CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

4S DEALERSHIP STORE

Premium Brands

ANNUAL REPORT 2010 年報

Contents

China ZhengTong Auto Services Holdings Limited is the leading 4S dealership group in China focused on the dealership of premium brands such as BMW, MINI and Audi. The Group also operates dealership stores of ultra premium brand, namely Porsche and middle market brands, such as Nissan, Hyundai and Honda.

According to All China Marketing Research Co., Ltd (ACMR), the Group ranked second in terms of the number of BMW 4S dealership stores in China with arrangements to operate 10 BMW dealership stores.

ZhengTong Auto's strategy is to expand its distribution network in the developed regions and fast growing provinces in China with a view to establishing a solid foundation for fast growth in the future. At present, it owns 24 dealership stores in 14 cities nationwide.

ZhengTong Auto's 4S dealership stores are engaged in four major automobile related businesses, including sales, spare parts, service and survey, offering a wide range of sales services. The provision of comprehensive automobile solutions to customers and adoption of a customer-oriented business model help the Group facilitate its long-term relationship with its customers.

To further strengthen its relationships with automobile manufacturers and complement its automobile dealership business, the Group has established its logistics services business. Leveraging the existing network of its automobile dealership stores and logistics services business, the Group has also established its lubricant oil trading business to capture the increasing market demand and enhance its after-sales services in 4S dealership stores.

ZhengTong was listed on the Main Board of the Hong Kong Stock Exchange on 10 December 2010 (stock code: 1728).

Results

(RMB'000)	2007 *(note 1)*	2008 *(note 1)*	2009 *(note 1)*	**2010**
Turnover	2,909,186	3,045,591	4,981,174	**8,034,249**
Profit before taxation	52,324	48,428	198,099	**390,023**
Income tax	(20,654)	(12,950)	(48,277)	**(90,571)**
Profit for the year	31,670	35,478	149,822	**299,452**
Attributable to:				
Equity holders of the Company	31,670	33,805	145,854	**276,004**
Non-controlling interests	–	1,673	3,968	**23,448**
	31,670	35,478	149,822	**299,452**

Assets and Liabilities

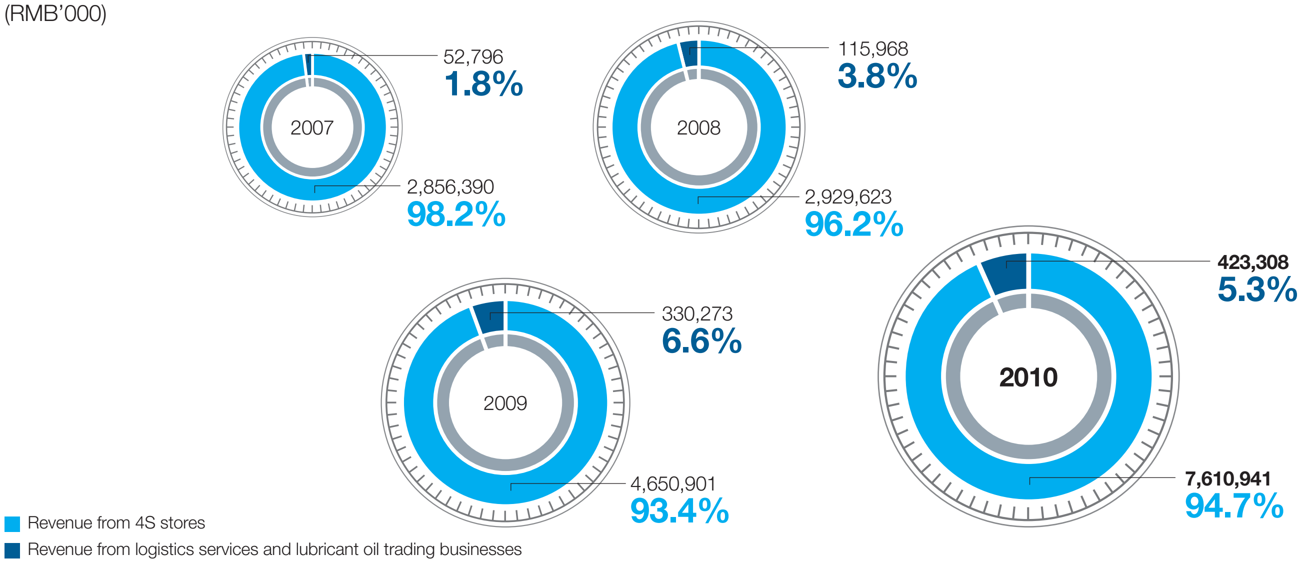
(RMB'000)	2007 *(note 1)*	2008 *(note 1)*	2009 *(note 1)*	**2010**
Total assets	1,172,181	1,141,837	2,508,749	**6,732,293**
Total liabilities	(1,106,782)	(1,342,070)	(2,049,084)	**(2,659,302)**
	65,399	99,767	459,665	**4,072,991**
Equity attributable to equity holders of the Company	65,399	90,594	444,024	**4,014,783**
Non-controlling interests	–	9,173	15,641	**58,208**
	65,399	99,767	459,665	**4,072,991**

