming Exhibition Center, which we believe is strategically located in an area with a high concentration of 4S dealerships. The Kunming Exhibition Center has a floor area of more than 3,000 square meters. Kunming Exhibition Center is divided into two levels, the first level will be our quick service shops, and retail standard automobile accessories. The second level will be a dedicated automobile accessories showroom retailing high-end specialty automobile accessories. We will handle all sales of automobile accessories within the Kunming Exhibition Center, although we expect that our suppliers will participate in and be responsible for the layout and design of each of their product display areas.

## **Other automobile related businesses**

### *Used automobile trade-in service*

Our Group began operating used automobile trade-in service mainly to facilitate our new automobile sales. Our 4S dealerships are not required to enter into contractual arrangement with or obtain permission from the automakers or other parties for conducting used automobile trade-in businesses. Customers for new automobile sales approach our 4S dealership to express their intention to trade-in their used automobiles for purchasing new automobile. We will also charge a certain amount from customers for our service provided.

### *Automobile lease*

In addition to automobile sales, certain of our 4S dealerships operated automobile leasing businesses. Automobile leasing business is only an ancillary business to complement our main business.

### *Automobile insurance agency, automobile finance agency related and automobile licensing services*

Our directors anticipated that automobile insurance agency, automobile finance agency related and automobile licensing services have potential to grow in the future. Automobile insurance agency services refer to the arrangement with independent insurance companies, pursuant to which employees of our 4S dealerships will promote the automobile-related insurances provided by such automobile insurance company to our customers at our premises and receive commission from the relevant insurance company. Automobile finance agency related services refer to the arrangement with independent financing entities, pursuant to which employees of our 4S dealerships will promote automobile financing products (for instance, installment loans) provided by the financing entity to our customers at our premises and help process the application documents for the financing entities. In return, such financing entity will pay us service fee. Automobile licensing services refer to the application for new automobile licenses and payment of related taxes/ charges on behalf of our customers. In return, we will charge our customers for the services provided.

These three types of services are either commission based or agency services, which do not require large amount of capital to operate. The cost of these three types of services are generally labor costs for employees required and costs for necessary equipments, such as computers and office supplies. Accordingly, the cash flow generated from daily operation of the 4S dealerships are sufficient to carry out these three types of services.

According to our PRC legal advisers, King & Wood, each 4S dealership conducting automobile insurance agency services is required to obtain licenses according to the Regulations on Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) promulgated by the China Insurance Regulatory Commission. Please also refer to the section entitled “Regulations” in this document. There are no regulatory approvals needed or licenses required for automobile finance agency related services as currently conducted in certain 4S dealerships of our Group. According to the Administrative Measures on Registration Services Stations for Automobiles from 4S Dealerships and Used Automobile Markets (4S店、二手車市場機動車登記服務站管理辦法) in certain provinces, registration to the local police bureaus is required for automobile licensing services.

Several of the 4S dealerships in our Group have operated these three types of businesses during the three years ended December 31, 2010, and all of them have received proper licenses and registrations required to conduct these businesses.

## **PROCUREMENT**

### **New automobiles**

The automakers set annual non-binding supply quotas of new automobiles for each of their associated 4S dealerships as part of the annual sales plans. These quotas are determined after consideration of a variety of factors, including the automaker's own annual production plans and the previous purchase orders and track record of the relevant 4S dealership and may be changed at the automakers' discretion. Inventory is managed on a rolling monthly basis with supplies of new automobiles delivered monthly, based on our management's expectations of sales performance at the relevant 4S dealership.

### **Logistical and financing arrangements**

New automobiles are delivered to us regularly, on the basis of orders placed by each of our 4S dealerships. The automakers, who are Independent Third Parties, are responsible for the transportation of the new automobiles and bear the associated costs, such as insurance and logistical expenses, until they reach our 4S dealerships or warehouses and are in our custody. Title and risk of the new automobiles are transferred to us at our 4S dealerships or warehouses. In line with industry practice, the automakers often require us to make full payment of the purchase price before delivery of the new automobiles to us.

For some of the automakers, we pay 20% of purchase price with the remaining amount financed by the automaker's automobile financing companies with an interest-free period for up to two months initially. The finance arms of certain automakers also extend short-term credit facilities including loans, which may be interest-free for up to two months, to encourage increased purchase orders and sales. For automobiles we have purchased by utilizing the loan from the automaker's automobile financing companies, the automobile financing companies will pay the balance of the purchase prices to the automakers and thus become our lenders. Accordingly, title and risk of the new automobiles are still transferred to us at our 4S dealership or warehouses upon delivery. We will then repay the loan to our lenders pursuant to the financing arrangements.

### **Spare parts and automobile accessories**

We source our spare parts, automobile accessories and other automobile-related products from the automakers and independent suppliers. Typically, we primarily source spare parts from the automakers, and automobile accessories from independent suppliers. Title to spare parts and automobile accessories passes to us upon delivery. Due to the size of our dealership network, we are well-positioned to negotiate for a favorable pricing with our independent suppliers of automobile accessories.

### **Our major suppliers**

Our purchases include new automobiles, spare parts and automobile accessories. For the three years ended December 31, 2008, 2009 and 2010, our costs incurred in relation to new automobile sales were approximately RMB9,261.5 million, RMB11,843.4 million and RMB 20,674.4 million, respectively, representing approximately 94.8%, 94.4% and 95.1% of our total costs of sales and services, respectively.

Our top five suppliers are automakers which supply us new automobiles and spare parts. For the three years ended December 31, 2008, 2009 and 2010, purchases from our top five suppliers accounted for approximately 92.9%, 88.3% and 76.9% of our total purchases, respectively. For the three years ended December 31, 2008, 2009 and 2010, purchases from our top supplier accounted for approximately 36.2%, 37.1% and 28.9% of our total purchases, respectively.

All of our top five suppliers are independent third parties.

## **INVENTORY MANAGEMENT**

We actively manage and maintain our inventories to ensure cost-efficiency, quality control and the timely distribution and sales of new automobiles, spare parts and automobile accessories. Our senior management is actively involved in setting inventory standards, and is continually seeking ways to further improve our inventory control.

We monitor our inventory at each of our 4S dealerships to maintain a reasonable level of inventory turnover. We also maintain an advanced database, which enables us to monitor and manage our inventory turnover of each 4S dealership in a real-time manner for new automobiles, spare parts and automobile accessories.

In addition, we utilize our aggregate ordering and procuring power with an aim to obtain competitive pricing from suppliers of spare parts and automobile accessories. Through our Group's general budget plan and resources allocation, we are able to adjust the automobile quotas to some extent to improve mix of automobile inventory for our 4S dealerships. Automobile quota refers to the number of different types of automobile assigned by the automakers in a given period of time. Usually the automakers will set quota for certain types of automobiles, especially when the market demand for such types of automobile is large.

## **MARKETING AND PROMOTIONAL ACTIVITIES**

We utilize a variety of methods to promote our Zhongsheng brand image, our 4S dealerships and the products and services we offer through our "one-stop automobile shop" business model to our customers.

Our marketing campaigns are organized at two levels, our headquarters in Dalian City and each of our 4S dealerships. Our headquarters is responsible for coordinating regional marketing campaigns, and supervises the local marketing campaigns conducted by each of our 4S dealerships. We advertise through outdoor advertisements, distributions of marketing materials at our 4S dealerships, radio commercials, Internet advertisements, and advertisements in newspapers and magazines.

Our sales initiatives include complimentary gifts, lucky draws and local promotional events and activities. In particular, sales and marketing events to promote new models of automobile, such as automobile exhibitions, are typically organized jointly with the relevant automaker.

We typically increase our marketing and promotional activities shortly before the Chinese Lunar New Year public holidays and the PRC National Day holiday in October.

Our marketing and promotional expenses were approximately RMB44.8 million, RMB63.9 million and RMB157.6 million for each of the three years ended December 31, 2008, 2009 and 2010.

## **CUSTOMER SERVICE**

We place a high priority on providing our customers with consistent, high-quality customer service and support. Our corporate motto is "Zhongsheng – Lifetime Partner", and it is central to our corporate culture. We believe that providing high-quality service to each of our customers is the key to building long-lasting customer relationships, and to attracting new customers for each of the businesses offered through our "one-stop automobile shop" business model. In line with this core principle, we provide systematic training courses to our customer-facing employees such as our sales personnel to achieve high customer satisfaction rankings.

### **Customer relationship management**

We have adopted a customer relationship management system through our centralized ERP system which stores our customers information. Such system enables us to facilitate our interaction with and services to our customers. In addition, we assign customer relationship managers to our customers. We provide our customer relationship managers access to our database of customer records which tracks his

or her consumption patterns and preferences for our products and services so that our customer relationship managers may understand their needs better and tailor a customized service strategy for each individual customer.

### **24-hour hotline and roadside assistance**

We provide a 24-hour hotline to answer customer enquiries. We also provide 24-hour roadside assistance services to our customers, including automobile towing service.

### **Other initiatives**

We organize other initiatives for our customers, including seminars such as basic repair and maintenance workshops, and social events including musical concerts and sporting events. We invite our customers to the launch of new models of automobiles.

As a result of our customer-focused philosophy, several of our 4S dealerships operating Mercedes-Benz, Lexus, Toyota and Nissan brands achieved high ranking in terms of customer satisfaction indices among 4S dealerships in their respective cities or region in 2010. Our Group was also rated by the China Automobile Dealers Association in 2008 as one of the ten most influential automobile dealership groups in the industry for the 30 years since China's adoption of reform and opening-up policy. We were also awarded Outstanding Award in Management Model in China 2010 for our creative service model. In addition, our individual 4S dealerships and our employees received various kinds of awards in recognition of their outstanding customer service, most recent awards in 2010 including Excellent Dealer Award for one of our Lexus dealerships in Dalian awarded by Lexus; Best Dealer Store Award in terms of comprehensive assessment for one of our FAW-Toyota dealerships in Dalian awarded by FAW Group; Best Customer Satisfaction Dealer Store Award (North Region) for one of our Mercedes-Benz dealerships in Dalian awarded by Mercedes-Benz; Diamond Dealer Store Award for one of our DF-Nissan dealerships in Dalian awarded by DF-Nissan; Top SSI (Sales Satisfaction Index) Award for one of our DF-Nissan dealerships in Qingdao City awarded by DF-Nissan.

## **CUSTOMERS**

Due to the retail nature of our business, we do not have one single major customer and cannot readily identify our top five customers. As such, we believe that our top five customers accounted for less than 1% of our total revenue during the three years ended December 31, 2010. Our target customers are consumers residing in China's rapidly developing cities, who are likely to purchase luxury or mid-to-high end brand automobiles and who we expect to have a high automobile usage.

## **EMPLOYEES**

### **Employees**

Our success is closely linked to the implementation of our growth strategies by our experienced, dedicated and innovative employees. We are committed to recruiting, training and retaining adequately skilled and experienced people throughout our operations to serve our customers better. We intend to do so through offering attractive remuneration packages, including discretionary bonuses and our Share Option Scheme, as well as by placing an emphasis on employee training and career development.

As at December 31, 2010, our Group had a total of 9,705 employees, all of which were full-time employees. We consider that we have sound relations with our employees. We have not experienced any strikes, work stoppages or significant labor disputes and we have not experienced any significant difficulties in recruiting or retaining qualified staff during the three years ended December 31, 2010.

## **Remuneration**

We review the performance of our employees on a regular basis. The results of these reviews are used for salary and promotion appraisals. Our key employees are considered for annual incentive payments based on various performance criteria and their assessment results. Our sales personnel are considered for bonuses based on various performance criteria, including whether their individual sales target has been met and customer feedback on the quality of their service. We review our staff remuneration packages from time to time.

## **Training**

Our employees are critical to our success. We have invested, and intend to continue to invest substantially in our employees in order to recruit, assimilate and retain the best personnel for our business. We will also regularly review and improve the training programs for our trainee managers and sales personnel, as well as maintain and deepen our relationships with the automakers and local educational institutions in order to ensure our continued access to highly-skilled automotive engineers and technicians.

We have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager to different positions in a 4S dealership, including deputy-store manager, sales director, service director and finance director, to ensure that our store managers are familiar with all operational aspects of a 4S dealership.

We provide systematic training courses to our customer-facing employees such as our sales personnel, and motivate our employees by granting bonuses and awards to encourage our 4S dealerships to achieve high customer satisfaction rankings.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For instance, we draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist with the curriculum design for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, and it has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

We are also able to achieve a high rate of retention for our employees in the face of intense competition for human resources, as our corporate policy is to promote capable personnel from within our Group's operations, thus motivating our employees. Further, our large scale of operations enables us to offer our employees a variety of opportunities to work with different automobile brands in several regions in China, as well as several other incentives and competitive remuneration packages.

## **Safety**

Our Group's dedicated safety council, led by three of our Group's executive directors, analyzes, directs and coordinates safety procedures and plans in the short, medium and long-term, for our entire Group. Each of our subsidiaries has established a safety committee and appointed safety representatives or supervisors to report to the safety council, which meets four times a year.

Our Group's safety inquiry commission, also led by three of our Group's executive directors, conducts bi-annual surveys of our Group's operations to identify potential safety or occupational hazards.

Our Group's emergency incident commission is responsible for directing rescue operations in the event of an accident. The emergency incident commission is also in charge of providing detailed reports and recommendations for improvement.

We have also issued detailed safety regulations which emphasize the importance of safety education and training for all employees, and strict compliance with applicable PRC safety laws, rules, regulations and standards. Our safety regulations provide guidance on a variety of matters, and authorize the suspension of operations in the event of a serious incident. Our 4S dealerships are in compliance with applicable safety laws and regulation, our Group have not experienced any material safety accidents at our 4S dealership during the three years ended December 31, 2010.

## **COMPETITION**

Based on the information provided by ACMR, the top ten automobile dealership groups in the PRC accounted for only approximately 12.9% of the passenger car market's total revenue<sup>1</sup> in 2009. Our Group was ranked sixth, fifth and fourth among the passenger car dealerships in terms of revenue in 2006, 2007 and 2008 respectively. The PRC automobile dealership industry is highly fragmented and competitive. In addition, with China's accession to the World Trade Organization in November 2001, it has become easier for foreign entities to enter and compete in the PRC automobile dealership industry. In view of the increasing number of dealerships, we expect that the competition we face will be increasingly intense. PRC automobile dealerships compete primarily on the following bases: capital, service, after-sales services offered, and the capabilities of sales personnel and automotive engineers.

We expect the increasingly competitive nature of the PRC automobile dealership industry to present acquisition opportunities as, among other factors, intensive capital requirements deter new entrants and force out weaker players. Based on the information provided by ACMR, we accounted for approximately 1.1%, 1.2% and 1.0% of the Chinese passenger car market's total revenue in 2007, 2008 and 2009, respectively. As a leading national automobile dealership group in the PRC with a well-established track record of acquiring and quickly and significantly improving the performance of such acquired 4S dealerships, we believe we are well-positioned to take advantage of such opportunities to expand our business and consolidate our leadership position further.

## **INSURANCE COVERAGE**

We carry insurance covering risks including loss and theft of, and damage to, property (such as our fixed assets and inventories in all of our 4S dealerships). We believe that our insurance coverage is adequate for our operations and as at the date of this document, we had not made nor been the subject of any material insurance claims.

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<sup>1</sup> The revenue referred to in the ACMR Survey includes revenue from new car sales business, after-sales businesses and used car business. All revenue includes VAT.

## LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

To the best of the knowledge of our directors, there are no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings against us or any of our directors that could have a material adverse effect on our financial condition or results of operations.

Automobile distribution in China was a regulated industry. Prior to 2001, an automobile dealership group with 30 or more 4S dealerships in the PRC was subject to the 30 Dealerships Limitation. During China's accession to the World Trade Organization in 2001, China made a commitment to abolish the 30 Dealerships Limitation within five years of its accession<sup>1</sup>. Accordingly, each of the 2004 Edition of the Catalogue, the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) and the Measures for the Administration on Foreign Investment in Commercial Sector《外商投資商業領域管理辦法》 provides that the 30 Dealerships Limitation would terminate on 11 December 2006. However, the 2007 Edition of the Catalogue included the 30 Dealerships Limitation. As such, there is uncertainty as to the interpretation of the current PRC legal position in relation to foreign investment in automobile dealership groups with 30 or more 4S dealerships in the PRC.

Our PRC legal advisers, King & Wood, have advised that the Accession to WTO Agreement is an international treaty which was approved at the 17th meeting of the Standing Committee of the 9th National People's Congress, and the approval of China's accession to the WTO was endorsed by the President of the PRC; whereas the 2007 Edition of the Catalogue was a domestic regulation approved by the relevant domestic ministries and might be revised or interpreted by the relevant authorities. King & Wood have advised that the Accession to WTO Agreement, which is an international treaty, should take precedence over domestic laws and regulations promulgated by the State Council or the relevant ministries or departments (including the 2007 Edition of the Catalogue). King & Wood have further advised that decisions of the approving authorities should not conflict with China's commitment to the WTO regarding the 30 Dealerships Limitation when handling any individual case. Such view has been confirmed by verbal consultations with the competent officials of the relevant approving authority conducted by our Company and King & Wood and supported by the fact that none of our 4S dealerships has encountered any restriction in obtaining approvals from the relevant PRC approving authorities for the incorporation, acquisition and/or operation of additional 4S dealerships of our Group, notwithstanding the number of our 4S dealerships has already exceeded the 30 Dealerships Limitation. Accordingly, King & Wood have advised that it is unlikely that MOFCOM will interpret the 30 Dealerships Limitation differently in the future, which would in turn impact on the approval of new establishment and acquisition of 4S dealerships by our Group.

We plan to establish and acquire additional 4S dealerships in the future and will seek approval from MOFCOM as required under PRC law. Our Group has not encountered any restriction in connection with the 30 Dealerships Limitation as at the date of this document, and King & Wood have advised that regardless of the future interpretation of the 30 Dealerships Limitation, the 30 Dealerships Limitation will not apply retrospectively to the existing dealerships operated by our Group and that the approvals granted to the dealerships of our Group would remain legal, valid and effective for the following reasons: (i) the application for the establishment or acquisition of the dealerships of our Group have been reviewed and approved by MOFCOM or its local counterparts where required; (ii) our Group has applied to appropriate authorities for the approvals in accordance with the relevant laws and regulations; (iii) our Group has provided all information required by the relevant laws and regulations to the relevant authorities; (iv) MOFCOM or its local counterparts have granted such approvals within their jurisdiction; and (v) the competent officials of the relevant approving authority have confirmed, in response to the verbal consultations conducted by our Company and King & Wood, that the 30 Dealerships Limitation

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<sup>1</sup> China has entered into the Accession to WTO Agreement (中國加入世貿組織議定書) on December 11, 2001, which states that the 30 Dealerships Limitation as stipulated under Annex 9 "Schedule of Specific Commitments on Services" shall be eliminated after five years from the date of accession (i.e. December 11, 2006) when foreign chain store operators shall have the freedom of choice of any partners, legally established in China in accordance with the PRC laws and regulations.

was no longer enforced since December 11, 2006 and they approve the establishment and/or acquisition of foreign invested automobile dealerships in accordance with the Measures for the Administration on Foreign Investment in Commercial Sector and the Measures for the Implementation of the Administration of Branded Automobile Sales (both of which provide that the 30 Dealerships Limitation would have been terminated on December 11, 2006) as well as confirmed that our Group will not be penalized for exceeding the 30 Dealerships Limitation.

As such, King & Wood have further advised that the business and 4S dealership network of our Group which have already obtained the approvals from MOFCOM or its local counterparts will not be adversely affected, and that our Group will not be subject to any penalty for exceeding the 30 Dealerships Limitation.

However, we cannot assure you that the relevant PRC authorities will not interpret PRC laws, rules and regulations relevant to our corporate structure differently in the future. If MOFCOM or its local counterparts do not approve our acquisitions in the future, we will not be able to implement our growth strategy by further expanding establishment and/or our 4S dealership network through establishing and/or acquiring additional dealerships. We would only be able to operate our existing dealership which have already obtained the approval from MOFCOM or its local counterparts and further develop our business by increasing the productivity and profitability of these dealerships via re-investing our retained earnings in the network.

King & Wood have further advised that our Group has submitted the applications for approval to the appropriate authorities in accordance with the thresholds set out in the Circular of the MOFCOM on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial

Enterprises (關於下放外商投資商業企業審批事項的通知) and the Circular of the MOFCOM on Further Improving the Work of Examination and Approval of Foreign Investment (商務部關於進一步改進外商投資審批工作的通知) promulgated by the MOFCOM on September 12, 2008 and March 5, 2009 respectively, which provided that whether an individual application shall be handled by the MOFCOM or its local counterparts depends on the size of the transaction. King & Wood have further advised that our Group has submitted all the relevant information and documents for approval in accordance with the requirements laid down in the laws and regulations governing the granting of the MOFCOM approvals and as at the date of this document, our Group has obtained all the proper approvals from MOFCOM or its local counterparts for all the dealerships regarding the acquisition or establishment of foreign invested automobile dealerships in the PRC, where applicable. King & Wood have also advised that our 4S dealerships are not required to renew such approvals obtained from MOFCOM or its local counterparts.

## MANAGEMENT

### DIRECTORS

Our board of directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the board of directors of our Company:

The following table sets out the name, age and position of our directors as of the date of this document:

<u>Name</u>	<u>Age</u>	<u>Position</u>
HUANG Yi.....	48	Chairman and executive director
LI Guoqiang.....	47	Vice-chairman, executive director and chief executive officer
DU Qingshan .....	48	Executive director
YU Guangming .....	53	Executive director
LENG Xuesong .....	41	Non-executive director
SHIGENO Tomihei..	58	Independent non-executive director
NG Yuk Keung .....	46	Independent non-executive director
SHEN Jinjun .....	53	Independent non-executive director

### EXECUTIVE DIRECTORS

HUANG Yi (黃毅), aged 48, is our Chairman and executive director. Mr. Huang is one of our two founders, and has been chairman of our Group since its inception in 1998. Mr. Huang has been serving as an executive director of our Board since 23 June 2008. He is responsible for the strategic management of our Group and for formulating our overall corporate direction and focus. Prior to founding our Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. (“China Resources Machinery”), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited (“China Automobile”) as a director, and was responsible for China Automobile’s procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, which is presently an indirect wholly-owned subsidiary of our Group. Mr. Huang is currently a council member of the Lexus China Dealer Council, as well as a council member of the National Dealer Advisory Council of FAW Toyota Motor Sales Co., Ltd. Mr. Huang has substantial senior management experience and more than 23 years’ of experience and in-depth knowledge of the PRC automobile industry. He received a bachelor’s degree in Economics from Xiamen University in 1983 and was awarded the title of “Economist” by MOFCOM in 1990, a work-related qualification title usually awarded to the government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experiences. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organization providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 47, is the other founder of our Group, and has been serving as our Group's Chief Executive Officer and vice-chairman since 1998 and as an executive director of our Board since 23 June 2008. He is responsible for the overall management and operations of our Group. Mr. Li has served as deputy chairman and a member of standing committee for China Automobile Dealers Association since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("Aotong Repair & Assembly"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and Mr. Li was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("Aotong Industry"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Holdings Co., Ltd., which is presently an indirect wholly-owned subsidiary of our Group. Mr. Li has substantial senior management experience and more than 21 years' of experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 48, has been serving as deputy general manager of our Group since 2007 and as an executive director of our Board since 23 June 2008. He is responsible for the financial planning, strategy and management of our Group, and oversees all the accountancy and financial aspects of our Group. Prior to joining our Group in 2007, Mr. Du was appointed by State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large PRC corporation, Dalian DHI.DCW Group Co., Ltd. ("Dalian DHI.DCW") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 24 years' experience in the areas of accountancy and finance. Mr. Du received a bachelor degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 53, has been serving as deputy general manager of our Group since 2004 and as an executive director of our Board since 23 June 2008. He is responsible for the strategic business development of our Group as well as selecting and training middle-to-senior level managers of 4S dealerships of our Group. Since joining our Group in 2000, Mr. Yu has held numerous management positions in several of our principal subsidiaries, including Zhongsheng (Dalian) Holdings Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of our subsidiaries, implementing the strategic decisions of our Group and liaising with the automakers and customers regarding business relationship building. Prior to joining our Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to 1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, and was in charge of its overall management and operations during his tenure. Mr. Yu has more than 10 years' of relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree majoring in English from Shanghai International Studies University in 1985.

## **NON-EXECUTIVE DIRECTOR**

LENG Xuesong (冷雪松), aged 41, has been serving as a non-executive director of our Board on 1 August 2008. Mr. Leng is a managing director at General Atlantic LLC. He is based in Hong Kong, where he focuses on General Atlantic LLC's investment opportunities in North Asia. Prior to joining General Atlantic LLC, Mr. Leng served as a managing director at Warburg Pincus, an international private equity firm from 1999 to 2007. Mr. Leng also served as non-executive director of China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司), a company listed on the Stock Exchange (stock code: 1886) from July 2006 to August 2007. Mr. Leng is also the non-executive directors of two companies listed on the New York Stock Exchange, namely Wuxi Pharmatech (Cayman) Inc. (stock code: WX) and Soufun Holdings Ltd. (stock code: SFUN). Mr. Leng earned his master's degree in Business Administration from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor of International Industrial Trade degree from Shanghai Jiao Tong University in 1992.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

SHIGENO Tomihei (茂野富平), aged 58, has been serving as an independent non-executive director of our Board since 1 August 2008. Prior to joining Minebea Shanghai in 2007, Mr. Shigeno worked for Nissan Motor Co., Ltd. ("Nissan Motor") from 1976 to 2006. Mr. Shigeno was part of the team which established Nissan Motor's Beijing office, and he served as its chief representative from 1991 to 1997. He was also chief representative of Nissan Motor's China operations from 2000 to 2003, specialising in sales and marketing, and was primarily responsible for developing Nissan Motor's distribution and service networks by establishing authorized distributors and automobile dealerships across the PRC. Mr. Shigeno was assigned by Nissan Motor to assist the president of Dongfeng Commercial Vehicle Company. Mr. Shigeno has over 32 years' of experience and in-depth knowledge of the automobile industry, sales and business management. He earned his bachelor's degree in Chinese language studies from Tokyo University of Foreign Studies in 1976.

Mr. NG Yuk Keung (吳育強), aged 46, has been serving as an independent non-executive director of our Board since 27 October 2009. Mr. Ng is the honorary adviser to China Huiyuan Juice Group (stock code: 1886), a company listed on the Stock Exchange. Mr. Ng also serves as an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司) (stock code: 0631), Xinjiang Xinxin Mining Industry Co., Ltd. (新疆新鑫礦業股份有限公司) (stock code: 3833), Winsway Coking Coal Holdings Limited (永暉焦煤股份有限公司) (stock code: 1733) and Beijing Capital Land Ltd. (首創置業股份有限公司)(stock code: 2868) all of the three Companies are listed on the Stock Exchange. Mr. Ng worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2004 to 2006, he was the deputy chief financial officer, a joint company secretary and the qualified accountant of Irico Electronics Group Company Limited (彩虹集團電子股份有限公司) (stock code: 0438), a company listed on the Stock Exchange. From 2006 to 2010, Mr Ng was a vice-president, the chief financial officer, the company secretary and the qualified accountant of China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司). Mr. Ng graduated from The University of Hong Kong with a Bachelor degree in Social Sciences in 1988 and a Master degree in Global Business Management and E-commerce in 2002. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

SHEN Jinjun (沈進軍), aged 53, has been serving as an independent non-executive director of our Board since 16 November 2009. Mr. Shen has served as deputy chairman and secretary chief for China Automobile Dealers Association since 2005. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical section of the State Administration of Supplies, and the chief of the Automobile section and Electrical, Mechanical and Metallic section of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in formulations of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronic at the Beijing Open University in 1982.