Note:

1. The figures for three years ended 31 December 2009 have been extracted from the prospectus of the Company dated 29 November 2010.

Revenue breakdown

(RMB'000)



Poised for Opportunities

We will continue to strengthen our core automobile dealership business, expand our dealership network and optimize our premium branded portfolio so as to capture the tremendous opportunities arising from the premium branded automobile dealership market in China.

Pursue of Excellence

China ZhengTong is a leading 4S dealership group in China. Our brand strategy focuses on selling and servicing the most popular premium branded cars in the mainland China.

Dear Shareholders,

On behalf of the board of directors (the "Board") of China ZhengTong Auto Services Holdings Limited (the "Company" or "ZhengTong" or "ZhengTong Auto" and its subsidiaries, collectively the "Group"), I am pleased to present the first annual results of the Group upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The year 2010 was a memorable year in the history and development of the Group. On 10 December 2010, the successful listing of the Company on the Main Board of the Stock Exchange not only marked a new milestone in the course of the development of the Company and provided sufficient capital and confidence for its further growth in the future, but also represented a recognition for the Group's strengths in 4S dealership business and the promising outlook of the premium and ultra premium branded automobile market in China. The successful listing has enabled the Group to achieve a greater corporate recognition, enhance its level of corporate governance and management practices, establish a sound corporate operating system and solid foundation for business growth, and provided the Group with a platform for further development of its business.

We provide our customers with total car solutions capabilities and a customer-centric business model to promote a long-term customer relationship.

In the past year, the Group made excellent achievements in various aspects under the concerted efforts of the management team and staff. Riding on the opportunities arising from the fast-growing passenger automobile market in China, its business focus was placed on expanding the dealership network, optimising the brand portfolio and strengthening the dealership of premium and ultra premium branded automobiles, alongside with enhancing customer-oriented after-sales services and logistics and lubricant oil trading business. Revenue from premium and ultra premium branded automobile segment therefore has grown rapidly and ZhengTong's position as market leader of premium and ultra premium branded automobile dealership is consolidated.

Remarkable Financial Performance

The Group performed remarkably with its expanding dealership network and improving operating efficiency of its automobile dealership business. Turnover was RMB8,034 million, an increase of 61.3% as compared with RMB4,981 million in 2009. Gross profit amounted to RMB726 million, an increase of 75.2% as compared with RMB415 million in 2009. Profit attributable to the equity holder was RMB276 million, an increase of 89.2% as compared with RMB146 million in 2009. Earnings per share amounted to RMB18.0 cents (2009: RMB9.7 cents).

In particular, the turnover of the Group's new car sales in respect of mid-end and premium brands reached approximately RMB2,207 million (2009: RMB2,030 million) and RMB4,802 million (2009: RMB2,240 million) for the year respectively, increases of 8.7% and 114.3% respectively. Regarding the Group's businesses apart from automobile dealership, the revenue derived from automobile logistics services together with lubricant oil trading was approximately RMB423 million in 2010 (2009: RMB330 million).

Tremendous Market Potential

Benefiting from the fast-growing economy of China, the automobile production and sales market flourished in 2010, which boosted the sales of automobiles and growth of the automobiles after-sales service industry. According to the figures released by China Association of Automobile Manufacturers, the production and sales of the automobile market in China both exceeded a record high of 18 million automobiles, rendering China the largest automobile producer and largest new automobile market worldwide. Such record represented a historical milestone from a global perspective and had a positive effect on the expansion of the Group's automobile dealership business. As the sizes of the middle-class, upper-middle class and the affluent population expand, it is expected that the sales of premium and ultra premium branded automobiles in the automobile market in China will continue to grow at an accelerated pace. Likewise, the Group's logistics and lubricant oil distribution business is also expected to grow as vehicle production and sales volume continue to grow.