## OTHER SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management (excluding directors who also hold executive positions):

<u>Name</u>	<u>Age</u>	<u>Position</u>
WU Hailong .....	46	Vice-president of new automobile sales business
ZHANG Zhicheng ..	38	Vice-president of luxury brand automobile sales business
LIU Geng .....	41	Vice-president of after-sales and accessories businesses

WU Hailong (吳海龍), aged 46, joined our Group at its inception in 1998 and currently serves as vice-president of our new automobile sales business. Since 1998, he has served in senior management positions for several of our principal subsidiaries, including Zhongsheng (Dalian) Holdings Co., Ltd., Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., Dalian Zhongsheng Group Automobile Accessories Co., Ltd., Dalian Zhongsheng Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd., primarily responsible for the day-to-day administration of 4S dealerships of our Group, including both sales and after-sales businesses. Mr. Wu currently oversees the sales and management of our Group's mid-to-high-end brand automobile sales business. Prior to joining our Group, Mr. Wu worked in the Dalian City representative office of Toyota Tsusho Corporation, a company listed on the Tokyo Stock Exchange (stock code: 8015) and the sole trading company of the Toyota group, between 1990 and 1996, and his work was closely related to the PRC automobile industry. Mr. Wu has over 18 years' of relevant experience and in-depth expertise in automobile sales. Mr. Wu received a bachelor's degree in Chemical Engineering and Machinery from East China Institute of Technology in 1986.

ZHANG Zhicheng (張志誠), aged 38, has served as vice-president of our Group's luxury brand automobile sales business since 2008. Mr. Zhang joined our Group in 2003, and has held numerous management positions in several of our key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of our Group and liaising with the automakers regarding developing our luxury brand automobile sales business. Mr. Zhang currently oversees the sales and management of our luxury brand automobile sales business. Mr. Zhang has over 6 years' of relevant experience and in-depth expertise in the PRC automobile industry. Mr. Zhang received a master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

LIU Geng (劉耕), aged 41, joined our Group in 2000 and currently serves as vice-president of our Group's after-sales and accessories businesses. Mr. Liu held management positions in two of our principal subsidiaries before being promoted to be our vice-president in 2009. Mr. Liu served as service manager of Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd. from 2000 to 2004, and as general manager of Dalian Yingbin Zhongsheng Toyota Automobile Sales & Services Co., Ltd. from 2004 to 2008, and he served as general manager of Dalian Zhongsheng Group Automobile Accessories Co., Ltd. from 2008 to 2009. Mr. Liu joined the PRC automobile industry since 1993 and has more than 17 years' of experience and in-depth understanding of the PRC automobile industry. Mr. Liu earned a bachelor's degree in the automobile department of Harbin Institute of Technology in 1991.

### **Joint Company Secretaries**

Ms. Kam Mei Ha Wendy (甘美霞), aged 43, was appointed as our joint company secretary on July 1, 2010. Ms. Kam is a senior manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Kam has over 17 years of experience in corporate secretarial area.

Ms. Mak Sze Man (麥詩敏), aged 36, was appointed as our joint company secretary on July 1, 2010. Miss Mak is a manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Mak has over 10 years of experience in corporate secretarial area.

### **BOARD COMMITTEES**

#### **Audit Committee**

We have established an audit committee. The audit committee consists of two independent non-executive directors being Mr. Ng Yuk Keung and Mr. Shen Jinjun and one non-executive director being Mr. Leng Xuesong. The chairman of the audit committee is Mr. Ng Yuk Keung, who holds appropriate professional qualifications. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

#### **Remuneration Committee**

We have established a remuneration committee. The remuneration committee consists of two independent non-executive directors being Mr. Shigeno Tomihei and Mr. Shen Jinjun and one executive director being Mr. Li Guoqiang. The remuneration committee is chaired by Mr. Shigeno Tomihei, an independent non-executive director. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the directors on our policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

#### **Nomination Committee**

Our Company has established a nomination committee. The current members of the nomination committee are Mr. Shen Jinjun, Mr. Huang Yi and Mr. Shigeno Tomihei. The nomination committee is chaired by Mr. Shen Jinjun. The primary function of the nomination committee is to make recommendations to our board to fill vacancies on our board.

## **Compliance Committee**

Our Company has established a compliance committee. The current members of the compliance committee are Mr. Huang Yi, Mr. Li Guoqiang and Mr. Du Qingshan. The compliance committee is chaired by Mr. Du Qingshan. The primary function of the compliance committee is to ensure compliance on regulatory matters and corporate governance.

## **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes) which were paid to our directors for the three years ended December 31, 2008, 2009 and 2010, were approximately RMB4.6 million, RMB5.4 million and RMB9.0 million, respectively.

The aggregate amount of remuneration (including salaries, allowances and other benefits and contributions to pension schemes), which were paid by our Group to our five highest paid individuals for the three years ended December 31, 2008, 2009 and 2010, were RMB5.0 million, RMB6.4 million and RMB9.8 million, respectively.

No remuneration was paid by our Group to our directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the three years ended December 31, 2008, 2009 and 2010. Further, none of our directors had waived any remuneration during the same period.

## REGULATION

### OVERVIEW

Our operations are mainly carried out by our subsidiaries in the PRC, which are subject to PRC laws, rules and regulations. A summary of the laws, rules and regulations applicable to our business is set out below.

### REGULATIONS RELATING TO THE PRC AUTOMOBILE INDUSTRY AND OUR BUSINESS

#### The PRC automobile industry

On May 12, 2004, National Development and Reform Commission (“NDRC”) promulgated the Policy on Development of Automotive Industry (汽車產業發展政策) (“Policy”) which became effective on May 21, 2004. The policy was further amended on August 15, 2009.

The Policy contains provisions relating to, among other things, the PRC automobile industry’s technology policies, structural adjustments, market access administration, trademarks, product development, spare parts sales and other relevant sub-industries, distribution networks, investment administration, customs administration, and automobile consumption. One of the Policy’s stated aims is to develop the PRC automobile industry into a strong pillar of the PRC national economy before 2010.

#### New automobile sales

Our new automobile sales business is subject to the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) (“Measures”) promulgated by MOFCOM, the NDRC and the State Administration for Industry and Commerce (“SAIC”) on February 21, 2005 which became effective on April 1, 2005.

The Measures recognize two categories of automobile distributors — general automobile distributors and automobile brand dealers. General automobile distributors are defined under the Measures as enterprises engaged in providing automobiles and spare parts. Automobile brand dealers are defined under the Measures as enterprises authorized by automobile suppliers to engage in automobile sales and services. Our PRC legal advisers, King & Wood, have confirmed that under the Measures, our Group is classified as an automobile brand dealer.

An automobile brand dealer must be a legal person, authorized by an automobile supplier to sell the supplier’s brand of automobiles. An automobile brand dealer must comply with the supplier’s requirements relating to the intellectual property rights associated with the automobile brand, such as trademarks, labels and store names, and is also subject to regulation by local municipal and commercial development authorities.

Automobile brand dealers must obtain operation permits and file registrations with the relevant local department of MOFCOM. Further, according to a notice issued by the SAIC on November 10, 2005, automobile brand dealers must also file registrations with SAIC prior to commencing business operations.

In addition, a foreign-invested automobile brand dealer is subject to relevant PRC laws, rules and regulations relating to foreign investment, including the Law on Sino-Foreign Equity Joint Ventures (中華人民共和國合資經營企業法) promulgated by the Standing Committee of the National People’s Congress on July 8, 1979 as amended on March 15, 2001, the Regulations for the Implementation of the Law on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法實施條例) promulgated by the State Council on September 20, 1983 amended on July 22, 2001, and the 2007 Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄) promulgated and amended by the NDRC of PRC and MOFCOM of PRC on October 31, 2007 which became effective on December 1, 2007.

## **Automobile maintenance and repair services**

Our automobile maintenance and repair business is subject to the Regulations on the Administration of Automobile Maintenance and Repair (機動車維修管理規定) (“Automobile Repair Regulations”) promulgated by the Ministry of Transport on June 24, 2005 which became effective on August 1, 2005.

Under the Automobile Repair Regulations, an operator must have suitable facilities, equipment and technical personnel in order to operate an automobile maintenance and repair business. In addition, an operator must implement quality management systems and safety procedures, provide training to its technical personnel, maintain proper automobile repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

## **Road Transport Licenses**

Under the Road Transport Regulations (中華人民共和國道路運輸條例) promulgated by the State Council on April 30, 2004 which became effective on July 1, 2004, prior to commencing an automobile maintenance and repair business or automobile leasing business, an operator must file an application with the local department of the Ministry of Transport and obtain a Road Transport License to provide automobile maintenance and repair services or automobile leasing business. Violation of the Road Transport Regulations may result in fines and suspension of business operations, and criminal liability may be imposed upon a person held directly responsible, with a sentence of imprisonment for a term which may extend to five years, criminal detention, and/or fines of between one and five times the amount of the illegal gains.

## **Project Initiation Approvals**

Our automobile maintenance and repair business and automobile leasing business is also subject to the Regulations on the Administration of Foreign-invested Road Transport Services (外商投資道路運輸業管理規定) (“Foreign-invested Road Transport Services Regulations”) promulgated by the Ministry of Transport and MOFCOM on November 20, 2001 which became effective on November 20, 2001. According to its Article 5, the foreign invested road transport services shall comply with the policies on road transport development and the requirements for enterprise qualification formulated by the department in charge of transportation under the State Council, and shall meet the requirements of the development planning of road transport services formulated by the department in charge of transportation of the place where the foreign-funded road transport enterprise to be established is located. In addition, all investors shall invest with their self-owned assets and shall have good reputation.

Under the Foreign-invested Road Transport Services Regulations, a foreign-invested operator must obtain the approval of MOFCOM for its articles of association, and must submit its Certificate of Approval for Foreign-invested Enterprises and apply to the local department of the Ministry of Transport for a Project Initiation Approval for its automobile maintenance and repair business, prior to commencing business. Under existing applicable PRC laws, rules and regulations, all the application documents received by the local transport bureaus should be forwarded to the Ministry of Transport, which is the ultimate authority for the grant of Project Initiation Approvals, and a Project Initiation Approval should be granted by the Ministry of Transport prior to the issuance of a Road Transport License by the relevant local transport bureau.

## **Used automobile sales**

Our used automobile sales business is subject to the Measures for the Administration of the Circulation of Used Automobiles (二手車流通管理辦法) (“Used Automobiles Measures”), promulgated by MOFCOM, the Ministry of Public Security, the SAIC and the State Administration of Taxation on August 29, 2005 which became effective on October 1, 2005.

Under the Used Automobile Measures, a used automobile dealer must provide a customer a written contract containing warranties relating to the quality of the used automobile, as well as offer arrangements for after-sales services. The Used Automobile Measures also provide for the establishment of a nationwide archival system to hold the records of used automobile dealers.

Used automobile dealers must obtain operation permits and file registrations with the relevant local department of MOFCOM.

In addition, a foreign-invested used automobile dealer must obtain additional approvals from MOFCOM and file registrations with the relevant local department of MOFCOM.

### **Automobile leasing**

The Measures for the Administration of Foreign-funded Lease Industries, promulgated by MOFCOM on February 3, 2005 which became effective on March 5, 2005, requires a foreign-invested automobile leasing company to have total foreign-invested assets of not less than US\$5 million. In addition, if the foreign-invested automobile leasing company is incorporated as a limited liability company, its operations shall not exceed 30 years.

### **Automobile insurance agency**

We earn commissions from insurance companies which provide their services to our customers on the premises of our 4S dealerships. As such, our business operations are subject to the Regulations on Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) (“Insurance Regulations”) promulgated by the China Insurance Regulatory Commission (“CIRC”) on August 4, 2000 which became effective on August 4, 2000.

The Insurance Regulations require, among other things, a business which facilitates insurance coverage in direct relation to its main business, to apply for a license from the CIRC, and to obtain power of attorney documentation, subject to CIRC’s supervision, from the insurance agencies. Under the Insurance Regulations, each business may work with only one insurance agency.

### **Automobile loans**

We obtain financing from banks and financial institutions for our operations, including for the purchase of new automobiles to retail to our customers. Our business operations are subject to the Measures for the Management of Automobile Loans (汽車貸款管理辦法) (“Loans Measures”), promulgated by the People’s Bank of China (“PBOC”) and the China Banking Regulatory Commission (“CBRC”) on August 16, 2004 which became effective on October 1, 2004.

The Loans Measures provide that an automobile dealer may not obtain financing of a term exceeding one year, for the purchase of automobiles and/or spare parts. The automobile dealer’s balance sheet ratio, or the asset liability ratio, which equals to its indebtedness divided by total assets, must not exceed 80%, and it must have sufficient stable and lawful income or assets to repay both the principal and interest incurred on the loan.

In addition, an automobile dealer handling a loan application on behalf of its customers must be a legal person with a business license, an annual review certificate issued by MOFCOM and an automobile selling agent certificate issued by the automaker of the relevant automobile.

### **COMPANY LAW**

The incorporation and operations of our subsidiaries in China is governed by the Company Law (中華人民共和國公司法) which was promulgated by the Standing Committee of the National People’s Congress on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005.

The Company Law recognises two general types of companies, limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of the assets of the company. A shareholder's liability is limited to the amount of registered capital contributed.

The Company Law also applies to foreign-invested limited liability companies.

## **WHOLLY FOREIGN-OWNED ENTERPRISES**

The Law on Wholly Foreign-Owned Enterprises (中國外資企業法) promulgated by the Standing Committee of the National People's Congress on April 12, 1986 which became effective on April 12, 1986, and as amended on October 31, 2001, governs the establishment, operation and management of foreign-owned enterprises.

## **SINO-FOREIGN JOINT VENTURES**

The Law on Sino-Foreign Equity Joint Ventures (中國中外合資經營企業法), promulgated by the National People's Congress on July 8, 1979 which became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, governs the establishment procedures verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters of a Sino-foreign joint equity venture.

## **FOREIGN INVESTMENT IN RESTRICTED INDUSTRIES**

Pursuant to applicable PRC laws, rules and regulations, a foreign-invested enterprise operating in restricted industries shall be subject to NDRC and MOFCOM approval.

Prior to 2001, automobile distribution in China was subject to the 30 Dealerships Limitation. During China's accession to the World Trade Organization in 2001, China made a commitment to abolish the 30 Dealerships Limitation within five years of its accession. Accordingly, each of the 2004 Edition of the Catalogue, the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法), and the Measures for the Administration on Foreign Investment in Commercial Sector《外商投資商業領域管理辦法》, provides that the 30 Dealerships Limitation would terminate on December 11, 2006. However, the 2007 Edition of the Catalogue included the 30 Dealerships Limitation. As such, there is uncertainty as to the interpretation of the current PRC legal position in relation to foreign investment in automobile dealership groups with 30 or more 4S dealerships in the PRC.

Our PRC legal advisers, King & Wood, have advised that the Accession to WTO Agreement is an international treaty which was approved at the 17th meeting of the Standing Committee of the 9th National People's Congress, and the approval of China's accession to the WTO was endorsed by the President of the PRC; whereas the 2007 Edition of the Catalogue was a domestic regulation approved by the relevant ministries and might be revised or interpreted by the relevant authority. Our PRC legal advisers, King & Wood, have advised that China's commitment to the WTO, which is an international treaty, should take precedence over domestic laws and regulations promulgated by the State Council or the relevant ministries or departments (including the 2007 Edition of the Catalogue). The competent officials of the relevant approving authority have confirmed, in response to the verbal consultations conducted by our Company and King & Wood, that the 30 Dealerships Limitation was no longer enforced since December 11, 2006 and they approve the establishment and/or acquisition of foreign invested automobile dealerships in accordance with the Measures for the Administration on Foreign Investment in Commercial Sector and the Measures for the Implementation of the Administration of Branded Automobile Sales (both of which provide that the 30 Dealerships Limitation would have been terminated on December 11, 2006).

## **FOREIGN EXCHANGE CONTROLS**

The Foreign Exchange Management Regulations (外匯管理條例) promulgated by the State Council on January 29, 1996 as amended and became effective on August 1, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People's Bank of China on June 20, 1996 which became effective on July 1, 1996, govern foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in the PRC. Foreign-invested enterprises may also effect payments for current account items without SAFE approval, with valid receipts and proof of the relevant transactions. However, prior approval from SAFE is required for foreign exchange conversions for capital account items, including direct investments and capital contributions.

## **FOREIGN EXCHANGE RATE**

On July 21, 2005, the PBOC changed the fixed RMB-USD exchange system to a floating exchange system based on market supply and demand. The closing price of foreign currencies, including the USD, is announced by PBOC in the inter-bank foreign exchange market after the closing of the market on each working day and is the central parity for trading against RMB on the following working day. The daily trading price of the USD against the RMB in the inter-bank foreign exchange market has been allowed to float within a band of 0.5% around the central parity published by PBOC since May 21, 2007, whilst the trading prices of non-US dollar currencies against the RMB has been allowed to float within a band of 3.0% around the central parity published by PBOC since September 23, 2005.

## **SHAREHOLDER LOANS**

Under existing PRC laws, rules and regulations, a foreign-invested enterprise may seek shareholder loans from offshore investors. In such event, a foreign-invested enterprise must apply to SAFE or local SAFE departments for foreign loan registration certificates and foreign exchange settlements. The aggregate amount of such foreign loans must not exceed the margin between the total investment and registered capital of such FIEs and shall be registered with the local SAFE bureau. The recipient of a foreign loan must submit the foreign loan registration certificate to open and maintain a special foreign exchange account with a SAFE-approved bank, and may then repay the foreign loan with its own foreign exchange funds or by purchasing foreign exchange with RMB upon receiving SAFE approval.

## **DIVIDEND DISTRIBUTIONS**

Under the Law on Wholly Foreign-Owned Enterprises (中國外資企業法), promulgated by the National People's Congress on April 12, 1986 which became effective on April 12, 1986 and as amended on October 31, 2001, and the Law on Sino-foreign Equity Joint Ventures (中國中外合資經營企業法) promulgated by the Standing Committee of the National People's Congress on July 8, 1979 which became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to employees' funds as specified under PRC laws, rules and regulations, and have set off financial losses during previous accounting years. Undistributed profits from previous accounting years may be distributed together with profits available for distribution during the current accounting year. Foreign-invested enterprises may remit after-tax profits as dividends to overseas equity holders without seeking SAFE approval.

## **AUTOMOBILE RECALLS**

The Regulations on Recall of Defective Automotive Products (缺陷汽車產品召回管理規定) ("Recall Regulations") promulgated by the State Administration of Quality Supervision, Inspection and Quarantine, the NDRC, MOFCOM, and the General Administration of Customs on March 12, 2004 which became effective on October 1, 2004, requires all automobile dealerships to report defects in automobiles and automobile-related products to both the relevant automakers and the PRC government authorities, and to fully cooperate with the automakers in the conduct of automobile recall activities, and with the PRC government authorities in any investigations thereto.

## **PRODUCT QUALITY**

The principal law governing product liability in the PRC is the Product Quality Law (產品質量法) promulgated by the Standing Committee of the National People's Congress on February 22, 1993 and as amended on July 8, 2000.

Pursuant to the Product Quality Law, a seller is obliged to, among other things, adopt measures to keep products for sale in good quality, not sell defective or damaged products, comply with regulations regarding the labelling of products, not forge the origin of a product, not forge or falsely use another manufacturer's authentication marks, not substitute a fake product for a genuine product or a defective product for a high-quality product. Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

## **CONSUMER PROTECTION**

The Consumer Protection Law (消費者權益保護法) promulgated on October 31, 1993 by the Standing Committee of the National People's Congress which became effective on January 1, 1994, prescribes standards of behaviour for businesses in dealing with consumers.

Businesses must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, provide consumers with truthful information and advertising in relation to goods and services, truthful and clear answers to consumers' questions in relation to goods and services, ensure that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples, not impose unreasonable or unfair terms on consumers or exclude civil liability unreasonably.

Article 35 of the Consumer Protection Law stipulates that consumers whose legitimate rights and interests are infringed upon during the purchase or use of a product may demand compensation from the relevant vendor. In the event the liability is attributable to another supplier or the manufacturer, the vendor may in turn demand recovery of any compensation paid to the consumer from the supplier or manufacturer, as the case may be. In addition, consumers who suffer personal injury or property damage due to product defects may demand compensation from either the vendor or the manufacturer. If the liability is attributable to the manufacturer, the vendor may demand recovery of any compensation which it paid to the consumer. If the default and liability are attributable to the vendor, the manufacturer may demand recovery of any compensation which it paid to the consumer.

In addition, Article 45 provides that businesses must be responsible for the repair, replacement or return of goods if such goods are guaranteed by PRC laws or pursuant to agreements between the businesses and consumers, and further, that businesses must bear the reasonable cost of transportation for large commodities in the event of repair, replacement or return. Article 45 also stipulates that should a product not work properly after being repaired twice within the term of guaranteed repair, the business shall be responsible for replacement or return. As at the date of this document, our PRC legal advisers, King & Wood, have advised that no specific regulations for the automobile industry have been promulgated pursuant to Article 45.

Violation of the Consumer Protection Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

## COMPETITION AND ANTI-TRUST LAWS

Pursuant to the Competition Law (反不正當競爭法) promulgated by the Standing Committee of the National People's Congress on September 2, 1993 which became effective on December 1, 1993, businesses may not engage in improper market activities to undermine their competitors, including infringing trademark rights or confidential business information, generating false publicity through advertising or other means, or forging and disseminating false information infringing upon the goodwill of competitors or the reputation of their products, bribing, establishing cartels, and dumping goods below cost.

The Anti-trust Law(反壟斷法), promulgated by the Standing Committee of the National People's Congress on August 30, 2007 which became effective on August 1, 2008, requires proposals for foreign acquisitions and investment in domestic companies to undergo national security reviews, protects core Chinese industries, and grants PRC government authorities substantial discretion to make determinations of monopolistic agreements, abuses of dominant positions, concentrations of power and abuses of administrative powers to eliminate or restrict competition.

Violation of the Competition Law and/or the Anti-trust Law may result in the imposition of fines, revocation of business licenses and criminal liability.

## SUBSTANTIAL SHAREHOLDERS

So far as our directors are aware, as at the date of this document, the following persons will have interests or short positions in the Shares or are directly and/or indirectly interested in 5% or more of the par value of any class of share capital rights to vote in all circumstances at general meetings of our Company:

<u>Name of shareholders</u>	<u>Capacity/ Nature of interests</u>	<u>Total number of ordinary shares</u>	<u>Approximate percentage of shareholding to the issued share capital of the Company</u>
Mr. Huang Yi <sup>(1)</sup> . . . . .	Deemed interest, interest of controlled company	1,245,993,876	65.29
Mr. Li Guoqiang <sup>(2)</sup> . . . . .	Deemed interest, interest of controlled company	1,245,993,876	65.29
General Atlantic Partners (Dalian), L.P. . . . .	Beneficial owner	116,382,426	6.10
Gap (Bermuda) Limited . . . . .	Deemed interest, interest of controlled company	143,403,419	7.51
Blue Natural . . . . .	Beneficial owner	1,245,993,876	65.29
Light Yield <sup>(1)</sup> . . . . .	Deemed interest, interest of controlled company	1,245,993,876	65.29
Vest Sun <sup>(2)</sup> . . . . .	Deemed interest, interest of controlled company	1,245,993,876	65.29

*Notes:*

- (1) Mr. Huang's interest in the Shares is held through his wholly-owned investment company, Light Yield. Light Yield owns a 62.3% equity interest in Blue Natural. Accordingly, Mr. Huang and Light Yield are deemed to be interested in the entire interest in our Company held by Blue Natural.
- (2) Mr. Li's interest in the Shares is held through his wholly-owned investment company, Vest Sun. Vest Sun owns a 37.7% equity interest in Blue Natural. Accordingly, Mr. Li and Vest Sun are deemed to be interested in the entire interest in our Company held by Blue Natural.

## RELATED PARTY TRANSACTIONS

The Company and its subsidiaries have in the past engaged, and are expected to engage from time to time in the future, in transactions with affiliates of the Company in the ordinary course of its business. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis. The transactions described below have been entered into on normal commercial terms and on an arm's-length basis. The following discussion describes certain material related party transactions.

The following table summarizes the Group's certain other material related party transactions for the periods indicated:

### Transactions with related parties

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(i) Sales of goods to jointly-controlled entities:			
– Xiamen Zhongsheng .....	54,321	12,530	9,228
– Zhongsheng Tacti .....	—	956	672
	54,321	13,486	9,900
(ii) Purchase of goods or services from jointly-controlled entities:			
– Xiamen Zhongsheng .....	40,663	13,378	28,386
– Zhongsheng Tacti .....	—	38,318	124,803
	40,663	51,696	153,189

The terms of sales and purchases were mutually agreed between the parties with reference to the ordinary course of business.

- (iii) The Group's bank loans which amounted to RMB343,000,000, RMB382,500,000 and RMB1,127,000,000 were guaranteed by the controlling shareholder at December 31, 2008, 2009 and 2010, respectively.

## Balance with related parties

The Group had the following significant balances with its related parties during the years:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(i) Due from related parties:			
Trade related Joint-controlled entities			
– Xiamen Zhongsheng .....	459	—	1,646
– Zhongsheng Tacti .....	—	556	583
	<u>459</u>	<u>556</u>	<u>2,229</u>
	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(ii) Due to related parties:			
Non-trade related			
The Controlling Shareholder			
– Mr. Li Guoqiang and Mr. Huang Yi ..	155,827	1,308	—
Key management personnel			
– Wang Hongbo .....	947	—	—
	<u>156,774</u>	<u>1,308</u>	<u>—</u>
Trade related			
A jointly-controlled entity			
– Zhongsheng Tacti .....	—	22,928	10,026
	<u>156,774</u>	<u>24,236</u>	<u>10,026</u>

Balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

### BANKING FACILITIES

To fund the Group's working capital, trade credits and dividend payment requirements, members of the Group have entered into various loan and facilities agreements with various financial institutions. As at December 31, 2010, the consolidated total borrowings of the Group were approximately RMB4,924.5 million. As of December 31, 2010, the average effective interest rate (including capitalised interest) on the aggregate outstanding amount of the Group's indebtedness was 6.8% per annum. Set forth below is a summary of the material terms and conditions of certain of these loans and other indebtedness.

#### **Working Capital Facilities**

Certain PRC subsidiaries of the Company have entered into banking facilities agreements with various PRC banks, including Bank of China, China Merchants Bank, China Everbright Bank, Bank of Communications, China Citic Bank, Shanghai Pudong Development Bank, Shenzhen Development Bank, Industrial and Commercial Bank of China, Guangdong Development Bank, Hua Xia Bank, Bank of Jinzhou, Fujian Haixia Bank, China Bohai Bank, Bank of Beijing, China Minsheng Bank, Standard Chartered Bank, China Zheshang Bank and Industrial Bank. These banking facilities typically are used to fund the Group's working capital. Such working capital facilities generally have a term of 6 months to a year and are renewable upon their expirations. As of December 31, 2010, the Company's PRC subsidiaries had total bank loan facilities of approximately RMB5,400 million under such facilities, of which approximately RMB4,489 million was utilized.

#### ***Interest***

The principal amounts outstanding under the working capital facilities bear interest at a fixed rate payable quarterly or floating rate (based on the relevant interbank offered rate) payable monthly or quarterly.

#### ***Covenants and undertakings***

Under these working capital facilities, the relevant PRC subsidiaries (each in the capacity of borrower) have agreed, among other things, to:

- give prior notice to and/or seek consent from the lenders on certain events including any restructuring, change of control, changes to operation model or corporate governance structure, joint venture, merger and acquisitions, spin-off, disposal of any substantial assets or equity interest, modifications to any material investment, application for liquidation, bankruptcy and other similar events that would have a material impact on the borrowers' capability of repayment of the relevant loans;
- give prior notice to and/or seek consent from the lenders on any events that could result in material adverse impact on the borrower's ability to repay the loan;
- notify the lenders of important events such as suspension of operation, suspension of license or registration, application for bankruptcy or dismantlement and others which may significantly affect the borrower's ability to make repayment under the loan contract;
- notify the lenders after entering into a connected transaction with a value representing 10% or more of the borrower's net assets;
- not to dispose of assets if it will impact adversely its ability to make payment under the loan contract;
- not to subordinate the loan to new indebtedness or to shareholders' loans; and

- seek prior written consent from the lenders with respect to the transfer of indebtedness.

In addition, pursuant to the working capital facilities provided by Bank of China, the relevant PRC subsidiaries have agreed to:

- not to pay dividends (1) if the borrower has no after-tax profit, or such profit is not adequate to make up for the accumulative loss from previous years; or (2) before principal or interest due in the same financial year has not been paid to the lenders; or (3) if the after-tax profit is not adequate for the next installment of repayment of principal, interest and expenses to the lenders; and
- maintain the loan-to-value ratio of the total amount of guarantees so that it shall not exceed 50% and the total amount of guarantees and the amount of a single guarantee shall not exceed the responsive limited amount pursuant to the articles of association.

### ***Security / Guarantee***

The working capital facilities are usually guaranteed by other subsidiaries of the Company up to the relevant maximum guaranteed amount by such guarantors. Certain of the facilities are secured by pledges of certain assets, such as property rights, land use rights, inventories, notes receivables, restricted bank balances.

### ***Events of Default***

These banking facilities contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's dissolution and insolvency, falsehoods, misleading statements or material omissions, misuse of foreign exchange and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

### ***Overdraft Facilities***

Certain PRC subsidiaries of the Company have entered into overdraft agreements with China Everbright Bank and China Citic Bank. These banking facilities typically are used to fund the payment of cars purchase. Such overdraft facilities generally have a term of 6 months to a year and are renewable upon their expirations. As of December 31, 2010, the Company's PRC subsidiaries had no indebtedness under such facilities.

### ***Covenants and undertakings***

Under these banking facilities, the relevant PRC subsidiaries (each in the capacity of borrower) have agreed, among other things, to:

- give an at least 30 days notice to and seek written consent from the lenders prior to any restructuring, changes to corporate governance structure, joint venture, merger and acquisitions, spin-off, transfer of any substantial assets; and
- give an immediate written notice the lenders on any events that could result in material adverse impact on the borrower's ability to repay the loan.

### ***Security***

The legal person account overdraft contracts are usually secured in form of mortgage or pledge on the purchased cars.

### ***Events of Default***

These banking facilities contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's dissolution and insolvency, falsehoods, misleading statements or material omissions, misuse of foreign exchange and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

### **AUTHORIZED RETAILER FINANCING ARRANGEMENTS**

Certain PRC subsidiaries of the Company have entered into authorized retailer financing contracts with financing companies such as GMAC-SAIC Automotive Finance Limited, Volkswagen Finance (China) Co., Ltd., First AutoMobile Finance Co., Ltd., Mercedes-Benz Auto Finance Ltd. These facilities typically are used to fund the payment of cars purchase by means of general credit. The term of such financing arrangement is generally one year. As of December 31, 2010, the Company's PRC subsidiaries had total bills payable of approximately RMB2,715.0 million outstanding under such facilities.

### **Interest**

The principal amounts outstanding under the financing facilities bear interest at a floating rate calculated by reference to the offered rate. Interest payments are generally payable monthly.

### **Covenants and undertakings**

Under these facilities, the relevant PRC subsidiaries (each in the capacity of borrower) have agreed, among other things, to:

- seek prior consent from the lenders on drawing or obtaining loans provided by other banks or through other channels;
- not to or not agree to create any pledge or other encumbrances on the loaned cars; and
- not to pledge the qualification certificate or use it as guarantee or support of any financing.

### **Events of Default**

These banking facilities contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's disbandment, dismantlement and insolvency, falsehoods, misleading statements or material omissions, misuse of foreign exchange and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

## **GENERAL INFORMATION**

### **Independent Auditors**

The combined financial information as of and for the year ended December 31, 2008, the combined financial statements as of and for the year ended December 31, 2009 and the consolidated financial statements as of and for the year ended December 31, 2010 have been audited by Ernst & Young, Certified Public Accountants.

### **Company's accounts**

Under Cayman Islands law, the Company is not required to publish interim or annual accounts. The Company has not published and does not propose to publish, any of its accounts. The Company is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

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The Independent Auditors' Report on each of our combined financial statements and our consolidated financial statements set out herein are reproduced from our annual report for the year ended December 31, 2009 and 2010, respectively, and page references included in each Independent Auditors' Report refer to pages set out in such annual report.

# Independent Auditors' Report

## To the shareholders of Zhongsheng Group Holdings Limited

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

We have audited the financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 117, which comprise the combined and the Company's statements of financial position as at 31 December 2009, and the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These combined financial statements have been prepared in accordance with the basis of presentation set out in note 2.1 and the accounting policies set out in note 2.4 to the combined financial statements.

## Directors' responsibility for the financial statements

The directors of the Company (the "Directors") are responsible for the preparation of these financial statements in accordance the basis of presentation set out in note 2.1 and the accounting policies set out in note 2.4 to the combined financial statements, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements for the year ended 31 December 2009 have been properly prepared in accordance with the basis of presentation set out in note 2.1 and the accounting policies set out in note 2.4 to the combined financial statements, and the disclosure requirements of the Hong Kong Companies Ordinance.

## Ernst & Young

*Certified Public Accountants*

18th Floor

Two International Finance Center

8 Finance Street, Central

Hong Kong

20 April 2010

# Combined Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>REVENUE</b>	5(a)	<b>13,722,185</b>	10,548,577
Cost of sales and services provided	6(b)	<b>(12,542,762)</b>	(9,771,214)
<b>Gross profit</b>		<b>1,179,423</b>	777,363
Other income and gains, net	5(b)	<b>69,203</b>	33,412
Selling and distribution costs		<b>(346,521)</b>	(274,317)
Administrative expenses		<b>(161,967)</b>	(118,861)
<b>Profit from operations</b>		<b>740,138</b>	417,597
Finance costs	7	<b>(80,688)</b>	(104,443)
Share of profits of jointly-controlled entities	17	<b>7,254</b>	4,520
<b>Profit before tax</b>	6	<b>666,704</b>	317,674
Tax	8	<b>(173,701)</b>	(83,265)
<b>Profit for the year</b>		<b>493,003</b>	234,409
<b>Attributable to:</b>			
Equity holders of the parent		<b>470,881</b>	218,702
Non-controlling interests		<b>22,122</b>	15,707
		<b>493,003</b>	234,409
<b>Earnings per share attributable to equity holders of the parent</b>			
Basic			
– For profit for the year	11	<b>N/A</b>	N/A
Diluted			
– For profit for the year		<b>N/A</b>	N/A

# Combined Statement of Comprehensive Income

Year ended 31 December 2009

Zhongsheng Group Holdings Limited – Annual Report 2009

	2009 RMB'000	2008 RMB'000
Profit for the year	493,003	234,409
Exchange differences on translation of foreign operations	(3,404)	3,727
Other comprehensive income for the year, net of tax	(3,404)	3,727
Total comprehensive income for the year, net of tax	489,599	238,136
<b>Attributable to:</b>		
Equity holders of the parent	467,477	222,429
Non-controlling interests	22,122	15,707
	489,599	238,136

# Combined Statement of Financial Position

31 December 2009

Zhongsheng Group Holdings Limited – Annual Report 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	838,379	548,779
Land use rights	13	422,899	256,987
Prepayments	14	56,271	33,273
Intangible assets	15	254,632	100,561
Goodwill	16	200,492	76,566
Interest in jointly-controlled entities	17	38,699	21,175
Available-for-sale investment	18	100	—
Held-to-maturity investments	19	5,283	5,291
Deferred tax assets	30(b)	4,532	3,132
<b>Total non-current assets</b>		<b>1,821,287</b>	1,045,764
<b>CURRENT ASSETS</b>			
Inventories	20	1,024,240	1,133,415
Trade receivables	21	86,764	61,443
Prepayments, deposits and other receivables	22	1,113,186	724,823
Amounts due from related parties	39(b)(i)	556	459
Term deposits and pledged bank deposits	23	382,929	210,720
Cash in transit	24	44,542	29,690
Cash and cash equivalents	25	1,030,960	964,245
<b>Total current assets</b>		<b>3,683,177</b>	3,124,795
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings	26	1,797,149	1,157,543
Trade and bills payables	27	1,093,013	835,699
Other payables and accruals	28	277,702	273,201
Amounts due to related parties	39(b)(ii)	24,236	156,774
Income tax payable	30(a)	60,012	27,733
<b>Total current liabilities</b>		<b>3,252,112</b>	2,450,950
<b>NET CURRENT ASSETS</b>		<b>431,065</b>	673,845
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,252,352</b>	1,719,609
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	30(b)	104,545	33,838
<b>NET ASSETS</b>		<b>2,147,807</b>	1,685,771

	Notes	2009 RMB'000	2008 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	31	—	—
Reserves	32	<b>2,110,915</b>	1,633,098
		<b>2,110,915</b>	1,633,098
Non-controlling interests		<b>36,892</b>	52,673
Total equity		<b>2,147,807</b>	1,685,771

# Combined Statement of Changes in Equity

Year ended 31 December 2009

	Share capital RMB'000	Dis- cretionary reserve fund RMB'000*	Statutory reserve RMB'000*	Merger reserve RMB'000*	Exchange fluctuation reserve RMB'000*	Retained profits RMB'000*	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
<b>At 1 January 2008</b>	—	7,195	60,717	77,275	9,582	602,720	757,489	49,162	806,651
Contribution by the Controlling Shareholder	—	—	—	746,745	—	—	746,745	—	746,745
Reverse on acquisition of non-controlling interests by the Group	—	—	—	1,697	—	—	1,697	—	1,697
Disposal of subsidiaries	—	—	—	(31,459)	—	—	(31,459)	(3,137)	(34,596)
Dividends paid to shareholders	—	—	—	—	—	(63,803)	(63,803)	(9,059)	(72,862)
Transfer from retained profits	—	4,239	35,567	—	—	(39,806)	—	—	—
Comprehensive income for the year	—	—	—	—	3,727	218,702	222,429	15,707	238,136
<b>At 31 December 2008</b>	—	11,434	96,284	794,258	13,309	717,813	1,633,098	52,673	1,685,771
<b>At 1 January 2009</b>	—	11,434	96,284	794,258	13,309	717,813	1,633,098	52,673	1,685,771
Contribution by the Controlling Shareholder	—	—	—	41,675	—	—	41,675	—	41,675
Acquisition of non-controlling interests by the Group	—	—	—	(31,335)	—	—	(31,335)	(37,904)	(69,239)
Disposal of a subsidiary	—	—	—	—	—	—	—	1	1
Transfer from retained profits	—	7,278	38,920	—	—	(46,198)	—	—	—
Comprehensive income for the year	—	—	—	—	(3,404)	470,881	467,477	22,122	489,599
<b>At 31 December 2009</b>	—	18,712	135,204	804,598	9,905	1,142,496	2,110,915	36,892	2,147,807

\* These reserve accounts comprise the combined reserves of RMB2,110,915,000 (2008: RMB1,633,098,000) in the combined statement of financial position.

# Combined Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>Operating activities</b>			
Profit before tax		<b>666,704</b>	317,674
Adjustments for:			
Share of profits of jointly-controlled entities		<b>(7,254)</b>	(4,520)
Depreciation and impairment of property, plant and equipment	12	<b>67,765</b>	50,854
Amortisation of land use rights	13	<b>7,036</b>	4,094
Amortisation of intangible assets	15	<b>13,352</b>	5,914
Provision for impairment of trade receivables and other receivables	6(c)	<b>7</b>	4,267
Interest income	5(b)	<b>(10,100)</b>	(8,795)
Net gain on disposal of property, plant and equipment	5(b)	<b>(3,933)</b>	(625)
Finance costs	7	<b>80,688</b>	104,443
Loss on disposal of subsidiaries	5(b)	—	1,557
Excess over the cost of a business combination recognised in the income statement	5(b)	—	(103)
		<b>814,265</b>	474,760
(Increase)/decrease in pledged bank deposits		<b>(182,792)</b>	40,636
Increase in cash in transit		<b>(14,852)</b>	(87)
Decrease/(increase) in trade receivables		<b>6,323</b>	(6,430)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(565,291)</b>	181,650
Decrease/(increase) in inventories		<b>309,909</b>	(407,690)
Decrease/(increase) in trade and bills payables		<b>(42,740)</b>	178,759
Decrease in other payables and accruals		<b>(37,770)</b>	(37,997)
Increase in amounts due from related parties — trade related		<b>(97)</b>	(449)
Increase/(decrease) in amounts due to related parties — trade related		<b>21,981</b>	(92)
<b>Cash generated from operations</b>		<b>308,936</b>	423,060
Tax paid		<b>(119,619)</b>	(95,175)
<b>Net cash generated from/(used in) operating activities</b>		<b>189,317</b>	327,885

	Notes	2009 RMB'000	2008 RMB'000
<b>Investing activities</b>			
Purchase of property, plant and equipment		(218,993)	(137,001)
Proceeds from disposal of property, plant and equipment		27,088	7,688
Purchase of land use rights		(108,241)	(75,670)
Purchase of intangible assets		(4,645)	(7,496)
Decrease in term deposits		10,583	9,081
Purchase of available-for-sale investment		(100)	—
Purchase of shareholding in a jointly-controlled entity		(10,270)	—
Advances to third parties		—	(159,742)
Collection of advances to third parties		146,735	—
Acquisition of equity interests by the Group from the Controlling Shareholder		(53,346)	(10,700)
Acquisition of non-controlling interests		(49,239)	—
Acquisition of subsidiaries		(199,008)	(121,473)
Disposal of subsidiaries		13,369	(59,170)
Interest received		10,100	8,795
<b>Net cash used in investing activities</b>		<b>(435,967)</b>	<b>(545,688)</b>
<b>Financing activities</b>			
Proceeds from bank loans and other borrowings		5,267,187	4,493,293
Repayment of bank loans and other borrowings		(4,663,576)	(4,383,880)
Contributions from the Controlling Shareholder		41,675	746,745
Advances from third parties		(93,576)	93,576
Advances from non-controlling shareholders		254	458
Repayment of advances from non-controlling shareholders		—	(2,473)
Repayment of advances from the Controlling Shareholder		(154,519)	(10,297)
Interest paid		(80,688)	(104,443)
<b>Net cash generated from financing activities</b>		<b>316,757</b>	<b>832,979</b>
<b>Net increase in cash and cash equivalents</b>		<b>70,107</b>	<b>615,176</b>
Cash and cash equivalents at the beginning of each year		964,245	344,997
Effect of foreign exchange rate changes, net		(3,392)	4,072
<b>Cash and cash equivalents at the end of each year</b>		<b>1,030,960</b>	<b>964,245</b>

# Statement of Financial Position

Year ended 31 December 2009

Zhongsheng Group Holdings Limited – Annual Report 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		8,719	4,142
Cash and cash equivalents		16	16
Total assets		8,735	4,158
<b>CURRENT LIABILITIES</b>			
Amounts due to subsidiaries	39	8,859	4,242
Total liabilities		8,859	4,242
NET LIABILITIES		(124)	(84)
<b>EQUITY</b>			
Share capital	31	—	—
Accumulated losses		(124)	(84)
Total equity		(124)	(84)

**Huang Yi**  
Director

**Li Guoqiang**  
Director

# Notes to Financial Statements

31 December 2009

## 1. Corporate Information

The Company was incorporated on 23 June 2008 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Particulars of the companies now comprising the Group are set out in Note 41. The Company has established a principal place of business which is located at Rooms 3504–12, 35/F, Sun Hung Kai Centre, 30 Harbour Road, Wai Chai, Hong Kong.

During the year, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Blue Natural Development Ltd., which was incorporated in the British Virgin Islands (“BVI”).

## 2.1 Basis of Presentation

The combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for those disclosed in the following paragraphs. They have been prepared under the historical cost convention. These combined financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Through a group reorganisation (the “Reorganisation”) as set out in the section headed “Our History and Reorganisation” in the Prospectus dated 16 March 2010 for the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 22 February 2010. The shares of the Company were listed on the Stock Exchange on 26 March 2010.

As the Reorganisation took place on 22 February 2010, the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group’s financial statements commencing from the year ending 31 December 2010, as financial statements should not incorporate a combination which occurs after the reporting date. Nevertheless, for the benefit of the shareholders, the combined financial statements of the Group for the current year and the related notes thereto have been presented in these financial statements on the principle of merger accounting such that the Company was treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on 22 February 2010.

The combined financial statements have been prepared based on the principle of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Reorganisation had been completed as at the beginning of the year ended 31 December 2008 because the Company’s acquisition of the companies now comprising the Group should be regarded as a business combination under common control as the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, except for the subsidiaries acquired during the year, which were accounted for using the purchase method of accounting.

## 2.1 Basis of Presentation (continued)

### Basis of combination

The combined financial statements incorporate the financial statements of the Company and its subsidiaries for the years ended 31 December 2008 and 2009. As explained above, the acquisition of subsidiaries under common control has been accounted for using merger accounting. The acquisition of all other subsidiaries during the Year was accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All significant intra-group transactions and balances have been eliminated on combination.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group. Any excess of the Group's interest in the book value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of non-controlling interests (previously referred to as negative goodwill), after reassessment, is recognized immediately in the merger reserve.

## 2.2 Changes in Accounting Policy and Disclosures

For the purpose of these combined financial statements, the Group has adopted at the beginning of the financial years presented, all the HKFRSs that have been issued and effective for the financial years presented.

## 2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> <sup>1</sup>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopter</i> <sup>2</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>1</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>5</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>1</sup>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>3</sup>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> <sup>1</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>4</sup>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> <sup>1</sup>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> <sup>2</sup>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- 1 Effective for annual periods beginning on or after 1 July 2009
- 2 Effective for annual periods beginning on or after 1 January 2010
- 3 Effective for annual periods beginning on or after 1 February 2010
- 4 Effective for annual periods beginning on or after 1 July 2010
- 5 Effective for annual periods beginning on or after 1 January 2011
- 6 Effective for annual periods beginning on or after 1 January 2013

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 Summary of Significant Accounting Policies

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the combined statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of its jointly-controlled entities is included in the combined income statements and combined reserves, respectively.

## 2.4 Summary of Significant Accounting Policies (continued)

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the combined statements of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the combined statements of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its impairment test of goodwill at least annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined income statements in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the combined income statement in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

## 2.4 Summary of Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives of property, plant and equipment are as follows:

Buildings	10-20 years
Leasehold improvements	5 years
Plant and machinery	5-10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 Summary of Significant Accounting Policies (continued)

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Dealership agreements	20 years
Software	3-5 years
Customer relationships	15 years

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the combined income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the combined income statements on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such right is recorded as land use rights, which are amortised over the lease terms of 35 to 50 years using the straight-line method.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables held-to-maturity investments and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, held-to-maturity investments and available-for-sale financial assets.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (continued)

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

#### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (continued)

#### Available-for-sale financial investments (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its the rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (continued)

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

#### Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (continued)

#### Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, and interest-bearing loans and borrowings.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

## 2.4 Summary of Significant Accounting Policies (continued)

### Financial liabilities (continued)

#### Loans and borrowings (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

#### Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2.4 Summary of Significant Accounting Policies (continued)

### Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2.4 Summary of Significant Accounting Policies (continued)

### Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statements over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, in the period in which the services are rendered.
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

### Employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statements as they become payable in accordance with the rules of the central pension scheme.

## 2.4 Summary of Significant Accounting Policies (continued)

### Employee benefits (continued)

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and charged to the combined income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

The financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the combined statement of cash flow, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### 3 Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised tax losses were RMB4,208,000 (2008: RMB3,084,000) as at 31 December 2009. More details are given in Note 30.

##### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

##### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were RMB200,492,000 (2008: RMB76,566,000) as at 31 December 2009. More details are given in Note 16.

##### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### 4. Operating Segment Information

The Group is engaged in the principal business of sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

##### Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

##### Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Year, no major customers segment information is presented in accordance with HKFRS 8 *Operating Segments*.

#### 5. Revenue, Other Income and Gains, Net

##### (a) Revenue:

	2009 RMB'000	2008 RMB'000
Revenue from the sale of motor vehicles	12,466,358	9,695,464
Others	1,255,827	853,113
	<b>13,722,185</b>	<b>10,548,577</b>

##### (b) Other income and gains, net:

	2009 RMB'000	2008 RMB'000
Commission income	46,535	18,012
Advertisement support received from motor vehicle manufacturers	3,120	2,409
Rental income	2,682	1,441
Government grants	141	2,136
Interest income	10,100	8,795
Net gain on disposal of property, plant and equipment	3,933	625
Excess over the cost of a business combination recognised in the income statement	—	103
Loss on disposal of subsidiaries	—	(1,557)
Others	2,692	1,448
	<b>69,203</b>	<b>33,412</b>

## 6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	2009 RMB'000	2008 RMB'000
<b>(a) Employee benefit expense (including directors' remuneration (note 9))</b>		
Wages and salaries	142,415	102,062
Pension scheme contributions	24,816	16,629
Other welfare	13,027	8,348
	<b>180,258</b>	127,039
<b>(b) Cost of sales and services:</b>		
Cost of sales of motor vehicles	11,843,413	9,261,487
Others	699,349	509,727
	<b>12,542,762</b>	9,771,214
<b>(c) Other items</b>		
Depreciation and impairments of property, plant and equipment	67,765	50,854
Amortisation of land use rights	7,036	4,094
Amortisation of intangible assets	13,352	5,914
Auditors' remuneration	4,000	–
Lease expenses	20,184	9,568
Advertisement expenses	37,202	24,617
Office expenses	30,822	24,136
Logistics expenses	9,664	13,187
Business promotion expenses	26,723	20,229
Provision for impairment of trade receivables and other receivables	7	4,267
Net gain on disposal of property, plant and equipment	(3,933)	(625)

## 7. Finance Costs

	2009 RMB'000	2008 RMB'000
Interest expense on bank borrowings wholly repayable within five years	76,877	91,275
Interest expense on other borrowings	3,811	13,168
	<b>80,688</b>	104,443

## 8. Tax

(a) Tax in the combined income statements represents:

	2009 RMB'000	2008 RMB'000
Current Mainland China corporate income tax	151,898	72,501
Deferred tax (Note 30(b))	21,803	10,764
	<b>173,701</b>	83,265

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Subsidiaries incorporated in Hong Kong were subject to an income tax at the rates of 16.5% during the year (2008: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which have been effective since 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

**8. Tax (continued)**

## (a) (continued)

Pursuant to the new CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from the withholding tax.

## (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2009 RMB'000	2008 RMB'000
Profit before tax	<b>666,704</b>	317,674
Tax at applicable tax rate (25%)	<b>166,676</b>	79,418
Tax effect of non-deductible expenses	<b>2,634</b>	2,455
Profits attributable to jointly-controlled Entities	<b>(1,814)</b>	(1,130)
Effect of tax concessions obtained	<b>(17,521)</b>	(9,135)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries of Mainland China	<b>23,726</b>	11,657
Tax charge	<b>173,701</b>	83,265

## 9. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December 2009				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	
<b>Executive directors</b>					
- Mr. Li Guoqiang	—	2,530	—	48	2,578
- Mr. Huang Yi	—	2,289	—	11	2,300
- Mr. Yu Guangming	—	120	—	46	166
- Mr. Du Qingshan	—	326	—	35	361
	—	5,265	—	140	5,405

	Year ended 31 December 2008				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	
<b>Executive directors</b>					
- Mr. Li Guoqiang	—	2,202	—	30	2,232
- Mr. Huang Yi	—	1,955	—	11	1,966
- Mr. Yu Guangming	—	60	—	12	72
- Mr. Du Qingshan	—	287	—	24	311
	—	4,504	—	77	4,581

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid to the non-executive directors and independent non-executive directors of the Company during the year.

## 10. Five Highest Paid Individuals

The five highest paid employees during the year included two (2008: two) directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining three (2008: three) non-director, highest paid employees for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, bonuses, allowances and benefits in kind	1,412	700
Pension scheme contributions	81	72
	<b>1,493</b>	<b>772</b>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to RMB1,000,000	3	3

## 11. Earnings Per Share

No earnings per share information is presented as its inclusion is not considered meaningful due to the preparation of the results for the Year on a combined basis as disclosed in Note 2.1 above.

## 12. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2009	477,393	10,193	56,084	46,185	95,436	24,606	709,897
Exchange realignment	—	(1)	—	—	(3)	—	(4)
Additions	18,170	2,080	16,155	17,118	41,356	124,114	218,993
Acquisition of subsidiaries (Note 33)	124,070	5,574	20,768	11,542	23,557	14,759	200,270
Transfer	46,977	—	—	280	—	(47,257)	—
Disposals	(1,325)	(1,033)	(2,605)	(1,265)	(32,212)	—	(38,440)
At 31 December 2009	665,285	16,813	90,402	73,860	128,134	116,222	1,090,716
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2009	77,385	3,876	23,176	19,248	37,433	—	161,118
Exchange realignment	—	—	—	(1)	—	(1)	—
Depreciation and impairment provided during the year	29,145	4,177	6,048	11,481	16,914	—	67,765
Acquisition of subsidiaries (Note 33)	15,046	1,063	8,597	5,446	8,588	—	38,740
Disposals	(27)	(970)	(2,318)	(306)	(11,664)	—	(15,285)
At 31 December 2009	121,549	8,146	35,503	35,869	51,270	—	252,337
<b>Net book value:</b>							
At 31 December 2009	543,736	8,667	54,899	37,991	76,864	116,222	838,379
<b>Cost:</b>							
At 1 January 2008	407,565	4,547	46,984	35,625	79,962	4,335	579,018
Exchange realignment	—	(12)	—	(8)	—	—	(20)
Additions	23,774	5,658	4,665	8,678	29,061	63,732	135,568
Acquisition of subsidiaries	13,694	—	1,615	747	721	—	16,777
Transfer	36,207	—	3,756	3,498	—	(43,461)	—
Disposals	—	—	(936)	(1,465)	(10,299)	—	(12,700)
Disposal of subsidiaries	(3,847)	—	—	(890)	(4,009)	—	(8,746)
At 31 December 2008	477,393	10,193	56,084	46,185	95,436	24,606	709,897
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2008	55,458	2,103	18,536	14,052	28,407	—	118,556
Exchange realignment	—	(8)	—	(6)	—	—	(14)
Depreciation and impairment provided during the year	21,927	1,781	4,903	6,617	15,626	—	50,854
Acquisition of subsidiaries	350	—	365	262	118	—	1,095
Written back on disposals	—	—	(628)	(1,188)	(3,822)	—	(5,638)
Disposal of subsidiaries	(350)	—	—	(489)	(2,896)	—	(3,735)
At 31 December 2008	77,385	3,876	23,176	19,248	37,433	—	161,118
<b>Net book value:</b>							
At 31 December 2008	400,008	6,317	32,908	26,937	58,003	24,606	548,779

As at 31 December 2009, the application of the property ownership certificates of certain buildings with a net book value of approximately RMB231,844,000 was still in progress.