Strategic Brand Positioning

In response to the huge market demand for premium automobiles, the Group's brand strategies focused on the most popular premium and ultra premium brands in China, namely BMW, MINI and Audi, whose market penetration continued to increase. During the year, revenue from the sales of premium and ultra premium branded automobiles accounted for 68.5% of the total revenue from the sales of new automobiles of the Group (2009: 52.5%).

Having maintained years of relationship with BMW, the Group is currently the second largest BMW dealer in China and the only BMW dealer which covers 6 provinces and municipalities. As at 31 December 2010, the Group operated 10 BMW dealership stores. During the year, the Group established its first ultra premium 4S dealership store, located in Dongguan, the Porsche 4S dealership store has commenced operation which further expanded the Group's brand portfolio of dealership networks. In addition, the Group's BMW flagship store in Guangzhou and Audi flagship store in Shanghai also commenced operation at the end of 2010.

During the year, the Group organised a number of marketing and promotion events with automobile manufacturers, including BMW, in different major cities of the PRC to strengthen the Group's branding and enhance the exposure to the public.

Steady Expansion of Dealership Network

After years of development, the Group has successfully expanded its automobile dealership business to cover 14 cities. The following table sets forth the particulars of our 4S dealership stores as of the date of this report.

Segment	Brand/Dealership	Location: City	Location: Province	Date of Commencement of Operation	Expiry Date of Dealership Agreement
Ultra Premium	**Porsche**				
	Dongguan Jieyunhang Automobile Sales Services Co., Ltd.	Dongguan	Guangdong	May 2010	In the process of entering dealership authorization agreement
Premium	**BMW**				
	Beijing Baozehang Automobile Sales Services Co., Ltd.	Beijing	Beijing	June 2010	31 December 2011
	Baotou Baoze Automobile Sales Services Co., Ltd.	Baotou	Inner Mongolia	February 2010	31 December 2013
	Nanchang Baoze Automobile Sales Services Co., Ltd.	Nanchang	Jiangxi	October 2008	31 December 2012
	Chenzhou Ruibao Automobile Sales Services Co., Ltd.	Chenzhou	Hunan	July 2007	31 December 2012
	Yichang Baoze Automobile Sales Services Co., Ltd.	Yichang	Hubei	June 2007	31 December 2012

Segment	Brand/Dealership	Location: City	Location: Province	Date of Commencement of Operation	Expiry Date of Dealership Agreement
	Hohhot Qibao Automobile Sales Services Co., Ltd.	Hohhot	Inner Mongolia	January 2007	31 December 2011
	BMW/MINI				
	Zhuhai Baoze Automobile Sales Services Co., Ltd.	Zhuhai	Guangdong	March 2009	31 December 2012
	Changsha Ruibao Automobile Sales Services Co., Ltd.	Changsha	Hunan	January 2006	31 December 2012
	Wuhan Baoze Automobile Sales Services Co., Ltd.	Wuhan	Hubei	March 2005	31 December 2011
	Guangzhou Baoze Automobile Sales Co., Ltd.	Guangzhou	Guangdong	December 2010	31 December 2013
	Audi				
	Shantou Hongxiang Materials Co., Ltd.	Shantou	Guangdong	Acquired in June 2010	3 August 2012
	Hubei Dingjie Automobile Sales Services Co., Ltd.	Wuhan	Hubei	August 2003	1 January 2012
	Shanghai Aohui Automobile Sales Services Co., Ltd.	Shanghai	Shanghai	December 2010	17 January 2012
Middle market	**Dongfeng Nissan**				
	Inner Mongolia Dingze Automobile Sales Services Co., Ltd.	Hohhot	Inner Mongolia	March 2010	In the process of being renewed
	Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd.	Shanghai	Shanghai	May 2007	1 March 2012
	Wuhan Kaitai Automobile Sales Services Co., Ltd.	Wuhan	Hubei	August 2004	1 March 2012
	Inner Mongolia Dingjie Automobile Trading Co., Ltd.	Hohhot	Inner Mongolia	December 2003	In the process of being renewed
	Shanghai Shenxie Automobile Trading Co., Ltd.	Shanghai	Shanghai	June 2000	1 March 2012
	Dongfeng Honda				
	Shanghai Luda Automobile Sales Services Co., Ltd.	Shanghai	Shanghai	January 2005	Indefinite