As at 31 December 2009, certain of the Group's buildings with an aggregate net book value of approximately RMB79,610,000 (2008: RMB78,978,000) were pledged as security for the Group's bank borrowings (Note 26(a)).

### 13. Land Use Rights

	2009 RMB'000	2008 RMB'000
<b>Cost:</b>		
At the beginning of the year	272,634	203,263
Additions	104,007	69,371
Acquisition of subsidiaries (Note 33)	70,938	—
At the end of the year	447,579	272,634
<b>Amortisation:</b>		
At the beginning of the year	15,647	11,553
Charge for the year	7,036	4,094
Acquisition of subsidiaries (Note 33)	1,997	—
At the end of the year	24,680	15,647
<b>Net book value:</b>		
At the end of the year	422,899	256,987

The lease prepayments of the Group represent cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 28 to 46 years.

As at 31 December 2009, certain of the Group's land use rights with an aggregate net book value of approximately RMB41,655,000 (2008: RMB38,529,000) were pledged as security for the Group's bank borrowings (Note 26(a)).

As at 31 December 2009, the Group was yet to obtain the legal title of certain land use rights in Mainland China subject to certain administrative procedures to be completed by the Group and the local government authorities. The net book value of these land use rights as at 31 December 2009 amounted to RMB219,748,000.

### 14. Prepayments

	2009 RMB'000	2008 RMB'000
Prepaid lease for land	2,952	1,601
Prepaid lease for buildings	13,119	13,972
Prepayments for potential acquisition	40,200	17,700
	56,271	33,273

## 15. Intangible Assets

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Total RMB'000
<b>Cost:</b>				
At 1 January 2009	9,756	80,323	19,282	109,361
Exchange realignment	(1)	—	—	(1)
Additions	4,645	—	—	4,645
Acquisition of subsidiaries (Note 33)	535	136,272	27,899	164,706
At 31 December 2009	14,935	216,595	47,181	278,711
<b>Accumulated amortisation:</b>				
At 1 January 2009	1,550	5,475	1,775	8,800
Amortisation provided during the year	2,217	8,718	2,417	13,352
Acquisition of subsidiaries (Note 33)	294	1,633	—	1,927
At 31 December 2009	4,061	15,826	4,192	24,079
<b>Net book value:</b>				
At 31 December 2009	10,874	200,769	42,989	254,632
<b>Cost:</b>				
At 1 January 2008	2,250	69,753	18,542	90,545
Exchange realignment	(27)	—	—	(27)
Additions	7,496	—	—	7,496
Acquisition of subsidiaries	81	10,570	740	11,391
Disposals	(3)	—	—	(3)
Disposal of subsidiaries	(41)	—	—	(41)
At 31 December 2008	9,756	80,323	19,282	109,361
<b>Accumulated amortisation:</b>				
At 1 January 2008	779	1,630	519	2,928
Exchange realignment	(16)	—	—	(16)
Amortisation provided during the year	813	3,845	1,256	5,914
Acquisition of subsidiaries	14	—	—	14
Disposals	(1)	—	—	(1)
Disposal of subsidiaries	(39)	—	—	(39)
At 31 December 2008	1,550	5,475	1,775	8,800
<b>Net book value:</b>				
At 31 December 2008	8,206	74,848	17,507	100,561

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement. The customer relationships and dealership agreements are amortised over 15 years and 20 years, respectively, which are management's best estimation of their useful lives.

## 16. Goodwill

	2009 RMB'000	2008 RMB'000
At the beginning of the year	76,566	65,501
Acquisition of subsidiaries (Note 33)	123,926	11,065
At the end of the year	200,492	76,566

### Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisition, which is not separately recognised.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five years. The discount rate applied to the cash flow projections beyond the one-year period is 17%.

### Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Sale and service of motor vehicles revenue — the bases used to determine the future earnings of sale and service of motor vehicles are the historical sales and the average growth rate of similar 4S stores of the Group over the last two years.

Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumption reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

## 17. Interests in Jointly-controlled Entities

	2009 RMB'000	2008 RMB'000
Share of net assets	38,699	21,175

廈門中升豐田汽車銷售服務有限公司 (Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. "Xiamen Zhongsheng") and 中升泰克提汽車服務 (大連) 有限公司 (Zhongsheng Tacti Automobile Services (Dalian) Co., Ltd. "Zhongsheng Tacti") are jointly-controlled entities of the Group and are considered to be related parties of the Group.

## 17. Interests in Jointly-controlled Entities (continued)

### (a) Particulars of jointly-controlled entities

Jointly-controlled entity	Place and date of incorporation/ registration	Authorised registered/paid-in/ issued capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Xiamen Zhongsheng	Xiamen, the PRC, 2002	RMB6,000,000	50%	50%	50%	Sale and service of motor vehicles
Zhongsheng Tacti	Dalian, the PRC, 2009	RMB10,270,000	50%	50%	50%	Service of motor vehicles

### (b) The following table illustrates the summarised financial statements of the Group's jointly-controlled entities shared by the Group:

	2009 RMB'000	2008 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	2,880	1,827
Current assets	63,730	40,168
Current liabilities	(27,911)	(20,820)
Net assets	38,699	21,175

Share of the jointly-controlled entities' results:

	2009 RMB'000	2008 RMB'000
Income	221,594	204,744
Expenses	(212,372)	(199,578)
Tax	(1,968)	(646)
Profit for the year	7,254	4,520

## 18. Available-for-sale Investment

The available-for-sale investment is equity investment in Dalian Mingshi Cheyuan Exhibiting Co., Ltd. (an unlisted company with registered capital of RMB510,000), which was designated as an available-for-sale financial asset. The investment was stated at cost because the investment does not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate can not be measured reliably.

## 19. Held-to-maturity Investments

	2009 RMB'000	2008 RMB'000
Corporate bonds	<b>5,283</b>	5,291

The held-to-maturity investments are all unlisted bonds, with fixed payments amounting to Hong Kong dollars ("HK\$") 6,000,000 and a fixed maturity of five years. The bonds earn interest at a rate of 5% per annum for the first three years and of 5.75% per annum for the last two years.

## 20. Inventories

	2009 RMB'000	2008 RMB'000
Motor vehicles	<b>880,753</b>	1,071,533
Spare parts	<b>128,294</b>	60,014
Others	<b>15,193</b>	1,868
	<b>1,024,240</b>	1,133,415

As at 31 December 2009, certain of the Group's inventories with a carrying amount of approximately RMB76,735,000 (2008: RMB30,265,000) were pledged as security for the Group's bank loans and other borrowings (Note 26(a)).

As at 31 December 2009, certain of the Group's inventories with a carrying amount of approximately RMB221,427,000 (2008: RMB231,669,000) were pledged as security for the Group's bills payable.

## 21. Trade Receivables

	2009 RMB'000	2008 RMB'000
Trade receivables	87,054	61,933
Impairment	(290)	(490)
	<b>86,764</b>	61,443

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period (based on the invoice date) is as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	76,885	54,112
More than 3 months but less than 1 year	9,692	6,692
Over 1 year	187	639
	<b>86,764</b>	61,443

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	86,577	60,804
Over one year past due	187	639
	<b>86,764</b>	61,443

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 21. Trade Receivables (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in provision for impairment of trade receivables are as follows:

	2009 RMB'000	2008 RMB'000
At the beginning of the year	490	2,567
Impairment losses recognised	37	95
Acquisition of subsidiaries	138	—
Disposal of subsidiaries	—	(1,800)
Amounts written off as uncollectible	(338)	(345)
Impairment losses reversed	(37)	(27)
At the end of the year	290	490

## 22. Prepayments, Deposits and Other Receivables

	2009 RMB'000	2008 RMB'000
Prepayments and deposits to suppliers	907,339	325,998
Deposits paid for acquisition of land use rights	51,580	41,245
Advances to certain companies to be acquired	—	215,335
Rebate receivables	73,266	45,475
VAT recoverable (i)	17,972	45,702
Receivables on disposal of subsidiaries	14,817	28,186
Prepayment related to the listing of the Company's shares	8,719	4,247
Others	39,493	18,635
	<b>1,113,186</b>	724,823

**22. Prepayments, Deposits and Other Receivables (continued)**

Note:

- (i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Prepayments, deposits, and other receivables	<b>1,113,657</b>	724,974
Impairment	<b>(471)</b>	(151)
	<b>1,113,186</b>	724,823

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
At the beginning of the year	<b>151</b>	16
Impairment losses recognised	<b>7</b>	4,215
Acquisition of subsidiaries	<b>313</b>	—
Amounts written off as uncollectible	<b>—</b>	(4,064)
Impairment losses reversed	<b>—</b>	(16)
At the end of the year	<b>471</b>	151

**23. Term Deposits and Pledged Bank Deposits**

	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Term deposits	<b>—</b>	10,583
Deposits pledged with banks as collateral against credit facilities granted by the banks	<b>382,929</b>	200,137
	<b>382,929</b>	210,720

**23. Term Deposits and Pledged Bank Deposits (continued)**

Term deposits and pledged bank deposits earn interest at interest rates stipulated by respective finance institutions. Included in term deposits and pledged bank deposits at the end of the reporting period are the following amounts denominated in a currency other than the RMB:

	2009 RMB'000	2008 RMB'000
HK\$	<b>12,327</b>	10,583

**24. Cash in Transit**

	2009 RMB'000	2008 RMB'000
Cash in transit	<b>44,542</b>	29,690

Cash in transit represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

**25. Cash and Cash Equivalents**

	2009 RMB'000	2008 RMB'000
Cash and bank balances	<b>828,980</b>	661,063
Short term deposits	<b>201,980</b>	303,182
Cash and cash equivalents	<b>1,030,960</b>	964,245

As at 31 December 2009, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB56,287,000 (2008: RMB22,481,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and short term deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 26. Bank Loans and Other Borrowings

	2009		2008	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current bank borrowings	4–7	1,597,699	5–9	954,750
Other borrowings	5–7	199,450	6–7	202,793
		<b>1,797,149</b>		1,157,543

Current bank borrowings and other borrowings representing:

	Notes	2009	2008
		RMB'000	RMB'000
– secured	(a)	117,076	52,000
– entrusted		30,000	20,000
– guaranteed	(b)	448,500	403,000
– unsecured		1,201,573	682,543
		<b>1,797,149</b>	1,157,543

The maturity of bank loans and other borrowings at the end of the reporting period were less than one year.

(a) Certain of the Group's bank loans are secured by:

- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB41,655,000 (2008: RMB38,529,000) as at 31 December 2009;
- (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB79,610,000 (2008: RMB78,978,000) as at 31 December 2009; and
- (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB76,735,000 (2008: RMB30,265,000) as at 31 December 2009, respectively.

(b) Certain of the Group's bank loans which amounted to RMB382,500,000 (2008: RMB343,000,000) were guaranteed by the Controlling Shareholder as at 31 December 2009. The other borrowings which amounted to RMB66,000,000 (2008: RMB60,000,000) were guaranteed by a third party as at 31 December 2009.

**27. Trade and Bills Payables**

	2009 RMB'000	2008 RMB'000
Trade payables	111,976	58,112
Bills payable	981,037	777,587
Trade and bills payables	<b>1,093,013</b>	835,699

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	1,080,587	834,226
3 to 6 months	11,383	265
6 to 12 months	648	29
Over 12 months	395	1,179
	<b>1,093,013</b>	835,699

The trade and bills payables are non-interest-bearing.

**28. Other Payables and Accruals**

	2009 RMB'000	2008 RMB'000
Payables for purchase of property, plant and equipment and land use rights	27,088	33,189
Advances and deposits from distributors	14,032	13,028
Advances from non-controlling shareholders	1,000	1,254
Advances from third parties	—	93,576
Advances from customers	148,134	94,899
Payables for purchase of equity interests from third parties	35,283	—
Staff payroll and welfare payables	19,282	13,853
Others	32,883	23,402
	<b>277,702</b>	273,201

## 29. Employee Retirement Benefits

In compliance with the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), the Company has participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the People’s Republic of China (the “PRC”) state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2008: 10% to 22%) of the previous year’s average basic salary amount of the geographical area where the employees are under employment with the Mainland China Subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China Subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 10% (2008: 7% to 10%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2009, the Group had no significant obligation apart from the contributions as stated above.

## 30. Income Tax Payable and Deferred Tax

(a) The movements in income tax payable during the years are as follows:

	2009 RMB'000	2008 RMB'000
At the beginning of the year	27,733	50,407
Provision for current tax for the year	151,898	72,501
Current tax paid	(119,619)	(95,175)
At the end of the year	60,012	27,733

**30. Income Tax Payable and Deferred Tax (continued)**

- (b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the combined statements of financial position and the movements during the years are as follows:

**Deferred Tax Assets:**

	<b>Losses available for offset against future taxable profits</b>	<b>Others</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
At 1 January 2009	<b>3,084</b>	<b>48</b>	<b>3,132</b>
Deferred tax arising from acquisition of subsidiaries (Note 33)	<b>2,432</b>	—	<b>2,432</b>
Deferred tax recognised in the combined income statement during the year (Note 8(a))	<b>(1,308)</b>	<b>276</b>	<b>(1,032)</b>
At 31 December 2009	<b>4,208</b>	<b>324</b>	<b>4,532</b>
At 1 January 2008	3,379	137	3,516
Deferred tax recognised in the combined income statement during the year (Note 8(a))	(295)	(89)	(384)
At 31 December 2008	3,084	48	3,132

**30. Income Tax Payable and Deferred Tax (continued)**

(b) Deferred tax assets and liabilities recognised (continued):

**Deferred Tax Liabilities:**

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2009	22,181	11,657	33,838
Deferred tax arising from acquisition of subsidiaries (Note 33)	49,936	—	49,936
Deferred tax recognised in the combined income statement during the year (Note 8(a))	(2,955)	23,726	20,771
At 31 December 2009	69,162	35,383	104,545
At 1 January 2008	20,507	—	20,507
Deferred tax arising from acquisition of subsidiaries	2,951	—	2,951
Deferred tax recognised in the combined income statement during the year (Note 8(a))	(1,277)	11,657	10,380
At 31 December 2008	22,181	11,657	33,838

**31. Issued Capital**

Shares	2009 HK\$	2008 HK\$
Authorised:		
1,000,000,000 shares of HK\$0.10 each	100,000,000	100,000,000
Issued and fully paid		
100 shares of HK\$0.10 each	10	10

## 32. Reserves

### (i) Discretionary reserve fund

Pursuant to the articles of association of certain subsidiaries of the Group incorporated in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China (revised), the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

### (ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 41 to the combined financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

### (iii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the Year represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, and the acquisition of non-controlling interests in the respective companies by the equity holders of the subsidiaries, which were combined from the effective date of acquisition. The deductions during the Year represent the excess of the consideration over the carrying amount of the non-controlling interests acquired and the distribution of the paid-up capital of certain companies to equity holders of the Company.

### (iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4.

## 33. Business Combination – Acquisition of Subsidiaries

- (a) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% equity interests in the following companies engaged in the motor vehicle sales and service business in Mainland China from one third party vendor on 1 January 2009 at a total consideration of RMB125,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB85,794,600 paid before 1 January 2009 and the remaining RMB39,205,400 paid during year 2009:

大連裕增實業有限公司	(Dalian Yuzeng Industrial Co., Ltd.)
大連裕德豐田汽車銷售服務有限公司	(Dalian Yude Toyota Automobile Sales & Services Co., Ltd.)
大連裕迪豐田汽車銷售服務有限公司	(Dalian Yudi Toyota Automobile Sales & Services Co., Ltd.)
營口華盛汽車銷售服務有限公司	(Yingkou Huasheng Automobile Sales & Services Co., Ltd.)
諸暨裕豐豐田汽車銷售服務有限公司	(Zhuji Yufeng Toyota Automobile Sales & Services Co., Ltd.)

**33. Business Combination – Acquisition of Subsidiaries (continued)**

(a) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	26,532	29,685
Land use rights	13	9,035	15,466
Intangible assets	15	2,697	71,282
Inventories		68,497	68,497
Trade receivables		4,541	4,541
Prepayments, deposits and other receivables		139,413	139,413
Cash and cash equivalents		44,430	44,430
Trade and bills payables		(60,243)	(60,243)
Other payables and accruals		(189,532)	(189,532)
Deferred tax liabilities	30(b)	—	(19,543)
Pension		(206)	(206)
Bank loans and other borrowings		(1,000)	(1,000)
Income tax payable		(22)	(22)
<b>Net identifiable assets and liabilities</b>		<b>44,142</b>	<b>102,768</b>
<b>Goodwill on acquisition</b>	<b>16</b>		<b>22,232</b>
<b>Total purchase consideration</b>			<b>125,000</b>
An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:			
Satisfied by cash			(39,205)
Cash acquired			44,430
<b>Net cash inflow</b>			<b>5,225</b>

Since the acquisition, the subsidiaries contributed RMB725,532,000 to the Group's revenue and RMB18,598,000 to the combined profits for year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of these companies from the vendor, it is impracticable to disclose the pre-acquisition revenue and profits of these companies.

### 33. Business Combination – Acquisition of Subsidiaries (continued)

- (b) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% equity interests in the following companies engaged in the motor vehicle sales and service business in Mainland China from two third party vendors on 26 March 2009 at a total consideration of RMB88,971,000. The purchase consideration for the acquisition was in the form of cash, with RMB8,000,000 paid before the acquisition date and the remaining RMB80,971,000 paid during year 2009.

煙台中升汽車銷售服務有限公司	(Yantai Zhongsheng Automobile Sales & Services Co., Ltd.)
煙台中升匯迪汽車銷售服務有限公司	(Yantai Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)
煙台中升上通汽車銷售服務有限公司	(Yantai Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.)
煙台中昇華美汽車銷售服務有限公司	(Yantai Zhongsheng Huameig Automobile Sales & Services Co., Ltd.)
龍口中升上通汽車銷售服務有限公司	(Longkou Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	55,724	60,338
Land use rights	13	10,846	36,644
Intangible assets	15	142	14,742
Deferred tax assets	30(b)	2,432	2,432
Inventories		46,086	46,086
Trade receivables		7,224	7,224
Prepayments, deposits and other receivables		44,324	44,324
Cash and cash equivalents		59,209	59,209
Trade and bills payables		(99,307)	(99,307)
Other payables and accruals		(71,531)	(71,531)
Deferred tax liabilities	30(b)	—	(11,253)
Pension		(46)	(46)
Bank loans and other borrowings		(14,634)	(14,634)
Income tax payable		1,171	1,171
Net identifiable assets and liabilities		41,640	75,399
Goodwill on acquisition	16		13,572
Total purchase consideration			88,971

**33. Business Combination – Acquisition of Subsidiaries (continued)**

(b) (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

Satisfied by cash	(80,971)
Cash acquired	59,209
<hr/>	
Net cash outflow	(21,762)
<hr/>	

Since the acquisition, the subsidiaries contributed RMB752,844,000 to the Group's revenue and RMB17,394,000 to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of these companies from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of these companies.

- (c) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% equity interests in the following companies engaged in the motor vehicle sales and service business in Mainland China from two third party vendors on 28 April 2009 at a total consideration of RMB40,172,000. The purchase consideration for the acquisition was in the form of cash, with RMB2,000,000 paid before the acquisition date and RMB34,172,000 paid during year 2009.

青島中升智通汽車銷售服務有限公司 (Qingdao Zhongsheng Zhitong Automobile Sales & Services Co., Ltd.)  
 青島中升搏通汽車銷售服務有限公司 (Qingdao Zhongsheng Botong Automobile Sales & Services Co., Ltd.)  
 青島中升慶通汽車銷售服務有限公司 (Qingdao Zhongsheng Qingtong Automobile Sales & Services Co., Ltd.)

**33. Business Combination – Acquisition of Subsidiaries (continued)**

(c) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	18,438	23,217
Intangible assets	15	2	10,142
Inventories		31,980	31,980
Trade receivables		10,616	10,616
Prepayments, deposits and other receivables		40,248	40,248
Cash and cash equivalents		19,989	19,989
Trade and bills payables		(9,835)	(9,835)
Deferred tax liabilities	30(b)	—	(3,730)
Other payables and accruals		(94,920)	(94,920)
Pension		2	2
Income tax payable		2,315	2,315
<b>Net identifiable assets and liabilities</b>		<b>18,835</b>	<b>30,024</b>
<b>Goodwill on acquisition</b>	<b>16</b>		<b>10,148</b>
<b>Total purchase consideration</b>			<b>40,172</b>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

Satisfied by cash	(34,172)
Cash acquired	19,989
<b>Net cash outflow</b>	<b>(14,183)</b>

Since the acquisition, the subsidiaries contributed RMB392,494,000 to the Group's revenue and RMB9,457,000 to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of these companies from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of these companies.

### 33. Business Combination – Acquisition of Subsidiaries (continued)

- (d) As part of the Group's plan to expand its motor vehicle sales and service business in the Mainland, the Group acquired 100% of the equity interests of 遼寧中升捷通汽車銷售服務有限公司 (Liaoning Zhongsheng Jietong Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 30 September 2009 at the consideration of RMB10,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB5,000,000 paid at the acquisition date.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	268	252
Intangible assets	15	3,700	3,840
Inventories		1,033	1,033
Cash and cash equivalents		5,001	5,001
Other payables and accruals		(340)	(340)
Deferred tax liabilities	30(b)	—	(31)
Net identifiable assets and liabilities		9,662	9,755
Goodwill on acquisition	16		245
Total purchase consideration			10,000

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(5,000)
Cash acquired	5,001
Net cash inflow	1

Since the acquisition, the subsidiary contributed RMB3,197,000 net loss to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of this company from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of the company.

### 33. Business Combination – Acquisition of Subsidiaries (continued)

- (e) As part of the Group's plan to expand its motor vehicle sales and service business in the Mainland, the Group acquired 100% of the equity interests of 吉林成邦汽車銷售服務有限公司 (Jilin Chengbang Automobile Sales & Services Co., Ltd.) and 100% of equity interests of 長春市成邦商貿有限公司 (Changchun Chengbang Trading Co., Ltd) engaged in the motor vehicle sales and service business in Mainland China, from three third parties on 30 September 2009 at a total consideration of RMB 115,376,000. The purchase consideration for the acquisition was in the form of cash, and fully paid during year 2009.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	22,307	23,216
Land use rights	13	14,011	14,263
Intangible assets	15	64	17,474
Inventories		41,797	41,797
Trade receivables		7,640	7,640
Prepayments, deposits and other receivables		99,581	99,581
Cash and cash equivalents		48,927	48,927
Trade and bills payables		(80,392)	(80,392)
Other payables and accruals		(67,515)	(67,515)
Tax payable		(860)	(860)
Bank loans and other borrowings		(18,995)	(18,995)
Deferred tax liabilities	30(b)	—	(4,643)
<b>Net identifiable assets and liabilities</b>		<b>66,565</b>	<b>80,493</b>
<b>Goodwill on acquisition</b>	<b>16</b>		<b>34,883</b>
<b>Total purchase consideration</b>			<b>115,376</b>
An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:			
Satisfied by cash			(115,376)
Cash acquired			48,927
<b>Net cash outflow</b>			<b>(66,449)</b>

### 33. Business Combination – Acquisition of Subsidiaries (continued)

(e) (continued)

Since the acquisition, the subsidiaries contributed RMB95,676,000 to the Group's revenue and RMB1,317,000 to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of these companies from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of these companies.

(f) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of equity interests of 紹興市匯鑫汽車銷售服務有限公司 (Shaoxing Huixin Automobile Sales & Services Co., Ltd.) and 80% of equity interests of 紹興市中鑫汽車銷售有限公司 (Shaoxing Zhongxin Automobile Sales & Services Co., Ltd.) engaged in the motor vehicle sales and service business in Mainland China from two third parties on 30 September 2009 at a total consideration of RMB 72,360,000. The purchase consideration for the acquisition was in the form of cash and was fully paid at the acquisition date.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	19,508	15,806
Land use rights	13	1,238	2,568
Intangible assets	15	9	21,359
Inventories		7,315	7,315
Trade receivables		333	333
Prepayments, deposits and other receivables		49,930	49,930
Cash and cash equivalents		19,947	19,947
Trade and bills payables		(26,805)	(26,805)
Other payables and accruals		(19,776)	(19,776)
Bank loans and other borrowings		(19,000)	(19,000)
Income tax payable		(1,200)	(1,200)
Pension		(384)	(384)
Deferred tax liabilities	30(b)	—	(4,744)
Net identifiable assets and liabilities		31,115	45,349
Non-controlling interests arising from a business combination			(2,750)
Goodwill on acquisition	16		29,761
Total purchase consideration			72,360

**33. Business Combination – Acquisition of Subsidiaries (continued)**

(f) (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

Satisfied by cash	(72,360)
Cash acquired	19,947
<hr/>	
Net cash outflow	(52,413)
<hr/>	

Since the acquisition, the subsidiaries contributed RMB37,560,000 to the Group's revenue and RMB2,209,000 to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of these companies from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of these companies.

- (g) As part of the Group's plan to expand its motor vehicle sales and service business in the Mainland, the Group acquired 100% of the equity interests of 哈爾濱天巴豐田汽車銷售服務有限公司 (Harbin Tiansi Toyota Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from two third party vendors on 30 September 2009 at the consideration of RMB34,871,000. The purchase consideration for the acquisition was in the form of cash and was fully paid during year 2009.

**33. Business Combination – Acquisition of Subsidiaries (continued)**

(g) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Pre-acquisition carrying amount RMB'000	Recognised fair values on acquisition RMB'000
Property, plant and equipment	12	8,989	9,016
Intangible assets	15	—	23,940
Inventories		5,032	5,032
Trade receivables		8,514	8,514
Prepayments, deposits and other receivables		6,540	6,540
Cash and cash equivalents		17,994	17,994
Trade and bills payables		(23,474)	(23,474)
Other payables and accruals		(19,643)	(19,643)
Pension		(141)	(141)
Deferred tax liabilities	30(b)	—	(5,992)
Net identifiable assets and liabilities		3,811	21,786
Goodwill on acquisition	16		13,085
Total purchase consideration			34,871

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(34,871)
Cash acquired	17,994
Net cash outflow	(16,877)

Since the acquisition, the subsidiary contributed RMB37,033,000 to the Group's revenue and RMB908,000 to the combined profits for the year ended 31 December 2009.

Since the Group cannot obtain the pre-acquisition results of this company from the vendors, it is impracticable to disclose the pre-acquisition revenue and profits of the company.

### 34. Disposal of a Subsidiary

The Group disposed of its entire equity interests in 昆明中升豐田汽車服務有限公司 (Kunming Zhongsheng Toyota Automobile Services Co., Ltd.) on 6 April 2009. This company has not ever been engaged in the automotive distribution business.

	RMB'000
<hr/>	
Net assets disposed of:	
Cash and cash equivalents	2,218
	<hr/>
	2,218
Gain on disposal of the subsidiary	—
	<hr/>
	2,218
<hr/>	

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	RMB'000
<hr/>	
Cash received	2,218
Cash and cash equivalents disposed of	(2,218)
	<hr/>
Net flow of cash and cash equivalents in respect of the disposal of the subsidiary	—
<hr/>	

### 35. Financial Instruments

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

#### 2009

##### Financial assets

	Available- for-sale investment RMB'000	Held-to- maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Held-to-maturity investments	—	5,283	—	5,283
Available-for-sale investments	100	—	—	100
Trade receivables	—	—	86,764	86,764
Financial assets included in prepayments, deposits and other receivables	—	—	127,576	127,576
Amounts due from related parties	—	—	556	556
Term deposits and pledged bank deposits	—	—	382,929	382,929
Cash in transit	—	—	44,542	44,542
Cash and cash equivalents	—	—	1,030,960	1,030,960
	100	5,283	1,673,327	1,678,710

##### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,093,013
Financial liabilities included in other payables and accruals	115,536
Amounts due to related parties	24,236
Bank loans and other borrowings	1,797,149
	3,029,934

### 35. Financial Instruments (continued)

2008

#### Financial assets

	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Held-to-maturity investments	5,291	—	5,291
Trade receivables	—	61,443	61,443
Financial assets included in prepayments, deposits and other receivables	—	137,998	137,998
Amounts due from related parties	—	459	459
Term deposits and pledged bank deposits	—	210,720	210,720
Cash in transit	—	29,690	29,690
Cash and cash equivalents	—	964,245	964,245
	5,291	1,404,555	1,409,846

#### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	835,699
Financial liabilities included in other payables and accruals	71,698
Amounts due to related parties	156,774
Bank loans and other borrowings	1,157,543
	2,221,714

### 36. Contingent Liabilities

As at 31 December 2009, neither the Group nor the Company had any significant contingent liabilities.

## 37. Commitments

### (a) Capital commitments

The Group has the following capital commitments at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for land use rights and buildings	97,866	37,071
Authorised, but not contracted for land use rights and buildings	6,755	18,159
	<b>104,621</b>	55,230

### (b) Operating lease commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009		2008	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	4,713	5,794	3,729	5,802
After 1 year but within 5 years	17,833	28,708	14,646	24,238
After 5 years	13,878	82,674	16,480	90,751
	<b>36,424</b>	<b>117,176</b>	34,855	120,791

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of two to twenty years, with an option to renew the leases when all the terms are renegotiated.

## 38. Pledge of Assets

Details of the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in Note 12, Note 13 and Note 20, to the combined financial statements.

### 39. Related Party Transactions and Balances

#### *Group*

Mr. Li Guoqiang and Mr. Huang Yi are collectively the Controlling Shareholder of the Group. They are also considered to be related parties of the Group.

The following key management personnel of the Group is considered to be a related party of the Group:

俞光明 (Yu Guangming)

#### (a) Transactions with related parties

The following transactions were carried out with related parties during the years:

	2009 RMB'000	2008 RMB'000
(i) Sales of goods to jointly-controlled entities:		
— Xiamen Zhongsheng	12,530	54,321
— Zhongsheng Tacti	956	—
	<b>13,486</b>	54,321
(ii) Purchases of goods or services from jointly-controlled entities:		
— Xiamen Zhongsheng	13,378	40,663
— Zhongsheng Tacti	38,318	—
	<b>51,696</b>	40,663

The terms of sales and purchases were mutually agreed between the parties with reference to the ordinary course of business.

(iii) The Group's bank loans which amounted to RMB332,500,000 (2008: RMB343,000,000) were partially guaranteed by the Controlling Shareholder at 31 December 2009.

### 39. Related Party Transactions and Balances (continued)

#### (b) Balances with related parties

The Group had the following significant balances with its related parties during the years:

- (i) Due from related parties:

	2009 RMB'000	2008 RMB'000
Trade related		
Jointly-controlled entities		
— Xiamen Zhongsheng	—	459
— Zhongsheng Tacti	556	—
	556	459

Balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

The maximum balances outstanding for amounts due from related parties during the year were as follows:

	2009 RMB'000	2008 RMB'000
Jointly-controlled entities		
— Xiamen Zhongsheng	—	459
— Zhongsheng Tacti	556	—
	556	459

**39. Related Party Transactions and Balances (continued)****(b) Balances with related parties (continued)**

(ii) Due to related parties:

	2009 RMB'000	2008 RMB'000
<b>Non-trade related</b>		
The Controlling Shareholder — Mr. Li Guoqiang and Mr. Huang Yi	1,308	155,827
Key management personnel: — Wang Hongbo	—	947
<b>Trade related</b>		
A jointly-controlled entity — Zhongsheng Tacti	22,928	—
	<b>24,236</b>	156,774

(iii) Compensation of key management personnel of the Group:

	2009 RMB'000	2008 RMB'000
Short term employee benefits	6,936	5,204
Post-employee benefits	255	149
Total compensation paid to key management personnel	<b>7,191</b>	5,353

Further details of directors' emoluments are included in Note 9 to the financial statements.

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Company

Balances with subsidiaries were unsecured and non-interest bearing and had no fixed repayment terms.

#### 40. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables, advances from third parties and advances to non-controlling shareholders, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

##### Interest rate risk

The Group has no significant interest-bearing assets other than held-to-maturity investments (Note 19), term deposits and pledged bank deposits (Note 23), and cash and cash equivalents (Note 25).

The Group's interest rate risk arises from its borrowings, details of which are set out in Note 26. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

##### Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the combined financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2009, all bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

##### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

#### 40. Financial Risk Management Objectives and Policies (continued)

##### Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Year 2009					Total RMB'000
	On demand RMB'000	Less than 3months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Bank loans and other borrowings	—	807,506	1,016,238	—	—	1,823,744
Trade and bills payables	—	1,077,073	15,545	395	—	1,093,013
Other payables	—	73,416	28,088	14,032	—	115,536
Amounts due to related parties	24,236	—	—	—	—	24,236
	<b>24,236</b>	<b>1,957,995</b>	<b>1,059,871</b>	<b>14,427</b>	<b>—</b>	<b>3,056,529</b>

	Year 2008					Total RMB'000
	On demand RMB'000	Less than 3months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Bank loans and other borrowings	—	578,793	617,450	—	—	1,196,243
Trade and bills payables	—	834,351	294	1,179	—	835,824
Other payables	—	38,364	28,161	5,173	—	71,698
Amounts due to related parties	156,774	—	—	—	—	156,774
	<b>156,774</b>	<b>1,451,508</b>	<b>645,905</b>	<b>6,352</b>	<b>—</b>	<b>2,260,539</b>

#### 40. Financial Risk Management Objectives and Policies (continued)

##### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to equity holders of the parent plus net debt. Net debt includes bank loans and other borrowings, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents. The gearing ratios as at the reporting dates were as follows:

	2009 RMB'000	2008 RMB'000
Bank loans and other borrowings	1,797,149	1,157,543
Trade and bills payables	1,093,013	835,699
Other payables and accruals	277,702	273,201
Amounts due to related parties	24,236	156,774
Less: Cash and cash equivalents	(1,030,960)	(964,245)
Net debt	2,161,140	1,458,972
Equity attributable to equity holders of the parent	2,110,915	1,633,098
Gearing ratio	50.6%	47.2%

## 41. Details of Subsidiaries Now Comprising the Group

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
中升(大連)集團有限公司 (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB400,000,000	—	100%	Investment holding
大連中升豐田汽車銷售服務有限公司 (Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US\$2,405,000	—	100%	Sale and service of motor vehicles
大連中升豐田汽車銷售有限公司 (Dalian Zhongsheng Toyota Automobile Sales Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB20,000,000	—	100%	Sale of motor vehicles
大連中升集團汽車用品有限公司 (Dalian Zhongsheng Group Automobile Accessories Co., Ltd., formerly known as 大連保稅區豐田汽車銷售有限公司)	Dalian, the PRC 1997	Registered and paid-in capital of US\$3,000,000	—	100%	Sale of spare parts and accessories
大連中升日產汽車銷售服務有限公司 (Dalian Zhongsheng Nissan Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US\$3,350,000	—	100%	Sale and service of motor vehicles
大連中升奧通汽車銷售有限公司 (Dalian Zhongsheng Aotong Automobile Sales Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB30,000,000	—	100%	Sale of motor vehicles
大連中升東本汽車銷售服務有限公司 (Dalian Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US\$2,230,000	—	100%	Sale and service of motor vehicles
大連中升匯迪汽車銷售服務有限公司 (Dalian Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	—	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司 (Kunming Zhongsheng Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司 (Kunming Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
福州中升豐田汽車服務有限公司 (Fuzhou Zhongsheng Toyota Automobile Services Co., Ltd.)	Fuzhou, the PRC 2002	Registered and paid-in capital of US\$1,260,000	—	100%	Service of motor vehicles

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
福州中升豐田汽車銷售有限公司 (Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd.)	Fuzhou, the PRC 2003	Registered and paid-in capital of RMB20,000,000	—	100%	Sale of motor vehicles
福建中升汽車服務有限公司 (Fujian Zhongsheng Automobile Service Co., Ltd.)	Fujian, the PRC 2001	Registered and paid-in capital of RMB10,000,000	—	100%	Service of motor motor vehicles
上海中升豐田汽車銷售服務有限公司 (Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
上海國信汽車銷售有限公司 (Shanghai Guoxin Automobile Sales Co., Ltd.)	Shanghai, the PRC 2001	Registered and paid-in capital of RMB12,000,000	—	100%	Sale of motor vehicles
南京中升豐田汽車服務有限公司 (Nanjing Zhongsheng Toyota Automobile Services Co., Ltd.)	Nanjing, the PRC 2003	Registered and paid-in capital of HK\$13,860,000	—	60%	Service of motor vehicles
大連迎賓中升豐田汽車銷售服務有限公司 (Dalian Yingbin Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US\$1,200,000	—	100%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司 (Dalian Zhongsheng Star Automobile Sales & Services Co., Ltd., formerly known as 大連迎賓中升豐田汽車銷售有限公司)	Dalian, the PRC 2005	Registered and paid-in capital of RMB40,000,000	—	100%	Sale and service of motor vehicles
廣州中升豐田汽車銷售服務有限公司 (Guangzhou Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2004	Registered and paid-in capital of US\$1,800,000	—	100%	Sale and service of motor vehicles
深圳中升豐田汽車銷售服務有限公司 (Shenzhen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC 2004	Registered and paid-in capital of US\$2,250,000	—	60%	Sale and service of motor vehicles
廣州中升凌志汽車銷售服務有限公司 (Guangzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of US\$4,000,000	—	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司 (Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US\$11,000,000	—	100%	Sale and service of motor vehicles

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大連中升汽車銷售服務有限公司 (Dalian Zhongsheng Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
成都中道成豐田汽車銷售服務有限公司 (Chengdu Zhongdao Cheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	90%	Sale and service of motor vehicles
泉州隆星汽車銷售服務有限公司 (Quanzhou Longxing Automobile Sales & Services Co., Ltd.)	Quanzhou, the PRC 2006	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
玉溪中升東本汽車銷售服務有限公司 (Yuxi Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Yuxi, the PRC 2006	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles
大連中升搏通汽車銷售服務有限公司 (Dalian Zhongsheng Botong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB25,000,000	—	100%	Sale and service of motor vehicles
大連奧通東本汽車銷售服務有限公司 (Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
雲南中升雷克薩斯汽車銷售服務有限公司 (Yunnan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Yunnan, the PRC 2006	Registered and paid-in capital of RMB20,000,000	—	100%	Sale and service of motor vehicles
福州中升雷克薩斯汽車銷售服務有限公司 (Fuzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Fuzhou, the PRC 2006	Registered and paid-in capital of RMB25,000,000	—	100%	Sale and service of motor vehicles
曲靖中升豐田汽車銷售服務有限公司 (Qijing Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Qijing, the PRC 2007	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
南京中升迎賓豐田汽車銷售服務有限公司 (Nanjing Zhongsheng Yingbin Toyota Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
Zhongsheng Holdings Co., Ltd.	HK 1996	Registered and paid-in capital of HK\$32,000,000	—	100%	Investment holding

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
HOKURYO (Hong Kong) Co., Ltd.	HK 1997	Registered and paid-in capital of HK\$10,000	—	100%	Investment holding
HOKURYO Holdings Co., Ltd.	HK 1993	Registered and paid-in capital of HK\$2,000,000	—	100%	Investment holding
HOKURYO International Ltd.	BVI 2007	Registered and paid-in capital of US\$1	—	100%	Investment holding
Zhongsheng International Limited	BVI 2003	Registered and paid-in capital of US\$2	—	100%	Investment holding
大連新盛榮新實業有限公司 (Dalian Xinshengrong New Industrial Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB200,000,000	—	100%	Investment holding
大連新盛榮豐田汽車銷售服務有限公司 (Dalian Xinshengrong Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	—	100%	Sale and service of motor vehicles
大連新盛榮汽車銷售服務有限公司 (Dalian Xinshengrong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of RMB30,000,000	—	100%	Sale and service of motor vehicles
大連中升宏達汽車銷售服務有限公司 (原稱大連新盛榮貿易有限公司) (Dalian Xinshengrong Trading Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB11,000,000	—	100%	Sale and service of motor vehicles
雲南中升廣福汽車銷售服務有限公司 (Yunnan Zhongsheng Guangfu Automobile Sales & Services Co., Ltd.)	Yunnan, the PRC 2006	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
東莞中升雷克薩斯汽車銷售服務有限公司 (Dongguan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of US\$5,000,000	—	100%	Sale and service of motor vehicles
煙台中升豐田汽車銷售服務有限公司 (Yantai Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
深圳中升迎賓豐田汽車銷售服務有限公司 (Shenzhen Zhongsheng Yingbin Toyota Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC 2008	Registered and paid-in capital of US\$5,000,000	—	100%	Sale and service of motor vehicles
成都中升豐田汽車銷售服務有限公司 (Chengdu Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
BRIGHT FRIENDS International Limited	BVI 2007	Registered and paid-in capital of US\$1	—	100%	Investment holding
SUPER CHARM Limited	HK 2007	Registered and paid-in capital of HK\$1	—	100%	Investment holding
WELL SNAPE Holdings Limited	BVI2007	Registered and paid-in capital of US\$1	—	100%	Investment holding
BILLION GREAT Corporation Limited	HK 2007	Registered and paid-in capital of HK\$1	—	100%	Investment holding
大連裕增實業有限公司 (Dalian Yuzeng Industrial Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB30,000,000	—	100%	Investment holding
大連裕德豐田汽車銷售服務有限公司 (Dalian Yude Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	—	100%	Sale and service of motor vehicles
諸暨裕豐豐田汽車銷售服務有限公司 (Zhuji Yufeng Toyota Automobile Sales & Services Co., Ltd.)	Zhuji, the PRC 2006	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
營口華盛汽車銷售服務有限公司 (Yingkou Huasheng Automobile Sales & Services Co., Ltd.)	Yingkou, the PRC 2004	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
大連裕迪汽車銷售服務有限公司 (Dalian Yudi Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
大連中升匯馳汽車服務有限公司 (Dalian Zhongsheng Huichi Automobile Services Co., Ltd.)	Dalian, the PRC 2009	Registered and paid-in capital of RMB15,000,000	—	100%	Service of motor vehicles
中升汽車(莊河)服務有限公司 (Zhongsheng Automobile (Zhuanghe) Services Co., Ltd.)	Dalian, the PRC 2009	Registered and paid in capital of RMB3,000,000	—	100%	Service of motor vehicles
青島中升搏通汽車銷售服務有限公司 (Qingdao Zhongsheng Botong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2005	Registered and paid-in capital of RMB11,000,000	—	100%	Sale and service of motor vehicles
青島中升慶通汽車銷售服務有限公司 (Qingdao Zhongsheng Qingtong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2001	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
青島中升智通汽車銷售服務有限公司 (Qingdao Zhongsheng Zhitong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2005	Registered and paid-in capital of RMB11,000,000	—	100%	Sale and service of motor vehicles
煙台中昇華美汽車銷售服務有限公司 (Yantai Zhongsheng Huamei Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2004	Registered and paid-in capital of RMB4,000,000	—	100%	Sale and service of motor vehicles
龍口中升上通汽車銷售服務有限公司 (Longkou Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.)	Longkou, the PRC 2005	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
煙台中升上通汽車銷售服務有限公司 (Yantai Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2003	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
煙台中升匯迪汽車銷售服務有限公司 (Yantai Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2002	Registered and paid-in capital of RMB60,000,000	—	100%	Sale and service of motor vehicles
OLYMPIA WELL Limited	HK 2007	Registered and paid-in capital of HK\$1	—	100%	Investment holding
CHARMING ELEMENTS Holdings Limited	BVI 2007	Registered and paid-in capital of US\$100	—	100%	Investment holding
NOBLE VILLA Investments Limited	BVI 2008	Registered and paid-in capital of US\$1	—	100%	Investment holding
煙台中升汽車銷售服務有限公司 (Yantai Zhongsheng Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2002	Registered and paid-in capital of RMB6,500,000	—	100%	Sale and service of motor vehicles
昆明中升匯馳汽車銷售服務有限公司 (Kunming Zhongsheng Huichi Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2009	Registered and paid-in capital of RMB25,000,000	—	100%	Sale and service of motor vehicles
佛山中升之星汽車銷售服務有限公司 (Foshan Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB40,000,000	—	100%	Sale and service of motor vehicles
南京中升之星汽車銷售服務有限公司 (Nanjing Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC 2009	Registered and paid-in capital of RMB40,000,000	—	100%	Sale and service of motor vehicles
廈門中升匯馳汽車銷售服務有限公司 (Xiamen Zhongsheng Huichi Automobile Sales & Services Co., Ltd.)	Xiamen, the PRC 2009	Registered and paid-in capital of RMB25,000,000	—	100%	Sale and service of motor vehicles

## 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大理中升汽車銷售服務有限公司 (Dali Zhongsheng Automobile Sales & Services Co., Ltd.)	Dali, the PRC 2009	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
常熟華星汽車銷售服務有限公司 (Changshu Huaxing Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
瀋陽迎賓中升商務諮詢有限公司 (Shenyang Yingbin Zhongsheng Commercial Consulting Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD6,000,000/ USD1,800,000	—	100%	Commercial consulting
瀋陽匯馳商務諮詢有限公司 (Shenyang Huichi Commercial Consulting Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD4,000,000/ USD1,200,000	—	100%	Commercial consulting
瀋陽中升駿通商務諮詢有限公司 (Shenyang Zhongsheng Juntong Commercial Consulting Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD5,000,000	—	100%	Commercial consulting
營口中升汽車銷售服務有限公司 (Yingkou Zhongsheng Automobile Sales & Services Co., Ltd.)	Yingkou, the PRC 2009	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
遼寧中升捷通汽車銷售服務有限公司 (Liaoning Zhongsheng Jietong Automobile Sales & Services Co., Ltd.)	Liaoning, the PRC 2007	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
吉林市成邦汽車銷售服務有限公司 (Jilin Chengbang Automobile Sales & Services Co., Ltd.)	Jilin, the PRC 2009	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
長春市成邦商貿有限公司 (Changchun Chengbang Trading Co., Ltd.)	Changchun, the PRC 2005	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
紹興市匯鑫汽車銷售服務有限公司 (Shaoxing Huixin Automobile Sales & Services Co., Ltd.)	Shaoxing, the PRC 2001	Registered and paid-in capital of RMB16,400,000	—	100%	Sale and service of motor vehicles
紹興市中鑫汽車銷售有限公司 (Shaoxing Zhongxin Automobile Sales Co., Ltd.)	Shaoxing, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale of motor vehicles
無錫國信汽車銷售服務有限公司 (Wuxi Guoxin Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB40,000,000	—	100%	Sale and service of motor vehicles

#### 41. Details of Subsidiaries Now Comprising the Group (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
哈爾濱天巴豐田汽車銷售服務有限公司 (Harbin Tiansi Toyota Automobile Sales & Services Co., Ltd.)	Harbin, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles

#### 42. Events After the Reporting Period

On 4 January 2010, pursuant to a sole shareholders' resolution to sub-divide the Company's share capital, the Company's authorised share capital became HK\$100,000,000 divided into 1,000,000,000,000 shares of par value HK\$0.0001 each, and 100,000 shares of the Company were held by the then shareholder of the Company.

On 22 February 2010, the Company issued an aggregate of 1,559,892,795 shares of the Company to the then shareholder of the subsidiaries now comprising the Group in exchange for the entire equity interests of the subsidiaries now comprising the Group, in preparation for the listing of the Company's shares on the Stock Exchange. The Company became the holding company of the subsidiaries now comprising the Group.

On 26 March 2010, the Company completed its placing and public offering of shares by issuing 305,564,500 shares of HK\$0.0001 each (including 19,404,500 shares issued to an existing shareholder). The Company's shares were then listed on the Stock Exchange. On 31 March 2010, an over-allotment option was exercised and an additional 42,924,000 shares of HK\$0.0001 each were issued.

#### 43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 April 2010.

# Independent Auditors' Report



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## **To the shareholders of Zhongsheng Group Holdings Limited**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

21 March 2011

# Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
<b>REVENUE</b>	5(a)	<b>24,042,907</b>	13,722,185
Cost of sales and services provided	6(b)	<u>(21,750,181)</u>	<u>(12,542,762)</u>
<b>Gross profit</b>		<b>2,292,726</b>	1,179,423
Other income and gains, net	5(b)	<b>321,779</b>	69,203
Selling and distribution costs		<b>(693,372)</b>	(346,521)
Administrative expenses		<u><b>(318,414)</b></u>	<u>(161,967)</u>
<b>Profit from operations</b>		<b>1,602,719</b>	740,138
Finance costs	7	<b>(226,917)</b>	(80,688)
Share of profits of jointly-controlled entities	19	<u><b>8,195</b></u>	<u>7,254</u>
<b>Profit before tax</b>	6	<b>1,383,997</b>	666,704
Tax	8	<u><b>(301,624)</b></u>	<u>(173,701)</u>
<b>Profit for the year</b>		<u><b>1,082,373</b></u>	<u>493,003</u>
<b>Attributable to:</b>			
Owners of the parent	13	<b>1,031,190</b>	470,881
Non-controlling interests		<u><b>51,183</b></u>	<u>22,122</u>
		<u><b>1,082,373</b></u>	<u>493,003</u>
<b>Earnings per share attributable to equity holders of the parent</b>			
Basic			
– For profit for the year	12	<u><b>0.56</b></u>	<u>0.30</u>
Diluted			
– For profit for the year	12	<u><b>0.56</b></u>	<u>0.30</u>

Details of the dividends payable and proposed for the year are disclosed in Note 11 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
<b>Profit for the year</b>	<u>1,082,373</u>	<u>493,003</u>
<b>Other comprehensive income</b>		
Available-for-sale investments:		
Changes in fair value	2,981	-
Income tax effect	(492)	-
Exchange differences on translation of foreign operations	<u>(39,610)</u>	<u>(3,404)</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>(37,121)</u>	<u>(3,404)</u>
<b>Total comprehensive income for the year, net of tax</b>	<u>1,045,252</u>	<u>489,599</u>
<b>Attributable to:</b>		
Owners of the parent	994,069	467,477
Non-controlling interests	<u>51,183</u>	<u>22,122</u>
	<u>1,045,252</u>	<u>489,599</u>

# Consolidated Statement of Financial Position

31 December 2010

	<i>Notes</i>	2010 RMB'000	2009 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	1,788,709	838,379
Land use rights	15	700,650	422,899
Prepayments	16	703,785	56,271
Intangible assets	17	1,382,349	254,632
Goodwill	18	790,947	200,492
Interests in jointly-controlled entities	19	46,894	38,699
Available-for-sale investments	20	178,294	100
Held-to-maturity investments		–	5,283
Deferred tax assets	32(b)	8,785	4,532
Total non-current assets		<u>5,600,413</u>	<u>1,821,287</u>
<b>CURRENT ASSETS</b>			
Inventories	21	3,453,046	1,024,240
Trade receivables	22	284,951	86,764
Prepayments, deposits and other receivables	23	2,615,120	1,113,186
Amounts due from related parties	43(b)(i)	2,229	556
Financial assets at fair value through profit or loss	24	83,369	–
Pledged bank deposits	25	1,029,932	382,929
Cash in transit	26	140,852	44,542
Cash and cash equivalents	27	2,989,718	1,030,960
Total current assets		<u>10,599,217</u>	<u>3,683,177</u>
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings	28	4,924,455	1,797,149
Trade and bills payables	29	2,984,507	1,093,013
Other payables and accruals	30	954,396	277,702
Amounts due to related parties	43(b)(ii)	10,026	24,236
Income tax payable	32(a)	188,161	60,012
Dividends payable		919	–
Total current liabilities		<u>9,062,464</u>	<u>3,252,112</u>
NET CURRENT ASSETS		<u>1,536,753</u>	<u>431,065</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,137,166</u>	<u>2,252,352</u>

	Notes	2010 RMB'000	2009 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	32(b)	<u>422,597</u>	<u>104,545</u>
NET ASSETS		<u>6,714,569</u>	<u>2,147,807</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	33	168	–
Reserves	34	5,742,660	2,110,915
Proposed final dividends	11	<u>192,765</u>	<u>–</u>
		5,935,593	2,110,915
Non-controlling interests		<u>778,976</u>	<u>36,892</u>
Total equity		<u>6,714,569</u>	<u>2,147,807</u>

**Huang Yi**  
Director

**Li Guoqiang**  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent											
	Share capital	Share premium*	Discretionary reserve fund *	Statutory reserve *	Merger reserve *	Available-	Exchange fluctuation reserve *	Retained profits *	Proposed final dividend	Total	Non-controlling interests	Total equity
						for-sale investments revaluation reserve *						
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>At 1 January 2009</b>	-	-	11,434	96,284	794,258	-	13,309	717,813	-	1,633,098	52,673	1,685,771
Contribution by the Controlling Shareholder	-	-	-	-	41,675	-	-	-	-	41,675	-	41,675
Acquisition of non-controlling interests by the Group	-	-	-	-	(31,335)	-	-	-	-	(31,335)	(37,904)	(69,239)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	1	1
Transfer from retained profits	-	-	7,278	38,920	-	-	-	(46,198)	-	-	-	-
Comprehensive income for the year	-	-	-	-	-	-	(3,404)	470,881	-	467,477	22,122	489,599
<b>At 31 December 2009</b>	-	-	18,712	135,204	804,598	-	9,905	1,142,496	-	2,110,915	36,892	2,147,807
Issue of shares in connection with the Reorganisation	137	2,110,778	-	-	(2,110,915)	-	-	-	-	-	-	-
Issue of shares in connection with the Listing	27	2,687,718	-	-	-	-	-	-	-	2,687,745	-	2,687,745
Over-allotment of shares	4	377,384	-	-	-	-	-	-	-	377,388	-	377,388
Share issue expenses	-	(154,665)	-	-	-	-	-	-	-	(154,665)	-	(154,665)
Disposal of interest in a subsidiary to non-controlling shareholder	-	-	-	-	364	-	-	-	-	364	1,636	2,000
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	-	-	-	690,184	690,184
Consideration for acquisition of non-controlling interests by the Group	-	-	-	-	(80,223)	-	-	-	-	(80,223)	-	(80,223)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(919)	(919)
Proposed final 2010 dividend	-	-	-	-	-	-	-	(192,765)	192,765	-	-	-
Transfer from retained profits	-	-	18,398	84,120	-	-	-	(102,518)	-	-	-	-
Comprehensive income for the year	-	-	-	-	-	2,489	(39,610)	1,031,190	-	994,069	51,183	1,045,252
<b>At 31 December 2010</b>	<b>168</b>	<b>5,021,215</b>	<b>37,110</b>	<b>219,324</b>	<b>(1,386,176)</b>	<b>2,489</b>	<b>(29,705)</b>	<b>1,878,403</b>	<b>192,765</b>	<b>5,935,593</b>	<b>778,976</b>	<b>6,714,569</b>