Segment	Brand/Dealership	Location City	Location Province	Date of Commencement of Operation	Expiry Date of Dealership Agreement
	Buick				
	Shiyan Shenxie Automobile Trading Co., Ltd.	Shiyan	Hubei	March 2005	In the process of being renewed
	Hubei Bocheng Automobile Sales Services Co., Ltd.	Wuhan	Hubei	January 2004	In the process of being renewed
	Chevrolet				
	Hubei Jierui Automobile Sales Services, Ltd.	Wuhan	Hubei	March 2006	15 February 2012
	Beijing Hyundai				
	Hubei Xinrui Automobile Sales Services Co., Ltd.	Wuhan	Hubei	August 2004	31 December 2012

Following the opening of the Audi dealership store in Shanghai and the BMW dealership store in Guangzhou in December 2010, the Group has 24 dealership stores (2009: 17 stores) covering not only the developed automobile markets such as the affluent first tier cities or provincial capitals, but also areas where the GDP per capita is higher than the average nationwide level, namely, Inner Mongolia, Hunan, Hubei and Jiangxi, and the central and western markets where the automobile penetration is relatively low. As of 31 December 2010, the total area occupied by our 24 dealership stores reached approximately 1.6 million square meters. The Group holds key positions in first tier developed cities and fast growing cities. During the year, the Group extended its coverage to higher growth regions and penetrated into the first high-end market in northern China.

Currently, the Group has obtained permission to set up one and intends to set up another nine 4S dealership stores in 2011 and the majority of such dealership stores are expected to focus on premium and ultra premium branded automobiles. The Group is in the process of setting up the dealership stores and the relevant dealership agreements are expected to be executed in second quarter of 2011.

As of the date of this report, it is intended that pre-owned automobile related services would be available in all of our dealership stores. We intend to further expand our pre-owned automobile business in the major cities of the PRC, including Beijing, Shanghai and Guangzhou, through establishing more pre-owned automobile stores.

Future Outlook

Looking into the future, ZhengTong will continue to consolidate and enhance its leading position in the dealership of premium and ultra premium branded automobiles in China, and endeavour to further strengthen our core business of automobile dealership, expand the existing dealership network and optimise the existing portfolio of premium branded automobiles to take advantage of the promising outlook of the passenger automobile market in China. Meanwhile, the Group will step up the development of the customer-oriented after-sales services, strive to speed up the growth of used automobiles as well as automobile financing and insurance agency business, and carry on strengthening our after-sales core business segment to ensure steady and sustainable growth of the Group. The Group will also utilize the after-sales services channels and sound relationship with automobile manufacturers to accelerate the growth of logistics and lubricant oil businesses. Moreover, the Group will also apply the net proceeds from the initial listing of the Group in an effective and prudent manner for proactive business expansion and fully capitalise on the unique strengths of ZhengTong Auto.

The management believes that the Company will become a leading premium and ultra premium branded 4S dealership group in China by differentiating and growing itself in the fast growing automobile market in China in an effort to maximise the returns of shareholders. In the course of this, ZhengTong Auto's team will make the best endeavours to contribute to the Group's development and continuous progress.

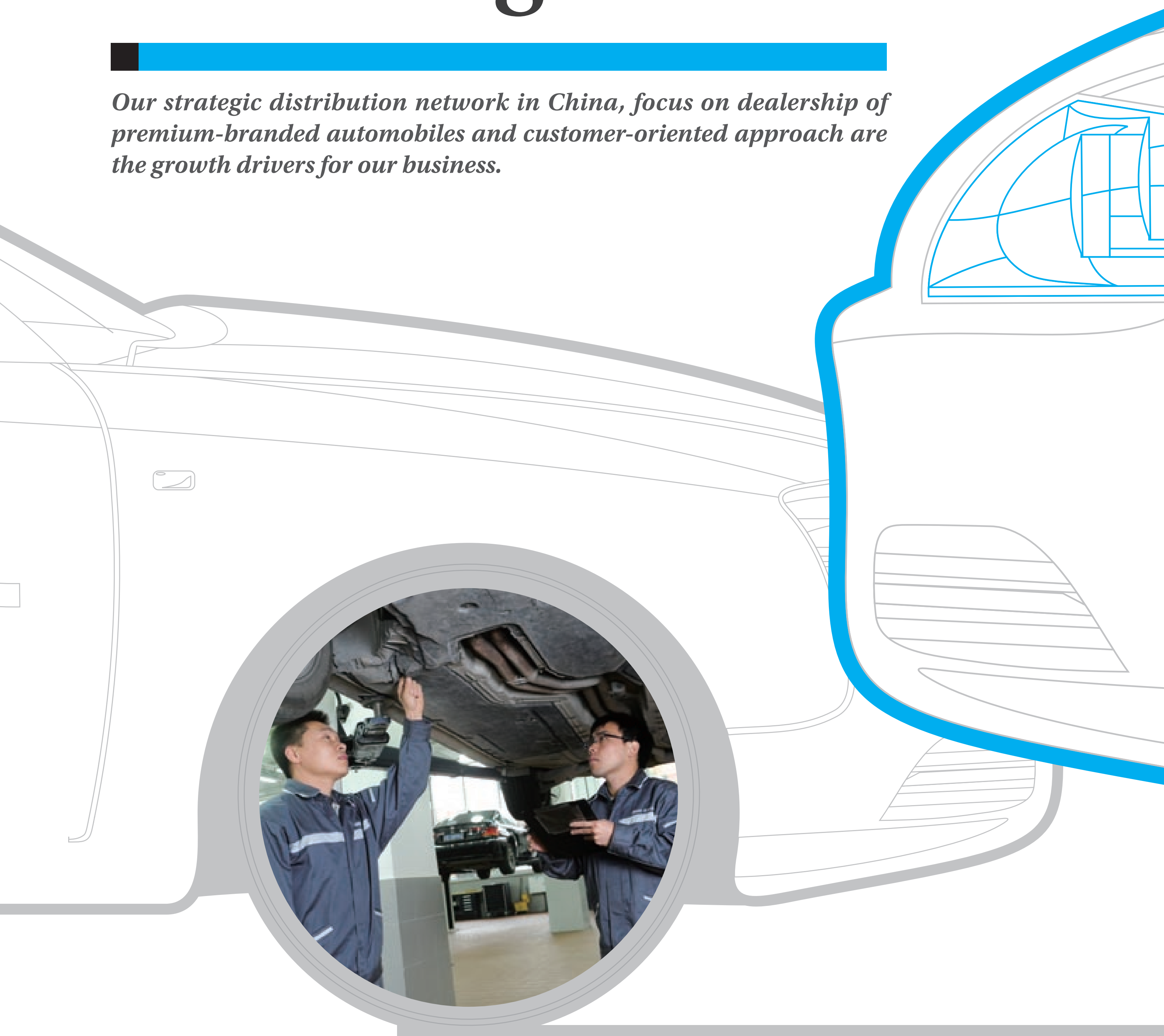
Appreciation

The Group's remarkable results for 2010 were attributable to the efforts and dedication of all its staff and business partners. In this regard, I would like to thank the shareholders, business partners and customers on behalf of the Board for their long-term support and trust. At the same time, I would also like to express my heartfelt gratitude to the staff of the Group for their loyalty, efforts and contributions over the past year.

WANG Kunpeng
Chief Executive Officer
12 March 2011

Firm Foundation for Thriving Growth

Our strategic distribution network in China, focus on dealership of premium-branded automobiles and customer-oriented approach are the growth drivers for our business.




BMW 320i


BMW 120i

Premium Brands Dealership Stores

As the sales market of automobiles in China grew rapidly, ZhengTong Auto performed remarkably with its expanding dealership network and improving operating efficiency of its automobile dealership business.

MARKET REVIEW

While the global economy was gradually recovering in 2010, the economy of China maintained steady and fast growth. The government's proactive measures to boost consumption and fast growing disposable income of households became the major drivers of the rapid growth in the automobile sales market.