\* These reserve accounts comprise the consolidated reserves of RMB5,742,660,000 (2009: RMB2,110,915,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
<b>Operating activities</b>			
Profit before tax		1,383,997	666,704
Adjustments for:			
– Share of profits of jointly-controlled entities	19(b)	(8,195)	(7,254)
– Depreciation and impairment of property, plant and equipment	14	109,508	67,765
– Amortisation of land use rights	15	9,223	7,036
– Amortisation of intangible assets	17	34,306	13,352
– (Reversal)/provision for impairment of trade receivables and other receivables	6(c)	(485)	7
– Interest income	5(b)	(27,199)	(10,100)
– Net gain on disposal of items of property, plant and equipment	5(b)	(69,685)	(3,933)
– Net gain on disposal of land use rights	5(b)	(46,009)	–
– Finance costs	7	226,917	80,688
– Fair value gain, net			–
– Listed equity investments held for trading	5(b)	(4,066)	–
– Equity linked notes	5(b)	(2,110)	–
– Gain on disposal of held-to-maturity investments	5(b)	(299)	–
– Gain on disposal of a subsidiary	36	(6,789)	–
		<b>1,599,114</b>	<b>814,265</b>
Increase in pledged bank deposits		(647,003)	(182,792)
Increase in cash in transit		(96,310)	(14,852)
(Increase)/decrease in trade receivables		(135,817)	6,323
Increase in prepayments, deposits and other receivables		(627,021)	(565,291)
(Increase)/decrease in inventories		(1,763,407)	309,909
Increase/(decrease) in trade and bills payables		1,068,227	(42,740)
Decrease in other payables and accruals		(67,913)	(37,770)
Increase in amounts due from related parties – trade related		(1,673)	(97)
(Decrease)/increase in amounts due to related parties – trade related		(12,902)	21,981
		<b>(684,705)</b>	<b>308,936</b>
<b>Cash (used in)/generated from operations</b>		<b>(684,705)</b>	<b>308,936</b>
Tax paid		(170,975)	(119,619)
		<b>(855,680)</b>	<b>189,317</b>
<b>Net cash (used in)/generated from operating activities</b>		<b>(855,680)</b>	<b>189,317</b>

<i>Notes</i>	<b>2010</b> <b>RMB'000</b>	2009 RMB'000
<b>Investing activities</b>		
Purchase of items of property, plant and equipment	<b>(627,251)</b>	(218,993)
Proceeds from disposal of items of property, plant and equipment	<b>103,422</b>	27,088
Purchase of land use rights	<b>(588,516)</b>	(108,241)
Proceeds from disposal of land use rights	<b>6,289</b>	–
Purchase of intangible assets	<b>(5,455)</b>	(4,645)
Decrease in term deposits	–	10,583
Purchase of shareholding in a jointly-controlled entity	–	(10,270)
Purchase of financial assets at fair value through profit or loss	<b>(206,541)</b>	–
Proceeds from disposal of financial assets at fair value through profit or loss	<b>127,898</b>	–
Proceeds from disposal of held-to-maturity investment	<b>5,582</b>	–
Purchase of available-for-sale investments	<b>(211,957)</b>	(100)
Proceeds from disposal of available-for-sale investments	<b>34,192</b>	–
Collection of advances to third parties	–	146,735
Acquisition of equity interests by the Group from the Controlling Shareholder	–	(53,346)
Prepayment for the potential acquisition of equity interests from third parties	<b>(265,202)</b>	–
Acquisition of non-controlling interests	<b>(110,223)</b>	(49,239)
Acquisition of subsidiaries	<b>(604,570)</b>	(199,008)
Disposal of subsidiaries	<b>15,757</b>	13,369
Proceeds from disposal of equity interests in a subsidiary	<b>2,000</b>	–
Interest received	<b>24,063</b>	10,100
	<b>(2,300,512)</b>	(435,967)
<b>Net cash used in investing activities</b>		
<b>Financing activities</b>		
Proceeds from bank loans and other borrowings	<b>10,423,312</b>	5,267,187
Repayment of bank loans and other borrowings	<b>(7,943,442)</b>	(4,663,576)
Contributions from the Controlling Shareholder	–	41,675
Advances from third parties	–	(93,576)
Advances from non-controlling shareholders	–	254
Repayment of advances from the Controlling Shareholder	<b>(1,308)</b>	(154,519)
Net proceeds from issue of new shares in connection with the Listing	<b>2,910,468</b>	–
Interest paid	<b>(238,425)</b>	(80,688)
	<b>5,150,605</b>	316,757
<b>Net cash generated from financing activities</b>		
<b>Net increase in cash and cash equivalents</b>		
	<b>1,994,413</b>	70,107
Cash and cash equivalents at beginning of year	<b>1,030,960</b>	964,245
Effect of foreign exchange rate changes, net	<b>(35,655)</b>	(3,392)
<b>Cash and cash equivalents at end of year</b>		
	<b>2,989,718</b>	1,030,960

# Statement of Financial Position

31 December 2010

	<i>Notes</i>	2010 RMB'000	2009 RMB'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	42	2,124,820	–
Amounts due from subsidiaries	42	2,620,685	–
Available-for-sale investments	20	178,094	–
		<hr/>	<hr/>
Total non-current assets		4,923,599	–
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		3,371	8,719
Financial assets at fair value through profit or loss	24	83,369	–
Cash and cash equivalents		133,785	16
		<hr/>	<hr/>
Total current assets		220,525	8,735
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		182	–
Amounts due to subsidiaries	42	14,692	8,859
Income tax payable		318	–
		<hr/>	<hr/>
Total current liabilities		15,192	8,859
NET CURRENT ASSETS/(LIABILITIES)		<hr/>	<hr/>
		205,333	(124)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		5,128,932	(124)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		2,073	–
		<hr/>	<hr/>
NET ASSETS/(LIABILITIES)		<hr/>	<hr/>
		5,126,859	(124)
<b>EQUITY</b>			
Share capital	33	168	–
Reserves	34	4,933,926	(124)
Proposed final dividends	11	192,765	–
		<hr/>	<hr/>
Total equity		5,126,859	(124)

**Huang Yi**  
Director

**Li Guoqiang**  
Director

# Notes to the Financial Statements

Year ended 31 December 2010

## I. Corporate Information

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 3504-12, 35/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong. The shares of the Company were listed on the Hong Kong Stock Exchange on 26 March 2010.

During the year, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Blue Natural Development Ltd., which was incorporated in the British Virgin Islands ("BVI").

## 2.1 Basis of Presentation

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganisation" in the Prospectus dated 16 March 2010 for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 22 February 2010. Since Mr. Huang Yi and Mr. Li Guoqiang (the "Controlling Shareholder") control the Group before and after the Reorganisation, the Reorganisation is accounted for as a reorganisation under common control using the principles of merger accounting in accordance with Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These consolidated financial statements include the financial statements of the companies now comprising the Group, as if the group structure resulted from the Reorganisation had been in existence from the beginning of the financial years presented, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on consolidation.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.1 Basis of Presentation (continued)

### Basis of consolidation

#### Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

#### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## 2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 Amendments included in <i>Improvements to HKFRSs issued in October 2008</i>	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
<i>Improvements to HKFRSs 2009</i>	<i>Amendments to a number of HKFRSs issued in May 2009</i>
HK Interpretation 4 Amendment	<i>Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in Improvements to HKFRSs 2009 and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

## 2.2 Changes in Accounting Policy and Disclosures (continued)

### (a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements (continued)

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- HKAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases is revised as a consequence of the amendment to HKAS 17 Leases included in Improvements to HKFRSs 2009. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has no land leases in Hong Kong. The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

## 2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> <sup>5</sup>

## 2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

- <sup>1</sup> Effective for annual periods beginning on or after 1 February 2010
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase I of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

### 2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the scope of the measurement choices of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

### 2.4 Summary of Significant Accounting Policies Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

#### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

## 2.4 Summary of Significant Accounting Policies (continued)

### Joint ventures (continued)

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of its jointly-controlled entities is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

## 2.4 Summary of Significant Accounting Policies (continued)

### Business combinations and goodwill

#### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 Summary of Significant Accounting Policies (continued)

### Business combinations and goodwill (continued)

#### Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

## 2.4 Summary of Significant Accounting Policies (continued)

### Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual value of property, plant and equipment are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	10-20 years	5%
Leasehold improvements	5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5 years	5%

## 2.4 Summary of Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	3-5 years
Dealership agreements	20 years
Customer relationships	15 years
Favourable contracts	20 years
Club memberships	20-44 years

## 2.4 Summary of Significant Accounting Policies (continued)

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land and buildings lease payment under finance lease, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 35 to 50 years using the straight-line method.

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, dividends receivable, amounts due from related parties, and quoted and unquoted financial instruments.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (continued)

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (continued)

#### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group firstly assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (continued)

#### Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, and bank and other borrowings.

## 2.4 Summary of Significant Accounting Policies (continued)

### Financial liabilities (continued)

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include or includes any interest charged on these financial liabilities.

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other option pricing models.

## 2.4 Summary of Significant Accounting Policies (continued)

### Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 Summary of Significant Accounting Policies (continued)

### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statements over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

## 2.4 Summary of Significant Accounting Policies (continued)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, in the period in which the services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

### Vendor rebate

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accruals basis based on the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

### Employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

## 2.4 Summary of Significant Accounting Policies (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.33% and 7.45% has been applied to the expenditure on the individual assets.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

The financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statement are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flow, the cash flows of the Company and certain overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### 3 Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets recognised were RMB8,785,000 (2009: RMB4,532,000) as at 31 December 2010. More details are given in Note 32(b).

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were RMB790,947,000 (2009: RMB200,492,000) as at 31 December 2010. More details are given in Note 18.

#### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2010, no impairment losses have been recognised for available-for-sale assets.

#### Useful lives of intangible assets

The intangible assets are depreciated on a straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. Management will increase the amortization charges when useful lives become shorter than previously estimated.

#### 4. Operating Segment Information

The Group is engaged in the principal business of the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

##### Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 Operating Segments.

##### Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customers segment information is presented in accordance with HKFRS 8 Operating Segments.

#### 5. Revenue, Other Income and Gains, Net

##### (a) Revenue:

	2010 RMB'000	2009 RMB'000
Revenue from the sale of motor vehicles	21,936,868	12,466,358
Others	2,106,039	1,255,827
	<u>24,042,907</u>	<u>13,722,185</u>

**5. Revenue, Other Income and Gains, Net (continued)****(b) Other income and gains, net:**

	2010 RMB'000	2009 RMB'000
Commission income	113,614	46,535
Advertisement support received from motor vehicle manufacturers	18,225	3,120
Rental income	782	2,682
Interest income	27,199	10,100
Government grants	4,783	141
Net gain on disposal of property, plant and equipment	69,685	3,933
Net gain on disposal of land use rights	46,009	–
Gain on disposal of a subsidiary	6,789	–
Gain on disposal of held-to-maturity investments	299	–
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	4,066	–
– equity linked notes	2,110	–
Others	28,218	2,692
	<u>321,779</u>	<u>69,203</u>

## 6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	2010 RMB'000	2009 RMB'000
<b>(a) Employee benefit expense (including directors' remuneration (note9))</b>		
Wages and salaries	399,516	142,415
Pension scheme contributions	55,318	24,816
Other welfare	27,966	13,027
	<u>482,800</u>	<u>180,258</u>
<b>(b) Cost of sales and services:</b>		
Cost of sales of motor vehicles	20,674,431	11,843,413
Others	1,075,750	699,349
	<u>21,750,181</u>	<u>12,542,762</u>
<b>(c) Other items</b>		
Depreciation and impairment of property, plant and equipment	109,508	67,765
Amortisation of land use rights	9,223	7,036
Amortisation of intangible assets	34,306	13,352
Auditors' remuneration	5,000	4,000
Lease expenses	33,325	20,184
Advertisement expenses	83,796	37,202
Office expenses	64,375	30,822
Logistics expenses	36,821	9,664
Business promotion expenses	73,787	26,723
(Reversal)/provision for impairment of trade receivables and other receivables	(485)	7
Net gain on disposal of property, plant and equipment	(69,685)	(3,933)
Net gain on disposal of land use rights	(46,009)	-
Gain on disposal of a subsidiary	(6,789)	-
Gain on disposal of held-to-maturity investments	(299)	-
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	(4,066)	-
– equity linked note	(2,110)	-
	<u>(6,176)</u>	<u>-</u>

## 7. Finance Costs

	2010 RMB'000	2009 RMB'000
Interest expense on bank borrowings wholly repayable within five years	212,487	76,877
Interest expense on other borrowings	25,938	3,811
Less: Interest capitalised	<u>(11,508)</u>	<u>–</u>
	<u>226,917</u>	<u>80,688</u>

## 8. Tax

### (a) Tax in the consolidated income statements represents:

	2010 RMB'000	2009 RMB'000
Current Mainland China corporate income tax	297,200	151,898
Current Hong Kong corporate income tax	1,924	–
Deferred tax (Note 32(b))	<u>2,500</u>	<u>21,803</u>
	<u>301,624</u>	<u>173,701</u>

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

**8. Tax (continued)****(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	<u>1,383,997</u>	<u>666,704</u>
Tax at applicable tax rate (25%)	345,999	166,676
Tax effect of non-deductible expenses	3,564	2,634
Income not subject to tax	(28,494)	–
Profits attributable to jointly-controlled entities	(2,049)	(1,814)
Effect of tax concessions obtained	(17,396)	(17,521)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries of Mainland China	<u>–</u>	<u>23,726</u>
Tax charge	<u>301,624</u>	<u>173,701</u>

**9. Directors' Remuneration**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December 2010				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	
<b>Executive directors</b>					
– Mr. Li Guoqiang	–	3,158	–	51	3,209
– Mr. Huang Yi	–	2,251	–	10	2,261
– Mr. Yu Guangming	–	1,379	–	55	1,434
– Mr. Du Qingshan	–	1,385	–	39	1,424
	<u>–</u>	<u>8,821</u>	<u>–</u>	<u>155</u>	<u>8,976</u>
<b>Independent non-executive directors</b>					
– Mr. Shigeno Tomihei	–	216	–	–	216
– Mr. Ng Yuk Keung	–	216	–	–	216
– Mr. Shen Jinjun	–	216	–	–	216
	<u>–</u>	<u>8,821</u>	<u>–</u>	<u>155</u>	<u>8,976</u>

## 9. Directors' Remuneration (continued)

	Year ended 31 December 2009				
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
<b>Executive directors</b>					
– Mr. Li Guoqiang	–	2,530	–	48	2,578
– Mr. Huang Yi	–	2,289	–	11	2,300
– Mr. Yu Guangming	–	120	–	46	166
– Mr. Du Qingshan	–	326	–	35	361
	<u>–</u>	<u>5,265</u>	<u>–</u>	<u>140</u>	<u>5,405</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid to the non-executive director of the Company during year.

## 10. Five Highest Paid Individuals

The five highest paid employees during the year included four (2009: two) directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining one (2009: three) non-director, highest paid employees for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, bonuses, allowances and benefits in kind	1,385	1,412
Pension scheme contributions	39	81
	<u>1,424</u>	<u>1,493</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
Nil to RMB1,000,000	–	3
RMB1,000,001 to RMB1,500,000	1	–
	<u>1</u>	<u>3</u>

**11. DIVIDENDS**

	2010 RMB'000	2009 RMB'000
Proposed final – HK\$0.12 (2009: Nil) (approximately RMB0.10) per ordinary share	<u>192,765</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent**

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares in issue, during the year 2010 and 2009, respectively.

**Earnings**

	2010 RMB'000	2009 RMB'000
Profit attributable to ordinary equity holders of the parent	<u>1,031,190</u>	<u>470,881</u>

**Shares**

	2010	2009
Weighted average number of ordinary shares in issue during the year	<u>1,828,281,202</u>	<u>1,559,992,795</u>

The weighted average number of shares used to calculate the basic earnings per share in 2009 includes the pro forma issued share capital of the Company of 1,559,992,795 shares, comprising the 100,000 shares of the Company issued on incorporation; and the 1,559,892,795 shares of the Company issued as consideration for the acquisition of subsidiaries now comprising the Group pursuant to the Reorganisation (Note 1), on the assumption that the shares had been issued on 1 January 2009.

The weighted average number of shares used to calculate the basic earnings per share for the year of 2010 includes the weighted average of 348,488,500 shares issued in connection with the Company's IPO and over-allotment option as defined in the Prospectus, in addition to the aforesaid 1,559,992,795 ordinary shares.

**12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (continued)**  
**Earnings per share**

	2010	2009
	RMB	RMB
Basic	0.56	0.30
Diluted	<u>0.56</u>	<u>0.30</u>

No adjustment has been made to the basic earnings per share amounts presented in 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2010 and 2009.

**13. Profit Attributable to Owners of the Parent**

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2010 includes a profit of RMB9,609,000 which has been dealt with in the financial statements of the Company (Note 34).

## 14. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2010	665,285	16,813	90,402	73,860	128,134	116,222	1,090,716
Exchange realignment	-	(26)	-	(7)	(64)	-	(97)
Additions	43,157	14,881	31,045	35,688	222,239	289,161	636,171
Acquisition of subsidiaries (Note 35)	272,684	143,759	41,424	33,521	124,725	7,171	623,284
Transfer	252,047	-	3,756	463	-	(256,266)	-
Disposals	(50,470)	(5,319)	(1,672)	(5,040)	(58,097)	(29)	(120,627)
Disposal of a subsidiary (Note 36)	-	-	(2,310)	(862)	(515)	-	(3,687)
At 31 December 2010	1,182,703	170,108	162,645	137,623	416,422	156,259	2,225,760
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2010	121,549	8,146	35,503	35,869	51,270	-	252,337
Exchange realignment	-	(3)	-	(1)	(10)	-	(14)
Depreciation and impairment provided during the year	42,045	8,269	10,396	15,240	33,558	-	109,508
Acquisition of subsidiaries (Note 35)	30,489	26,773	14,836	16,425	25,248	-	113,771
Disposals	(11,777)	(54)	(1,460)	(4,038)	(19,141)	-	(36,470)
Disposal of a subsidiary (Note 36)	-	-	(1,531)	(403)	(147)	-	(2,081)
At 31 December 2010	182,306	43,131	57,744	63,092	90,778	-	437,051
<b>Net book amount:</b>							
At 31 December 2010	1,000,397	126,977	104,901	74,531	325,644	156,259	1,788,709
<b>Cost:</b>							
At 1 January 2009	477,393	10,193	56,084	46,185	95,436	24,606	709,897
Exchange realignment	-	(1)	-	-	(3)	-	(4)
Additions	18,170	2,080	16,155	17,118	41,356	124,114	218,993
Acquisition of subsidiaries	124,070	5,574	20,768	11,542	23,557	14,759	200,270
Transfer	46,977	-	-	280	-	(47,257)	-
Disposals	(1,325)	(1,033)	(2,605)	(1,265)	(32,212)	-	(38,440)
At 31 December 2009	665,285	16,813	90,402	73,860	128,134	116,222	1,090,716
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2009	77,385	3,876	23,176	19,248	37,433	-	161,118
Exchange realignment	-	-	-	-	(1)	-	(1)
Depreciation and impairment provided during the year	29,145	4,177	6,048	11,481	16,914	-	67,765
Acquisition of subsidiaries	15,046	1,063	8,597	5,446	8,588	-	38,740
Disposals	(27)	(970)	(2,318)	(306)	(11,664)	-	(15,285)
At 31 December 2009	121,549	8,146	35,503	35,869	51,270	-	252,337
<b>Net book amount:</b>							
At 31 December 2009	543,736	8,667	54,899	37,991	76,864	116,222	838,379

**14. Property, Plant and Equipment (continued)**

As at 31 December 2010, the application for the property ownership certificates of certain buildings with a net book amount of approximately RMB550,211,000 (2009: RMB231,844,000) was still in progress.

As at 31 December 2010, certain of the Group's buildings with aggregate net book amount of approximately RMB89,734,000 (2009: RMB79,610,000) was pledged as security for the Group's bank borrowings (Note 28(a)).

**15. Land Use Rights**

	2010 RMB'000	2009 RMB'000
<b>Cost:</b>		
At the beginning of the year	447,579	272,634
Additions	222,719	104,007
Acquisition of subsidiaries (Note 35)	82,547	70,938
Disposals	(15,943)	-
At the end of the year	<u>736,902</u>	<u>447,579</u>
<b>Amortisation:</b>		
At the beginning of the year	24,680	15,647
Charge for the year	9,223	7,036
Acquisition of subsidiaries (Note 35)	3,547	1,997
Disposals	(1,198)	-
At the end of the year	<u>36,252</u>	<u>24,680</u>
<b>Net book value:</b>		
At the end of the year	<u>700,650</u>	<u>422,899</u>

### 15. Land Use Rights (continued)

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 25 to 47 years.

As at 31 December 2010, certain of the Group's land use rights with an aggregate net book value of approximately RMB87,165,000 (2009: RMB41,655,000) were pledged as security for the Group's bank borrowings (Note 28(a)).

As at 31 December 2010, the Group had yet to obtain the legal title of certain land use rights in Mainland China subject to certain administrative procedures to be completed by the Group and the local government authorities. The net book value of these land use rights as at 31 December 2010 amounted to RMB173,401,000 (2009: RMB219,748,000).

### 16. PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Prepaid lease for land	15,005	2,952
Prepayment for land use rights	350,277	–
Prepaid lease for buildings	33,101	13,119
Prepayments for potential acquisitions	305,402	40,200
	<u>703,785</u>	<u>56,271</u>

## 17. Intangible Assets

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Favourable contract RMB'000	Club memberships RMB'000	Total RMB'000
<b>Cost:</b>						
At 1 January 2010	14,935	216,595	47,181	-	-	278,711
Exchange realignment	(14)	-	-	-	-	(14)
Additions	2,981	-	-	-	2,474	5,455
Acquisition of subsidiaries (Note 35)	2,786	876,280	276,650	2,890	-	1,158,606
Disposals	(31)	-	-	-	-	(31)
Disposal of a subsidiary (Note 36)	(28)	(1,150)	(510)	-	-	(1,688)
At 31 December 2010	20,629	1,091,725	323,321	2,890	2,474	1,441,039
<b>Accumulated amortisation:</b>						
At 1 January 2010	4,061	15,826	4,192	-	-	24,079
Exchange realignment	(9)	-	-	-	-	(9)
Amortisation provided during the year	2,487	25,628	6,094	40	57	34,306
Acquisition of subsidiaries (Note 35)	525	-	-	-	-	525
Disposals	(31)	-	-	-	-	(31)
Disposal of a subsidiary (Note 36)	(27)	(64)	(89)	-	-	(180)
At 31 December 2010	7,006	41,390	10,197	40	57	58,690
<b>Net book value:</b>						
At 31 December 2010	13,623	1,050,335	313,124	2,850	2,417	1,382,349
<b>Cost:</b>						
At 1 January 2009	9,756	80,323	19,282	-	-	109,361
Exchange realignment	(1)	-	-	-	-	(1)
Additions	4,645	-	-	-	-	4,645
Acquisition of subsidiaries	535	136,272	27,899	-	-	164,706
At 31 December 2009	14,935	216,595	47,181	-	-	278,711
<b>Accumulated amortisation:</b>						
At 1 January 2009	1,550	5,475	1,775	-	-	8,800
Amortisation provided during the year	2,217	8,718	2,417	-	-	13,352
Acquisition of subsidiaries	294	1,633	-	-	-	1,927
At 31 December 2009	4,061	15,826	4,192	-	-	24,079
<b>Net book value:</b>						
At 31 December 2009	10,874	200,769	42,989	-	-	254,632

## 17. Intangible Assets (continued)

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement. The customer relationships and dealership agreements are amortised over 15 years and 20 years, respectively, which are management's best estimation of their useful lives.

## 18. Goodwill

	2010 RMB'000	2009 RMB'000
At the beginning of the year	200,492	76,566
Acquisition of subsidiaries (Note 35)	593,117	123,926
Disposal of a subsidiary (Note 36)	<u>(2,662)</u>	<u>–</u>
At the end of the year	<u>790,947</u>	<u>200,492</u>

### Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five years. The discount rate applied to the cash flow projections beyond the one-year period is 17%.

### Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Sale and service of motor vehicles revenue – the bases used to determine the future earnings of sale and service of motor vehicles are the historical sales and the average growth rate of similar 4S stores of the Group over the last two years.

Operating expenses – the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumption reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

## 19. Interests in Jointly-Controlled Entities

	2010 RMB'000	2009 RMB'000
Share of net assets	<u>46,894</u>	<u>38,699</u>

廈門中升豐田汽車銷售服務有限公司 (Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. “Xiamen Zhongsheng”) and 中升泰克提汽車服務（大連）有限公司 (Zhongsheng Tacti Automobile Services (Dalian) Co., Ltd. “Zhongsheng Tacti”) are jointly-controlled entities of the Group and are considered to be related parties of the Group.

### (a) Particulars of jointly-controlled entities

Jointly-controlled entity	Place and date of incorporation/ registration	Authorised registered/paid-in/ issued capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Xiamen Zhongsheng	Xiamen, the PRC, 2002	RMB 12,000,000	50%	50%	50%	Sale and service of motor vehicles
Zhongsheng Tacti	Dalian, the PRC, 2009	RMB 20,540,000	50%	50%	50%	Service of motor vehicles

### (b) The following table illustrates the summarised financial statements of the Group's jointly-controlled entities shared by the Group:

	2010 RMB'000	2009 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	4,080	2,880
Current assets	66,262	63,730
Current liabilities	<u>(23,448)</u>	<u>(27,911)</u>
Net assets	<u>46,894</u>	<u>38,699</u>

**19. Interests in Jointly-Controlled Entities (continued)****(b) The following table illustrates the summarised financial statements of the Group's jointly-controlled entities shared by the Group: (continued)**

Share of the jointly-controlled entities' results:

	2010 RMB'000	2009 RMB'000
Income	275,057	221,594
Expenses	(264,069)	(212,372)
Tax	(2,793)	(1,968)
Profit for the year	<u>8,195</u>	<u>7,254</u>

**20. Available-For-Sale Investments**

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted equity investments, at cost	200	100	-	-
Corporate bonds, at fair value	<u>178,094</u>	<u>-</u>	<u>178,094</u>	<u>-</u>
	<u>178,294</u>	<u>100</u>	<u>178,094</u>	<u>-</u>

The unlisted equity investments in Dalian Mingshi Cheyuan Exhibiting Co., Ltd. and Tianjin Beifang Automobile Exchange Market Co., Ltd. (two unlisted companies with registered capital of RMB510,000 and RMB1,000,000, respectively) were designated as available-for-sale financial assets. The investments were stated at cost because the investments do not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate can not be measured reliably.

The corporate bonds investments are all listed bonds, with fixed payments amounting to US dollars (US\$) 26,000,000. The bonds earn interest at rates ranging from 6.125% to 9.750% per annum.

**21. Inventories**

	2010 RMB'000	2009 RMB'000
Motor vehicles	3,169,476	880,753
Spare parts	276,636	128,294
Others	6,934	15,193
	<u>3,453,046</u>	<u>1,024,240</u>

As at 31 December 2010, certain of the Group's inventories with a carrying amount of approximately RMB711,358,000 (2009: RMB76,735,000) were pledged as security for the Group's bank loans and other borrowings (Note 28(a)).

As at 31 December 2010, certain of the Group's inventories with a carrying amount of approximately RMB502,918,000 (2009: RMB221,427,000) were pledged as security for the Group's bills payable.

**22. Trade Receivables**

	2010 RMB'000	2009 RMB'000
Trade receivables	285,183	87,054
Impairment	<u>(232)</u>	<u>(290)</u>
	<u>284,951</u>	<u>86,764</u>

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

## 22. Trade Receivables (continued)

An aged analysis of the trade receivables as at the end of the reporting period (based on the invoice date) is as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	263,126	76,885
More than 3 months but less than 1 year	18,855	9,692
Over 1 year	<u>2,970</u>	<u>187</u>
	<u><b>284,951</b></u>	<u><b>86,764</b></u>

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	281,981	86,577
Over one year past due	<u>2,970</u>	<u>187</u>
	<u><b>284,951</b></u>	<u><b>86,764</b></u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in provision for impairment of trade receivables are as follows:

	2010 RMB'000	2009 RMB'000
At the beginning of the year	290	490
Impairment losses recognised	2	37
Acquisition of subsidiaries	138	138
Amounts written off as uncollectible	(16)	(338)
Impairment losses reversed	<u>(182)</u>	<u>(37)</u>
At the end of the year	<u><b>232</b></u>	<u><b>290</b></u>

## 23. Prepayments, Deposits and Other Receivables

	2010 RMB'000	2009 RMB'000
Prepayments and deposits to suppliers	1,680,213	907,339
Deposits paid for acquisition of land use rights	53,800	51,580
Advances to certain companies to be acquired	78,000	–
Vendor rebate receivables	389,113	73,266
VAT recoverable (i)	183,992	17,972
Receivables on disposal of subsidiaries	21,264	14,817
Prepayment related to the listing of the Company's shares	–	8,719
Receivables on disposal of property, plant and equipment	50,420	–
Receivables on disposal of land use rights	54,465	–
Interest receivables of available-for-sale investments	3,371	–
Others	100,482	39,493
	<u>2,615,120</u>	<u>1,113,186</u>

Note:

- (i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and none of them is past due.

	2010 RMB'000	2009 RMB'000
Prepayments, deposits, and other receivables	2,615,135	1,113,657
Impairment	(15)	(471)
	<u>2,615,120</u>	<u>1,113,186</u>

**23. Prepayments, Deposits and Other Receivables (continued)**

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	2010 RMB'000	2009 RMB'000
At the beginning of the year	471	151
Impairment losses recognised	8	7
Acquisition of subsidiaries	–	313
Amounts written off as uncollectible	(151)	–
Impairment losses reversed	(313)	–
	<u>15</u>	<u>471</u>
At the end of the year	<u>15</u>	<u>471</u>

**24. Financial Assets at Fair Value Through Profit or Loss**

	Group and Company	
	2010 RMB'000	2009 RMB'000
Listed equity investments — Hong Kong (1)	40,113	–
Equity linked note (2)	43,256	–
	<u>83,369</u>	<u>–</u>

- (1) The above equity investments at 31 December 2010 were classified as held for trading, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.
- (2) The equity linked note was a two-month HK\$ monthly callable bullish daily accrual note due in January 2011 and its redemption was linked to the ordinary H shares of China Life Insurance Co., Ltd. The equity investment was designated by the Group as financial assets at fair value through profit or loss upon initial recognition.

**25. Pledged Bank Deposits**

	2010 RMB'000	2009 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	<u>1,029,932</u>	<u>382,929</u>

Pledged bank deposits earn interest at interest rates stipulated by the respective financial institutions. Included in pledged bank deposits at the end of the reporting period are the following amounts denominated in a currency other than the RMB:

	2010 RMB'000	2009 RMB'000
HK\$	<u>-</u>	<u>12,327</u>

**26. Cash in Transit**

	2010 RMB'000	2009 RMB'000
Cash in transit	<u>140,852</u>	<u>44,542</u>

Cash in transit represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

**27. Cash and Cash Equivalents**

	2010 RMB'000	2009 RMB'000
Cash and bank balances	2,670,952	828,980
Short term deposits	<u>318,766</u>	<u>201,980</u>
Cash and cash equivalents	<u>2,989,718</u>	<u>1,030,960</u>

As at 31 December 2010, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB220,498,000 (2009: RMB56,287,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and short term deposits are deposited with creditworthy banks with no recent history of default.

## 28. Bank Loans and Other Borrowings

	2010		2009	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current bank borrowings	4-9	4,488,969	4-7	1,597,699
Other borrowings	5-8	435,486	5-7	199,450
		<u>4,924,455</u>		<u>1,797,149</u>

Bank borrowings and other borrowings representing:

	Notes	2010 RMB'000	2009 RMB'000
- secured	(a)	859,384	117,076
- entrusted		20,000	30,000
- guaranteed	(b)	1,182,000	448,500
- unsecured		2,863,071	1,201,573
		<u>4,924,455</u>	<u>1,797,149</u>

The maturity of bank loans and other borrowings at the end of the reporting period were less than one year.

- (a) Certain of the Group's bank loans are secured by:
- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB87,165,000 (2009: RMB41,655,000) as at 31 December 2010;
  - (ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB89,734,000 (2009: RMB79,610,000) as at 31 December 2010; and
  - (iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB711,358,000 (2009: RMB76,735,000) as at 31 December 2010, respectively.
- (b) Certain of the Group's bank loans which amounted to RMB1,127,000,000 (2009: RMB382,500,000) were guaranteed by the Controlling Shareholder as at 31 December 2010. The other borrowings which amounted to RMB55,000,000 (2009: RMB66,000,000) were guaranteed by three third parties as at 31 December 2010.

**29. Trade and Bills Payables**

	2010 RMB'000	2009 RMB'000
Trade payables	269,480	111,976
Bills payable	<u>2,715,027</u>	<u>981,037</u>
Trade and bill payables	<u>2,984,507</u>	<u>1,093,013</u>

An aged analysis of the trade and bills payables as at the end of reporting period, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	2,370,683	1,080,587
3 to 6 months	529,650	11,383
6 to 12 months	78,527	648
Over 12 months	<u>5,647</u>	<u>395</u>
	<u>2,984,507</u>	<u>1,093,013</u>

The trade and bills payables are non-interest-bearing.

**30. Other Payables and Accruals**

	2010 RMB'000	2009 RMB'000
Payables for purchase of property, plant and equipment and land use rights	107,255	27,088
Advances and deposits from distributors	60,230	14,032
Advances from customers	649,624	148,134
Payables for purchase of equity interests from third parties	25,987	35,283
Staff payroll and welfare payables	25,675	19,282
Others	<u>85,625</u>	<u>33,883</u>
	<u>954,396</u>	<u>277,702</u>

### 31. Employee Retirement Benefits

In compliance with the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), the Company has participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the People’s Republic of China (the “PRC”) state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2009: 10% to 22%) of the previous year’s average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 12% (2009: 7% to 10%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2010, the Group had no significant obligation apart from the contributions as stated above.

### 32. Income Tax Payable and Deferred Tax

(a) The movements in income tax payable during the year are as follows:

	2010 RMB’000	2009 RMB’000
At the beginning of the year	60,012	27,733
Provision for current tax for the year	299,124	151,898
Current tax paid	<u>(170,975)</u>	<u>(119,619)</u>
At the end of the year	<u>188,161</u>	<u>60,012</u>

**32. Income Tax Payable and Deferred Tax (continued)**

## (b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

**Deferred tax assets:**

	Losses available for offset against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	4,208	324	4,532
Deferred tax arising from acquisition of subsidiaries (Note 35)	9,741	1,059	10,800
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	<u>(6,437)</u>	<u>(110)</u>	<u>(6,547)</u>
At 31 December 2010	<u>7,512</u>	<u>1,273</u>	<u>8,785</u>
At 1 January 2009	3,084	48	3,132
Deferred tax arising from acquisition of subsidiaries	2,432	–	2,432
Deferred tax recognised in the consolidated income statement during the year	<u>(1,308)</u>	<u>276</u>	<u>(1,032)</u>
At 31 December 2009	<u>4,208</u>	<u>324</u>	<u>4,532</u>

**32. Income Tax Payable and Deferred Tax (continued)**

(b) Deferred tax assets and liabilities recognised (continued)

**Deferred tax liabilities:**

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Change in the fair value of available- for-sale investments RMB'000	Change in fair value of financial assets at fair value through profit or loss RMB'000	Capitalisation of interest expenses RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2010	69,162	-	-	-	35,383	104,545
Deferred tax arising from acquisition of subsidiaries (Note 35)	304,567	-	-	-	17,417	321,984
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	(8,505)	-	1,581	2,877	-	(4,047)
Deferred tax recognised in the consolidated statement of comprehensive income during the year	-	492	-	-	-	492
Disposal of a subsidiary (Note 36)	(377)	-	-	-	-	(377)
As 31 December 2010	<u>364,847</u>	<u>492</u>	<u>1,581</u>	<u>2,877</u>	<u>52,800</u>	<u>422,597</u>
At 1 January 2009	22,181	-	-	-	11,657	33,838
Deferred tax arising from acquisition of subsidiaries	49,936	-	-	-	-	49,936
Deferred tax recognised in the consolidated income statement during the year	(2,955)	-	-	-	23,726	20,771
As 31 December 2009	<u>69,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,383</u>	<u>104,545</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from the withholding tax.

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with an aggregated amount of temporary differences of approximately RMB967,490,000 (2009: Nil) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2010.

### 33. Share Capital

Shares	2010 HK\$'000
Authorised:	
1,000,000,000 shares of HK\$0.0001 each	100,000
Issued and fully paid	
1,908,481,295 shares of HK\$0.0001 each	191
Equivalent to RMB'000	<u>168</u>

A summary of the transaction in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Equivalent total RMB'000
On incorporation	100,000	-	-	-	-	-
Issue of shares in connection with the						
Reorganisation	1,559,892,795	156	2,401,067	137	2,110,778	2,110,915
Issue of new shares (note (a))	305,564,500	31	3,055,614	27	2,687,718	2,687,745
Over-allotment (note (b))	<u>42,924,000</u>	<u>4</u>	<u>429,236</u>	<u>4</u>	<u>377,384</u>	<u>377,388</u>
	1,908,481,295	191	5,885,917	168	5,175,880	5,176,048
Share issue expenses	<u>-</u>	<u>-</u>	<u>(175,836)</u>	<u>-</u>	<u>(154,665)</u>	<u>(154,665)</u>
As at 31 December 2010	<u>1,908,481,295</u>	<u>191</u>	<u>5,710,081</u>	<u>168</u>	<u>5,021,215</u>	<u>5,021,383</u>

Notes:

- (a) On 26 March 2010, in connection with the company's IPO as defined in the Prospectus, 305,564,500 new ordinary shares of the Company of HK\$0.0001 each were issued at a price of HK\$10.0 per share with gross proceeds of HK\$3,055,645,000 (equivalent to approximately RMB2,687,745,000).
- (b) On 31 March 2010, an over-allotment option was exercised and an additional 42,924,000 ordinary shares of HK\$0.0001 each were issued at a price of HK\$10.0 per share with gross proceeds of HK\$429,240,000 (equivalent to approximately RMB377,388,000).

### 34. Reserves

#### Group

##### (i) Discretionary reserve fund

Pursuant to the articles of association of certain subsidiaries of the Group incorporated in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China, the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

##### (ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 42 to the consolidated financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

##### (iii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The deductions during the year represent the excess of the consideration over the carrying amount of the non-controlling interests acquired.

##### (iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4.

#### Company

	Share Premium RMB'000 (Note 33)	Available-for- sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated loss) RMB'000	Total RMB'000
As at 1 January 2010	–	–	–	(124)	(124)
Issue of shares in connection with the Reorganisation and issue of new shares and over-allotment	5,021,215	–	–	–	5,021,215
Total comprehensive income for the year	–	2,489	(161,768)	264,879	105,600
Proposed final 2010 dividend	–	–	–	(192,765)	(192,765)
As at 31 December 2010	5,021,215	2,489	(161,768)	71,990	4,933,926

### 35. Business Combination — Acquisition Of Subsidiaries

- (a) As part of the Group's plan to expand its motor vehicle sales and service business in Sichuan province, the Group acquired 90% of the equity interests of 成都益佳汽車銷售服務有限責任公司 (Chengdu Yijia Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business from a third party on 30 April 2010, at a total consideration of RMB20,716,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The Group has elected to measure the non-controlling interest in the subsidiary at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	14	12,599
Intangible assets	17	12,283
Deferred tax assets	32(b)	5
Inventories		19,337
Trade receivables		3,732
Prepayments, deposits and other receivables		7,377
Cash and cash equivalents		14,536
Trade and bills payables		(10,148)
Other payables and accruals		(32,326)
Deferred tax liabilities	32(b)	(3,117)
Income tax payable		(1,542)
Net identifiable assets and liabilities		22,736
Non-controlling interests arising from a business combination		(2,274)
Goodwill on acquisition	18	254
Total purchase consideration		<u>20,716</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(20,716)
Cash acquired	<u>14,536</u>
Net cash outflow	<u>(6,180)</u>

Since the acquisition, the subsidiary contributed RMB166,620,000 to the Group's revenue and RMB7,806,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,152,028,000 and RMB1,083,686,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (b) As part of the Group's plan to expand its motor vehicle sales and service business in Shandong province, the Group acquired 100% of the equity interests of 青島日產汽車銷售服務有限公司 (Qingdao Nissan Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 30 April 2010 at a total consideration of RMB32,021,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	<i>14</i>	1,888
Intangible assets	<i>17</i>	14,860
Deferred tax assets	<i>32(b)</i>	1,117
Inventories		18,778
Trade receivables		946
Prepayments, deposits and other receivables		25,151
Cash and cash equivalents		5,050
Trade and bills payables		(3,034)
Other payables and accruals		(52,018)
Deferred tax liabilities	<i>32(b)</i>	(3,886)
Net identifiable assets and liabilities		8,852
Goodwill on acquisition	<i>18</i>	23,169
Total purchase consideration		<u>32,021</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(32,021)
Cash acquired	<u>5,050</u>
Net cash outflow	<u>(26,971)</u>

Since the acquisition, the subsidiary contributed RMB164,316,000 to the Group's revenue and RMB6,921,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,111,835,000 and RMB1,080,669,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (c) As part of the Group's plan to expand its motor vehicle sales and service business in Shandong province, the Group acquired 100% of the equity interests of 烟台市盛悦汽车销售服务有限公司 (Yantai Shengyue Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 30 April 2010 at a total consideration of RMB3,700,000. The purchase consideration for the acquisition was in the form of cash, with RMB3,223,000 paid during the year.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	<i>14</i>	2,718
Intangible assets	<i>17</i>	2,476
Deferred tax assets	<i>32(b)</i>	1,110
Inventories		7,748
Trade receivables		411
Prepayments, deposits and other receivables		12,206
Cash and cash equivalents		64,651
Trade and bills payables		(77,470)
Other payables and accruals		(9,612)
Deferred tax liabilities	<i>32(b)</i>	(642)
Net identifiable assets and liabilities		3,596
Goodwill on acquisition	<i>18</i>	104
Total purchase consideration		<u>3,700</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(3,223)
Cash acquired	<u>64,651</u>
Net cash inflow	<u>61,428</u>

Since the acquisition, the subsidiary contributed RMB14,070,000 to the Group's revenue and RMB3,665,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,077,620,000 and RMB1,082,264,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (d) As part of the Group's plan to expand its motor vehicle sales and service business in Liaoning province, the Group acquired 50% of the equity interests of 大連天久汽車服務有限公司 (Dalian Tianjiu Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 30 April 2010 at a total consideration of RMB26,000,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The Group has elected to measure the non-controlling interest in the subsidiary at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	14	12,784
Intangible assets	17	28,560
Deferred tax assets	32(b)	2,789
Inventories		32,935
Trade receivables		15
Prepayments, deposits and other receivables		17,841
Cash and cash equivalents		48,877
Trade and bills payables		(76,154)
Other payables and accruals		(7,193)
Deferred tax liabilities	32(b)	(7,632)
Bank loans and other borrowings		(27,800)
Income tax payable		(40)
Net identifiable assets and liabilities		24,982
Non-controlling interests arising from a business combination		(12,491)
Goodwill on acquisition	18	13,509
Total purchase consideration		<u>26,000</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(26,000)
Cash acquired	<u>48,877</u>
Net cash inflow	<u>22,877</u>

Since the acquisition, the subsidiary contributed RMB268,965,000 to the Group's revenue and RMB12,443,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,137,160,000 and RMB1,077,249,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (e) As part of the Group's plan to expand its motor vehicle sales and service business in Liaoning province, the Group acquired 50% of the equity interests of 大連恒盛汽車服務有限公司 (Dalian Hengsheng Automobile Services Co., Ltd., formerly known as 大連天賀汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 30 April 2010 at a total consideration of RMB39,176,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The Group has elected to measure the non-controlling interest in the subsidiary at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	14	7,114
Intangible assets	17	16,310
Deferred tax assets	32(b)	173
Prepayments, deposits and other receivables		8,699
Cash and cash equivalents		145
Other payables and accruals		(23)
Deferred tax liabilities	32(b)	(5,734)
Net identifiable assets and liabilities		26,684
Non-controlling interests arising from a business combination		(13,342)
Goodwill on acquisition	18	25,834
Total purchase consideration		<u>39,176</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(39,176)
Cash acquired	<u>145</u>
Net cash outflow	<u>(39,031)</u>

Since the acquisition, the subsidiary contributed RMB105,563,000 to the Group's revenue and RMB2,069,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,042,907,000 and RMB1,081,690,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (f) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu province, the Group acquired 100% of the equity interests of 泰州中升豐田汽車銷售服務有限公司 (Taizhou Zhongsheng Toyota Automobile Sales & Services Co., Ltd., formerly known as 泰州康福豐田汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 31 August 2010 at a total consideration of RMB18,917,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition</b> RMB'000
Property, plant and equipment	14	2,115
Intangible assets	17	8,892
Inventories		6,585
Trade receivables		890
Prepayments, deposits and other receivables		7,318
Cash and cash equivalents		8,853
Trade and bills payables		(1,174)
Other payables and accruals		(6,028)
Deferred tax liabilities	32(b)	(2,210)
Bank loans and other borrowings		(10,000)
Net identifiable assets and liabilities		15,241
Goodwill on acquisition	18	3,676
Total purchase consideration		<u>18,917</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(18,917)
Cash acquired	<u>8,853</u>
Net cash outflow	<u>(10,064)</u>

Since the acquisition, the subsidiary contributed RMB71,052,000 to the Group's revenue and RMB1,306,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,137,445,000 and RMB1,080,737,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (g) As part of the Group's plan to expand its motor vehicle sales and service business in Fujian province, the Group acquired equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from three third parties on 1 August 2010 at a total consideration of RMB208,500,000. The purchase consideration for the acquisition was in the form of cash, with RMB203,500,000 paid during the year.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets.

Companies name	Acquired equity interests %
福州華瑞汽車銷售服務有限公司 (Fuzhou Huarui Automobile Sales & Services Co., Ltd.)	100
福州廣裕達貿易有限公司 (Fuzhou Guangyuda Trading Co., Ltd.)	100
莆田市華寶投資有限公司 (Putian Huabao Investment Co., Ltd)	51
三明華榮汽車銷售服務有限公司 (Sanming Huarong Automobile Sales & Services Co., Ltd.)	51
福清市華盛汽車銷售服務有限公司 (Fuqing Huasheng Automobile Sales & Services Co., Ltd.)	51
福州華裕汽車銷售服務有限公司 (Fuzhou Huayu Automobile Sales & Services Co., Ltd.)	100
福州美瑞達貿易有限公司 (Fuzhou Meiruida Trading Co., Ltd.)	100

The acquisitions had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition RMB'000
Property, plant and equipment	14	59,040
Land use rights	15	35,499
Deferred tax assets	32(b)	154
Intangible assets	17	83,237
Inventories		97,991
Trade receivables		12,267
Prepayments, deposits and other receivables		85,371
Cash in transit		5,596
Cash and cash equivalents		76,967
Trade and bills payables		(130,130)
Other payables and accruals		(53,144)
Deferred tax liabilities	32(b)	(27,313)
Bank loans and other borrowings		(56,900)
Income tax payable		(2,735)
Net identifiable assets and liabilities		185,900
Non-controlling interests arising from a business combination		(31,718)
Goodwill on acquisition	18	54,318
Total purchase consideration		208,500

**35. Business Combination — Acquisition of Subsidiaries (continued)**

(g) (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of these subsidiaries is as follows:

Satisfied by cash	(203,500)
Cash acquired	82,563
	<hr/>
Net cash outflow	<u>(120,937)</u>

Since the acquisitions, the subsidiaries contributed RMB422,924,000 to the Group's revenue and RMB14,376,000 to the consolidated profit for the year ended 31 December 2010.

Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,659,556,000 and RMB1,103,247,000 respectively.

(h) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 50% equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from a third party on 29 September 2010 at a total consideration of RMB1,100,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB1,090,000,000 paid during the year.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets.

B&amp;L Motor Holding Co., Ltd

Betterlife International Motor Co., Ltd

北京百得利汽車進出口集團有限公司

(Beijing Betterlife Automobile Import &amp; Export Group Co., Ltd.)

北京百得利汽車銷售有限公司

(Beijing Betterlife Automobile Sales Co., Ltd.)

天津百得利汽車服務有限公司

(Tianjin Betterlife Automobile Service Co., Ltd.)

北京百得利汽車貿易有限公司

(Beijing Betterlife Automobile Trading Co., Ltd.)

天津百得利之迪汽車銷售有限公司

(Beijing Betterlife Zhidi Automobile Sales Co., Ltd.)

北京百得利之星汽車銷售有限公司

(Beijing Betterlife Star Automobile Sales Co., Ltd.)

北京百得利之達汽車銷售有限公司

(Beijing Betterlife Zhida Auto Sales Co., Ltd.)

天津百得利汽車銷售有限公司

(Tianjin Betterlife Automobile Sales Co., Ltd.)

天津百得利投資控股有限公司

(Tianjin Betterlife Investment &amp; Holdings Co., Ltd.)

天津周氏興業國際貿易有限公司

(Chou Dynasty (Tianjin) International Trading Co., Ltd.)

百得利天津國際貿易有限公司

(Betterlife (Tianjin) International Trading Co., Ltd.)

北京百得利之星舊機動車經紀有限公司

(Beijing Betterlife Star Used Automobile Agency Co., Ltd)

杭州百得利汽車有限公司

(Hangzhou Betterlife Automobile Co., Ltd)

成都百得利汽車貿易有限公司

(Chengdu Betterlife Automobile Trading Co., Ltd)

**35. Business Combination — Acquisition of Subsidiaries (continued)**

(h) (continued)

The acquisitions had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition RMB'000</b>
Property, plant and equipment	14	397,410
Land use rights	15	43,501
Prepayments		3,170
Available-for-sale investments		100
Deferred tax assets	32(b)	1,803
Intangible assets	17	983,213
Inventories		463,734
Trade receivables		42,328
Prepayments, deposits and other receivables		531,534
Pledged bank deposits		303,741
Cash in transit		8,506
Cash and cash equivalents		276,898
Trade and bills payables		(491,995)
Other payables and accruals		(434,313)
Amounts due to non-controlling shareholder		(33,853)
Deferred tax liabilities	32(b)	(269,078)
Bank loans and other borrowings		(543,936)
Income tax payable		(22,045)
		<hr/>
Net identifiable assets and liabilities		1,260,718
Non-controlling interests arising from a business combination		(630,359)
Goodwill on acquisition	18	469,641
		<hr/>
Total purchase consideration		<u>1,100,000</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of these subsidiaries is as follows:

Satisfied by cash	(1,090,000)
Cash acquired	589,145
	<hr/>
Net cash outflow	<u>(500,855)</u>

Since the acquisitions, the subsidiaries contributed RMB1,767,472,000 to the Group's revenue and RMB51,210,000 to the consolidated profit for the year ended 31 December 2010.

Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB28,113,330,000 and RMB1,221,690,000, respectively.

### 35. Business Combination — Acquisition of Subsidiaries (continued)

- (i) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang province, the Group acquired 100% of the equity interests of 台州信威汽車有限公司 (Taizhou Xinwei Automobile Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China from three third parties on 31 October 2010 at a total consideration of RMB17,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB8,500,000 paid during the year.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	<i>Notes</i>	<b>Recognised fair values on acquisition RMB'000</b>
Property, plant and equipment	<i>14</i>	13,845
Intangible assets	<i>17</i>	8,250
Deferred tax assets	<i>32(b)</i>	3,649
Inventories		19,981
Trade receivables		1,719
Prepayments, deposits and other receivables		3,680
Cash and cash equivalents		27,663
Trade and bills payables		(33,180)
Other payables and accruals		(20,047)
Deferred tax liabilities	<i>32(b)</i>	(2,372)
Bank loans and other borrowings		(8,800)
		<hr/>
Net identifiable assets and liabilities		14,388
Goodwill on acquisition	<i>18</i>	2,612
		<hr/>
Total purchase consideration		<u>17,000</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Satisfied by cash	(8,500)
Cash acquired	27,663
	<hr/>
Net cash inflow	<u>19,163</u>

Since the acquisition, the subsidiary contributed RMB27,637,000 to the Group's revenue and RMB1,106,000 net loss to the consolidated profit for the year ended 31 December 2010.

Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB24,161,494,000 and RMB1,076,947,000, respectively.

### 36. Disposal of a Subsidiary

The Group disposed of its entire equity interests in 烟台中升上通汽車銷售服務有限公司 (Yantai Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.) on 30 November 2010. This company was engaged in the automotive distribution business.

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	1,606
Intangible assets	17	1,508
Inventories		1,690
Trade receivables		118
Prepayments, deposits and other receivables		1,761
Amounts due from related parties		14,258
Cash and cash equivalents		2,060
Trade and bills payables		(18)
Other payables and accruals		(457)
Dividends payable		(7,336)
Deferred tax liabilities	32(b)	(377)
		14,813
Goodwill	18	2,662
Gain on disposal of subsidiaries		6,789
Total disposal consideration		24,264
Satisfied by:		
Cash		3,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash received	3,000
Cash and cash equivalents disposed of	(2,060)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiary	940

### 37. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

#### Group

2010

##### Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available- for-sale investment RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	83,369	-	-	83,369
Available-for-sale investments	-	178,294	-	178,294
Trade receivables	-	-	284,951	284,951
Financial assets included in prepayments deposits and other receivables	-	-	697,115	697,115
Amounts due from related parties	-	-	2,229	2,229
Pledged bank deposits	-	-	1,029,932	1,029,932
Cash in transit	-	-	140,852	140,852
Cash and cash equivalents	-	-	2,989,718	2,989,718
	<u>83,369</u>	<u>178,294</u>	<u>5,144,797</u>	<u>5,406,460</u>

##### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,984,507
Financial liabilities included in other payables and accruals	244,542
Amounts due to related parties	10,026
Bank loans and other borrowings	4,924,455
	<u>8,163,530</u>

### 37. Financial Instruments by Category (continued) Group (continued)

2009

#### Financial assets

	Available- for-sale investment RMB'000	Held-to- maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Held-to-maturity investments	–	5,283	–	5,283
Available-for-sale investments	100	–	–	100
Trade receivables	–	–	86,764	86,764
Financial assets included in prepayments, deposits and other receivables	–	–	127,576	127,576
Amounts due from related parties	–	–	556	556
Term deposits and pledged bank deposits	–	–	382,929	382,929
Cash in transit	–	–	44,542	44,542
Cash and cash equivalents	–	–	1,030,960	1,030,960
	<u>100</u>	<u>5,283</u>	<u>1,673,327</u>	<u>1,678,710</u>

#### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,093,013
Financial liabilities included in other payables and accruals	115,536
Amounts due to related parties	24,236
Bank loans and other borrowings	<u>1,797,149</u>
	<u>3,029,934</u>

**37. Financial Instruments by Category (continued)****Company****2010***Financial assets*

	Financial assets at fair value through profit or loss RMB'000	Available- for-sale investment RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	83,369	-	-	83,369
Available-for-sale investments	-	178,094	-	178,094
Financial assets included in prepayment deposits and other receivables	-	-	3,371	3,371
Amounts due from subsidiaries	-	-	2,365,415	2,365,415
Cash and cash equivalents	-	-	133,785	133,785
	<u>83,369</u>	<u>178,094</u>	<u>2,502,571</u>	<u>2,764,034</u>

*Financial liabilities*

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	182
Amounts due to subsidiaries	<u>14,692</u>
	<u>14,874</u>

### 37. Financial Instruments by Category (continued)

#### Company (continued)

2009

#### Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available- for-sale investment RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets included in prepayments deposits and other receivables	–	–	8,719	8,719
Cash and cash equivalents	–	–	16	16
	<u>–</u>	<u>–</u>	<u>8,735</u>	<u>8,735</u>

#### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to subsidiaries	<u>8,859</u>
	<u>8,859</u>

### 38. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2010, the Group and the Company held the following financial instruments measured at fair value:

#### Assets measured at fair value:

As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments, at fair value	178,094	–	–	178,094
Financial assets at fair value through profit or loss:				
Listed equity investments-Hong Kong	40,113	–	–	40,113
Equity linked notes	–	43,256	–	43,256
	<u>218,207</u>	<u>43,256</u>	<u>–</u>	<u>261,463</u>

During the year ended 31 December 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2009.

#### Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2010 and 2009, respectively.

### 39. Contingent Liabilities

As at 31 December 2010, neither the Group nor the Company had any significant contingent liabilities.

## 40. Commitments

### (a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for land use rights and buildings	171,619	97,866
Contracted, but not provided for potential acquisitions	85,605	–
Authorised, but not contracted for land use rights and buildings	–	6,755
	<u>257,224</u>	<u>104,621</u>

### (b) Operating lease commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2010		2009	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	42,772	11,024	4,713	5,794
After 1 year but within 5 years	138,765	49,499	17,833	28,708
After 5 years	151,820	148,439	13,878	82,674
	<u>333,357</u>	<u>208,962</u>	<u>36,424</u>	<u>117,176</u>

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of two to twenty years, with an option to renew the leases when all the terms are renegotiated.

## 41. Pledge of Assets

Details of the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in Note 14, Note 15 and Note 21 to the consolidated financial statements.

## 42. Investments in Subsidiaries

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	<u>2,124,820</u>	<u>–</u>

The amounts due from and due to subsidiaries included in the Company's non-current assets and current liabilities of RMB2,620,685,000 and RMB14,692,000, respectively, are unsecured, interest-free and had no fixed repayment terms.

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
中升(大連)集團有限公司 (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB700,000,000	–	100%	Investment holding
大連中升豐田汽車銷售服務有限公司 (Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US\$8,000,000	–	100%	Sale and service of motor vehicles
大連中升豐田汽車銷售有限公司 (Dalian Zhongsheng Toyota Automobile Sales Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of motor vehicles
大連中升集團汽車用品有限公司 (Dalian Zhongsheng Group Automobile Accessories Co., Ltd., formerly known as 大連保稅區豐田汽車銷售有限公司)	Dalian, the PRC 1997	Registered and paid-in capital of US\$3,000,000	–	100%	Sale of spare parts and accessories
大連中升日產汽車銷售服務有限公司 (Dalian Zhongsheng Nissan Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US\$7,500,000	–	100%	Sale and service of motor vehicles
大連中升奧通汽車銷售有限公司 (Dalian Zhongsheng Aotong Automobile Sales Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of motor vehicles
大連中升東本汽車銷售服務有限公司 (Dalian Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US\$6,500,000	–	100%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大連中升滙迪汽車銷售服務有限公司 (Dalian Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	-	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司 (Kunming Zhongsheng Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	-	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司 (Kunming Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	-	100%	Sale and service of motor vehicles
福州中升豐田汽車服務有限公司 (Fuzhou Zhongsheng Toyota Automobile Services Co., Ltd.)	Fuzhou, the PRC 2002	Registered and paid-in capital of US\$6,000,000	-	100%	Service of motor vehicles
福州中升豐田汽車銷售有限公司 (Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd.)	Fuzhou, the PRC 2003	Registered and paid-in capital of RMB20,000,000	-	100%	Sale of motor vehicles
福建中升汽車服務有限公司 (Fujian Zhongsheng Automobile Services Co., Ltd.)	Fuzhou, the PRC 2001	Registered and paid-in capital of RMB10,000,000	-	100%	Service of motor vehicles
上海中升豐田汽車銷售服務有限公司 (Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB15,000,000	-	100%	Sale and service of motor vehicles
上海國信汽車銷售有限公司 (Shanghai Guoxin Automobile Sales Co., Ltd.)	Shanghai, the PRC 2001	Registered and paid-in capital of RMB12,000,000	-	100%	Sale of motor vehicles
南京中升豐田汽車服務有限公司 (Nanjing Zhongsheng Toyota Automobile Services Co., Ltd.)	Nanjing, the PRC 2003	Registered and paid-in capital of HK\$13,860,000	-	60%	Service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大連迎賓中升豐田汽車銷售服務有限公司(Dalian Yingbin Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US\$6,000,000	–	100%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司(Dalian Zhongsheng Star Automobile Sales & Services Co., Ltd., formerly known as 大連迎賓中升豐田汽車銷售有限公司)	Dalian, the PRC 2005	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
廣州中升豐田汽車銷售服務有限公司(Guangzhou Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2004	Registered and paid-in capital of US\$8,000,000	–	100%	Sale and service of motor vehicles
深圳中升豐田汽車銷售服務有限公司(Shenzhen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC 2004	Registered and paid-in capital of US\$2,250,000	–	60%	Sale and service of motor vehicles
廣州中升凌志汽車銷售服務有限公司(Guangzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of US\$10,000,000	–	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司(Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US\$17,500,000	–	100%	Sale and service of motor vehicles
大連中升汽車銷售服務有限公司(Dalian Zhongsheng Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
成都中道成豐田汽車銷售服務有限公司(Chengdu Zhongdaocheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2003	Registered and paid-in capital of RMB10,000,000	–	90%	Sale and service of motor vehicles
泉州隆星汽車銷售服務有限公司(Quanzhou Longxing Automobile Sales & Services Co., Ltd.)	Quanzhou, the PRC 2006	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
玉溪中升東本汽車銷售服務有限公司 (Yuxi Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Yuxi, the PRC 2006	Registered and paid-in capital of RMB10,000,000	-	70%	Sale and service of motor vehicles
大連中升搏通汽車銷售服務有限公司 (Dalian Zhongsheng Botong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB25,000,000	-	100%	Sale and service of motor vehicles
大連奧通東本汽車銷售服務有限公司 (Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of motor vehicles
雲南中升雷克薩斯汽車銷售服務有限公司 (Yunnan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Yunnan, the PRC 2006	Registered and paid-in capital of RMB20,000,000	-	100%	Sale and service of motor vehicles
福州中升雷克薩斯汽車銷售服務有限公司 (Fuzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Fuzhou, the PRC 2006	Registered and paid-in capital of RMB25,000,000	-	100%	Sale and service of motor vehicles
曲靖中升豐田汽車銷售服務有限公司 (Qujing Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Qujing, the PRC 2007	Registered and paid-in capital of RMB12,000,000	-	100%	Sale and service of motor vehicles
南京中升迎賓豐田汽車銷售服務有限公司 (Nanjing Zhongsheng Yingbin Toyota Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC 2004	Registered and paid-in capital of RMB30,000,000	-	100%	Sale and service of motor vehicles
Zhongsheng Holdings Co., Ltd.	HK 1996	Registered and paid-in capital of HK\$32,000,000	-	100%	Investment holding
HOKURYO (Hong Kong) Co., Ltd.	HK 1997	Registered and paid-in capital of HK\$10,000	-	100%	Investment holding
大連新盛榮新實業有限公司 (Dalian Xinshengrong New Industrial Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB200,000,000	-	100%	Investment holding

**42. Investments in Subsidiaries (continued)**

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大連新盛榮豐田汽車銷售服務有限公司 (Dalian Xinshengrong Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
大連新盛榮汽車銷售服務有限公司 (Dalian Xinshengrong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
大連中升宏達汽車銷售服務有限公司 (Dalian Zhongsheng Hongda Automobile Sales & Services Co., Ltd., formerly known as 大連新盛榮貿易有限公司)	Dalian, the PRC 2002	Registered and paid-in capital of RMB11,000,000	–	100%	Sale and service of motor vehicles
雲南中升廣福汽車銷售服務有限公司 (Yunnan Zhongsheng Guangfu Automobile Sales & Services Co., Ltd.)	Yunnan, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
東莞中升雷克薩斯汽車銷售服務有限公司 (Dongguan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of US\$10,000,000	–	100%	Sale and service of motor vehicles
烟台中升豐田汽車銷售服務有限公司 (Yantai Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2004	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
深圳中升迎賓豐田汽車銷售服務有限公司 (Shenzhen Zhongsheng Yingbin Toyota Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC 2008	Registered and paid-in capital of US\$10,000,000	–	100%	Sale and service of motor vehicles
成都中升豐田汽車銷售服務有限公司 (Chengdu Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2008	Registered and paid-in capital of RMB10,000,000	–	80%	Sale and service of motor vehicles
SUPER CHARM Limited	HK 2007	Registered and paid-in capital of HK\$1	–	100%	Investment holding

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
BILLION GREAT Limited	HK 2007	Registered and paid-in capital of HK\$1	-	100%	Investment holding
大連裕增實業有限公司 (Dalian Yuzeng Industrial Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB30,000,000	-	100%	Investment holding
大連裕德豐田汽車銷售服務有限公司 (Dalian Yude Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	-	100%	Sale and service of motor vehicles
諸暨裕豐豐田汽車銷售服務有限公司 (Zhujii Yufeng Toyota Automobile Sales & Services Co., Ltd.)	Zhujii, the PRC 2006	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of motor vehicles
營口華盛汽車銷售服務有限公司 (Yingkou Huasheng Automobile Sales & Services Co., Ltd.)	Yingkou, the PRC 2004	Registered and paid-in capital of RMB15,000,000	-	100%	Sale and service of motor vehicles
大連中升滙馳汽車服務有限公司 (Dalian Zhongsheng Huichi Automobile Services Co., Ltd.)	Dalian, the PRC 2009	Registered and paid-in capital of RMB15,000,000	-	100%	Service of motor vehicles
中升汽車(庄河)服務有限公司 (Zhongsheng Automobile (Zhuanghe) Services Co., Ltd.)	Dalian, the PRC 2009	Registered and paid in capital of RMB8,000,000	-	100%	Service of motor vehicles
青島中升搏通汽車銷售服務有限公司 (Qingdao Zhongsheng Botong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2005	Registered and paid-in capital of RMB11,000,000	-	100%	Sale and service of motor vehicles
青島中升慶通汽車銷售服務有限公司 (Qingdao Zhongsheng Qingtong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2001	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of motor vehicles
青島中升智通汽車銷售服務有限公司 (Qingdao Zhongsheng Zhitong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2005	Registered and paid-in capital of RMB11,000,000	-	100%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
烟台中升華美汽車銷售服務有限公司 (Yantai Zhongsheng Huamei Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2004	Registered and paid-in capital of RMB4,000,000	–	100%	Sale and service of motor vehicles
龍口中升上通汽車銷售服務有限公司 (Longkou Zhongsheng Shangtong Automobile Sales & Services Co., Ltd.)	Longkou, the PRC 2005	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
烟台中升滙迪汽車銷售服務有限公司 (Yantai Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2002	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
OLYMPIA WELL Limited	HK 2007	Registered and paid-in capital of HK\$1	–	100%	Investment holding
NOBLE VILLA Investments Limited	BVI 2008	Registered and paid-in capital of US\$50,000/US\$1	100%	–	Investment holding
昆明中升滙馳汽車銷售服務有限公司 (Kunming Zhongsheng Huichi Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2009	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
佛山中升之星汽車銷售服務有限公司 (Foshan Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
廈門中升滙馳汽車銷售服務有限公司 (Xiamen Zhongsheng Huichi Automobile Sales & Services Co., Ltd.)	Xiamen, the PRC 2009	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
大理中升豐田汽車銷售服務有限公司 (Dali Zhongsheng Toyota Automobile Sales & Services Co., Ltd., formerly known as 大理中升汽車銷售服務有限公司)	Dali, the PRC 2009	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
常熟華星汽車銷售服務有限公司 (Changshu Huaxing Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB30,000,000	-	100%	Sale and service of motor vehicles
沈陽中升駿馳汽車銷售服務有限公司 (Shenyang Zhongsheng Junchi Automobile Sales & Services Co., Ltd., formerly known as 沈陽中升駿通商務諮詢有限公司)	Shenyang, the PRC 2009	Registered and paid-in capital of US\$15,000,000	-	100%	Sale and service of motor vehicles
營口中升汽車銷售服務有限公司 (Yingkou Zhongsheng Automobile Sales & Services Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of RMB12,000,000	-	100%	Sale and service of motor vehicles
遼寧中升捷通汽車銷售服務有限公司 (Liaoning Zhongsheng Jietong Automobile Sales & Services Co., Ltd.)	Liaoning, the PRC 2007	Registered and paid-in capital of RMB30,000,000	-	100%	Sale and service of motor vehicles
吉林市成邦汽車銷售服務有限公司 (Jilin Chengbang Automobile Sales & Services Co., Ltd.)	Jilin, the PRC 2009	Registered and paid-in capital of RMB12,000,000	-	100%	Sale and service of motor vehicles
長春市成邦商貿有限公司 (Changchun Chengbang Trading Co., Ltd.)	Changchun, the PRC 2005	Registered and paid-in capital of RMB12,000,000	-	100%	Sale and service of motor vehicles
紹興市滙鑫汽車銷售服務有限公司 (Shaoxing Huixin Automobile Sales & Services Co., Ltd.)	Shaoxing, the PRC 2001	Registered and paid-in capital of RMB50,000,000	-	100%	Sale and service of motor vehicles
紹興中升東本汽車銷售服務有限公司 (Shaoxing Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd., formerly known as 紹興市中鑫汽車銷售有限公司)	Shaoxing, the PRC 2008	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
無錫國信汽車銷售服務有限公司 (Wuxi Guoxin Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
哈爾濱中升豐田汽車銷售服務有限公司 (Harbin Zhongsheng Toyota Automobile Sales & Services Co., Ltd., formerly known as 哈爾濱天已豐田汽車銷售服務有限公司)	Harbin, the PRC 2004	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
溫州中升滙馳汽車銷售服務有限公司 (Wenzhou Zhongsheng Huichi Automobile Sales & Services Co., Ltd.)	Wenzhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
中升(中國)企業管理有限公司 (Zhongsheng (China) Enterprise Management Co., Ltd., formerly known as 北京中升企業管理有限公司)	Beijing, the PRC 2010	Registered and paid-in capital of US\$40,000,000	–	100%	Enterprise management
楚雄中升駿通汽車銷售服務有限公司 (Chuxiong Zhongsheng Juntong Automobile Sales & Services Co., Ltd.)	Chuxiong, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
成都益佳汽車銷售服務有限公司 (Chengdu Yijia Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2003	Registered and paid-in capital of RMB6,000,000	–	90%	Sale and service of motor vehicles
青島日產汽車銷售服務有限公司 (Qingdao Nissan Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2002	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
烟台市盛悦汽車銷售服務有限公司 (Yantai Shengyue Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2008	Registered and paid-in capital of RMB31,000,000	–	100%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name		Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
				Held by the Company %	Held by a subsidiary %	
大連天久汽車服務有限公司 (Dalian Tianju Automobile Services Co., Ltd.)	*	Dalian, the PRC 1999	Registered and paid-in capital of RMB12,000,000	-	50%	Service of motor vehicles
大連恒盛汽車服務有限公司 (Dalian Hensheng Automobile Sales & Services Co., Ltd., formerly known as 大連天貿汽車銷售服務有限公司)	*	Dalian, the PRC 2009	Registered and paid-in capital of RMB10,000,000	-	50%	Sale and service of motor vehicles
昆明中升廣菲汽車銷售服務有限公司 (Kunming Zhongsheng Guangfei Automobile Sales & Services Co., Ltd.)		Kunming, the PRC 2010	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of motor vehicles
泰州中升豐田汽車銷售服務有限公司 (Taizhou Zhongsheng Toyota Automobile Sales & Services Co., Ltd., formerly known as 泰州康福豐田汽車銷售服務有限公司)		Taizhou, the PRC 2006	Registered and paid-in capital of RMB10,000,000	-	100%	Sale and service of motor vehicles
福州華瑞汽車銷售服務有限公司 (Fuzhou Huarui Automobile Sales & Services Co., Ltd.)		Fuzhou, the PRC 2002	Registered and paid-in capital of RMB37,100,000	-	100%	Sale and service of motor vehicles
福州廣裕達貿易有限公司 (Fuzhou Guangyuda Trading Co., Ltd.)		Fuzhou, the PRC 2002	Registered and paid-in capital of RMB15,000,000	-	100%	Sale and service of motor vehicles
莆田市華寶投資有限公司 (Putian Huabao Investments Co., Ltd.)		Putian, the PRC 2008	Registered and paid-in capital of RMB15,000,000	-	51%	Sale and service of motor vehicles
三明華榮汽車銷售服務有限公司 (Sanming Huarong Automobile Sales & Services Co., Ltd.)		Sanming, the PRC 2008	Registered and paid-in capital of RMB10,000,000	-	51%	Sale and service of motor vehicles
福清市華盛汽車銷售服務有限公司 (Fuqing Huasheng Automobile Sales & Services Co., Ltd.)		Fuqing, the PRC 2009	Registered and paid-in capital of RMB10,000,000	-	51%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
福州華裕汽車銷售服務有限公司 (Fuzhou Huayu Automobile Sales & Services Co., Ltd.)	Fuzhou, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
福州美瑞達貿易有限公司 (Fuzhou Meiruida Trading Co., Ltd.)	Fuzhou, the PRC 2008	Registered and paid-in capital of RMB1,000,000	–	100%	Sale and service of motor vehicles
台州信威汽車有限公司 (Taizhou Xinwei Automobile Co., Ltd.)	Taizhou, the PRC 1994	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
北京百得利汽車進出口集團有限公司 (Beijing Betterlife Automobile Import & Export Group Co., Ltd.)	* Beijing, the PRC 1998	Registered and paid-in capital of RMB60,000,000	–	50%	Sale and service of motor vehicles
北京百得利汽車銷售有限公司 (Beijing Betterlife Automobile Sales Co., Ltd.)	* Beijing, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利汽車服務有限公司 (Tianjin Betterlife Automobile Services Co., Ltd.)	* Tianjin, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	50%	Sale and service of motor vehicles
北京百得利汽車貿易有限公司 (Beijing Betterlife Automobile Trading Co., Ltd.)	* Beijing, the PRC 2004	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利之迪汽車銷售有限公司 (Tianjin Betterlife Zhidi Automobile Sales Co., Ltd.)	* Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
北京百得利之星汽車銷售有限公司 (Beijing Betterlife Star Automobile Sales Co., Ltd.)	* Beijing, the PRC 2008	Registered and paid-in capital of RMB40,000,000	–	50%	Sale and service of motor vehicles
北京百得利之達汽車銷售有限公司 (Beijing Betterlife Zhida Automobile Sales Co., Ltd.)	* Beijing, the PRC 2004	Registered and paid-in capital of RMB10,000,000	–	50%	Sale and service of motor vehicles

## 42. Investments in Subsidiaries (continued)

Company name		Place and date of incorporation/ operations	Authorised/registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
				Held by the Company %	Held by a subsidiary %	
天津百得利汽車銷售有限公司 (Tianjin Betterlife Automobile Sales Co., Ltd.)	*	Tianjin, the PRC 2005	Registered and paid-in capital of RMB12,000,000	-	50%	Sale and service of motor vehicles
天津百得利投資控股有限公司 (Tianjin Betterlife Investments & Holdings Co., Ltd.)	*	Tianjin, the PRC 2009	Registered and paid-in capital of RMB10,000,000	-	50%	Investment holding
天津周氏與業國際貿易有限公司 (Chou Dynasty (Tianjin) International Trading Co., Ltd.)	*	Tianjin, the PRC 2007	Registered and paid-in capital of RMB224,820,000	-	50%	Investment holding
百得利天津國際貿易有限公司 (Betterlife Tianjin International Trading Co., Ltd.)	*	Tianjin, the PRC 2001	Registered and paid-in capital of US\$7,060,000	-	50%	Investment holding
北京百得利之星舊機動車經紀有限公司 (Beijing Betterlife Star Used Automobile Agency Co., Ltd.)	*	Beijing, the PRC 2004	Registered and paid-in capital of RMB100,000	-	50%	Investment holding
杭州百得利汽車有限公司 (Hangzhou Betterlife Automobile Co., Ltd.)	*	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	-	50%	Sale and service of motor vehicles
成都百得利汽車貿易有限公司 (Chengdu Betterlife Automobile Trading Co., Ltd.)	*	Chengdu, the PRC 2010	Registered and paid-in capital of RMB30,000,000	-	50%	Sale and service of motor vehicles
BGL Motor Holdings Co., Ltd.	*	BVI 2010	Registered and paid-in capital of US\$1/US\$0	-	50%	Investment holding
Betterlife International Motor Co., Ltd.	*	HK 2010	Registered and paid-in capital of HK\$10,000/HK\$0	-	50%	Investment holding

\* These companies are accounted for as subsidiaries as the Group has the power to control their financial and operating policies.

**43. RELATED PARTY TRANSACTIONS AND BALANCES**

Mr. Li Guoqiang and Mr. Huang Yi are collectively the Controlling Shareholder of the Group. They are also considered to be related parties of the Group.

The following key management personnel of the Group are considered to be related parties of the Group: 俞光明 (Yu Guangming)

**(a) Transactions with related parties**

The following transactions were carried out with related parties during the year:

	2010 RMB'000	2009 RMB'000
(i) Sales of goods to jointly-controlled entities:		
– Xiamen Zhongsheng	9,228	12,530
– Zhongsheng Tacti	672	956
	<u>9,900</u>	<u>13,486</u>
(ii) Purchase of goods or services from jointly-controlled entities:		
– Xiamen Zhongsheng	28,386	13,378
– Zhongsheng Tacti	124,803	38,318
	<u>153,189</u>	<u>51,696</u>

The terms of sales and purchases were mutually agreed between the parties with reference to the ordinary course of business.

- (iii) The Group's bank loans which amounted to RMB1,127,000,000 (2009: RMB332,500,000) were guaranteed by the Controlling Shareholder at 31 December 2010.

### 43. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (b) Balances with related parties

The Group had the following significant balances with its related parties during the year

##### (i) Due from related parties:

	2010 RMB'000	2009 RMB'000
Trade related		
Jointly-controlled entities		
– Xiamen Zhongsheng	1,646	–
– Zhongsheng Tacti	583	556
	<u>2,229</u>	<u>556</u>

**43. RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(b) Balances with related parties (continued)**

## (ii) Due to related parties:

	2010 RMB'000	2009 RMB'000
Non-trade related		
The Controlling Shareholder		
– Mr. Li Guoqiang and Mr. Huang Yi	–	1,308
Trade related		
A jointly-controlled entity		
– Zhongsheng Tacti	10,026	22,928
	<u>10,026</u>	<u>24,236</u>

Balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

## (iii) Compensation of key management personnel of the Group:

	2010 RMB'000	2009 RMB'000
Short term employee benefits	13,150	6,936
Post-employee benefits	272	255
Total compensation paid to key management personnel	<u>13,422</u>	<u>7,191</u>

Further details of directors' emoluments are included in Note 9 to the financial statements.

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables, advances from third parties and advances to non-controlling shareholders, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

##### Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (Note 25), and cash and cash equivalents (Note 27).

The Group's interest rate risk arises from its borrowings, details of which are set out in Note 27. Borrowings at variable rates expose the Group to the risk of changes on market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
<b>2010</b>		
RMB	15	(5,041)
RMB	(15)	5,041
<b>2009</b>		
RMB	15	(2,216)
RMB	(15)	2,216

**44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Foreign currency risk**

The Group is exposed to currency risk primarily through cash and cash equivalents that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily the Hong Kong dollar ("HK dollar"), which is relatively stable against the RMB. The Group considers that the exposure to the currency risk is not material and no hedging arrangement has been made.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax RMB'000
<b>2010</b>		
If the HK dollar weakens against the RMB	5%	5,720
If the HK dollar strengthens the RMB	(5%)	(5,720)
<b>2009</b>		
If the HK dollar weakens against the RMB	5%	1,408
If the HK dollar strengthens against the RMB	(5%)	(1,408)

**Credit risk**

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2010, all bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Year 2010					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Bank loans and other borrowings	-	2,561,029	2,620,017	-	-	5,181,046
Trade and bills payables	-	2,370,683	613,824	-	-	2,984,507
Other payables	-	155,117	89,425	-	-	244,542
Amounts due to related parties	10,026	-	-	-	-	10,026
	<u>10,026</u>	<u>5,086,829</u>	<u>3,323,266</u>	<u>-</u>	<u>-</u>	<u>8,420,121</u>

	Year 2009					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Bank loans and other borrowings	-	807,506	1,016,238	-	-	1,823,744
Trade and bills payables	-	1,077,073	15,940	-	-	1,093,013
Other payables	-	73,416	42,120	-	-	115,536
Amounts due to related parties	24,236	-	-	-	-	24,236
	<u>24,236</u>	<u>1,957,995</u>	<u>1,074,298</u>	<u>-</u>	<u>-</u>	<u>3,056,529</u>

#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to equity holders of the parent plus net debt. Net debt includes bank loans and other borrowings, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents. The gearing ratios as at the reporting dates were as follows:

	2010 RMB'000	2009 RMB'000
Bank loans and other borrowings	4,924,455	1,797,149
Trade and bills payables	2,984,507	1,093,013
Other payables and accruals	954,396	277,702
Amounts due to related parties	10,026	24,236
Less: Cash and cash equivalents	<u>(2,989,718)</u>	<u>(1,030,960)</u>
Net debt	<u>5,883,666</u>	<u>2,161,140</u>
Equity attributable to owners of the parent	<u>5,935,593</u>	<u>2,110,915</u>
Gearing ratio	49.8%	50.6%

#### 45. EVENTS AFTER THE REPORTING PERIOD

On 22 December 2010, the Group entered into an equity transfer agreement with Loyal Fine Limited in relation to the acquisition of its 55% equity interest in New Wing Enterprises Limited (the "Target Company") at a total consideration of RMB260 million. The Target Company and its subsidiaries (the "Target Group") mainly engage in businesses relating to automobile sales and services, hold a total of 15 4S dealerships and distribute automobile brands including DF-Nissan, GAC-Toyota and DF-Honda in China. Upon completion of the acquisition, the Target Company will become a subsidiary of the Group. As at the date of approval of the financial statements, the aforesaid acquisition of the Target Group has been completed.

#### 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2011.

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