Based on statistics released by the National Bureau of Statistics of China, the gross domestic product ("GDP") of China for 2010 is estimated to be approximately RMB39,798 billion, an increase of approximately 10.3% year-on-year or 1.1% over the growth rate of last year in terms of comparable price. The consumer price index ("CPI") for 2010 was up by approximately 3.3% over 2009. The automobile sector set another record. According to the figures released by the China Association of Automobile Manufacturers ("CAAM"), the number of automobiles manufactured and sold in China for 2010 both exceeded 18 million. This not only rendered China the largest automobile producer and market but also broke the former US's record high of over 17 million automobiles in terms of annual production and sales. In spite of cancellation of the stimulus measures on automobile subsidies for rural areas, replacement of old automobiles and preferential tax treatment for new purchase introduced at the end of 2010, strong growth in the automobile sector in China is expected in the first quarter of 2011. Based on the estimates of the CAAM, a total of 1,894,400 automobiles were sold in January 2011, representing an increase of approximately 13.7% over previous month and an increase of approximately 13.8% over the same period last year. The performance of the automobile industry in China remained satisfactory in general.

With the fast growing economy and emerging affluent households and middle class in China, market demand for premium branded automobiles remains strong. According to the statistics announced by the China Passenger Car Association, a total of 670,000 high-end automobiles were sold in China for 2010, representing an increase of approximately 69% over last year. Such growth is far beyond the average growth rate of 33.1% in the passenger vehicle market.

BUSINESS REVIEW

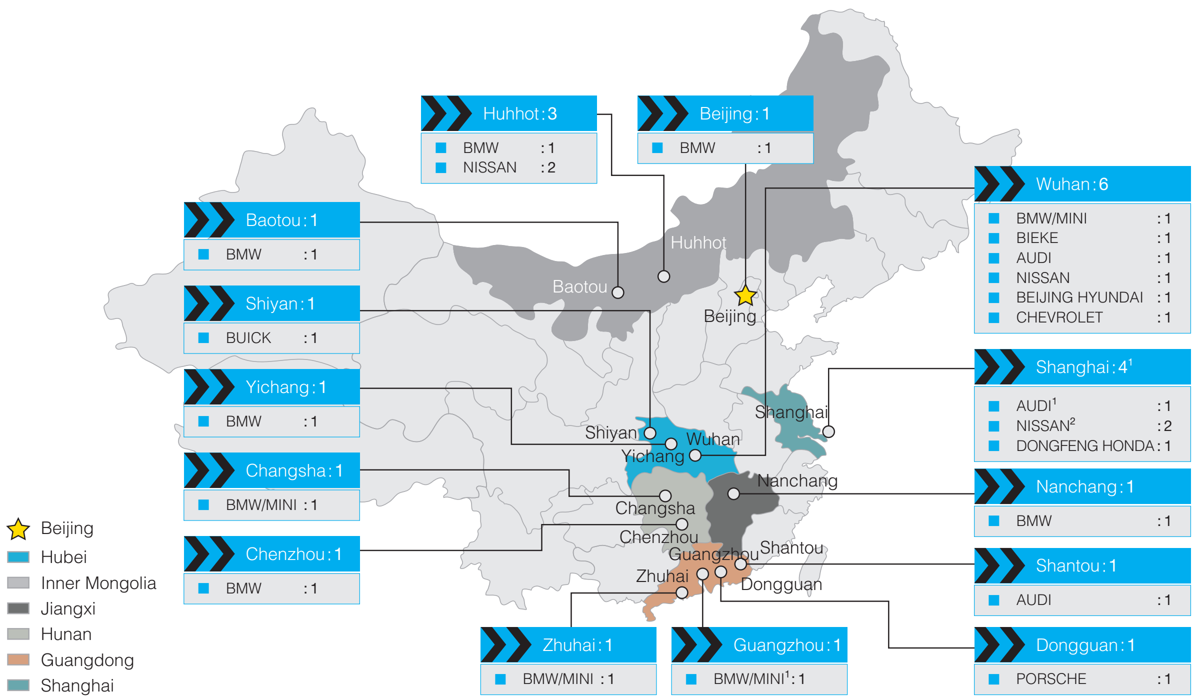
As a premium branded automobile dealership group, the Group fully capitalised on the tremendous potential in the passenger automobile market in China. During the year, the Group adopted its strategies consistently to specialise in selling premium branded automobiles through the expansion of 4S dealership network by establishing new dealership stores and placed its strategic focus on the popular premium branded automobiles in China such as BMW, MINI and Audi. Meanwhile, the Group endeavoured to enhance the operating efficiency of its automobile dealership business and achieved satisfactory results both in regional expansion and brand building.

Strategic network distribution

The Group has established dealership stores in 14 cities, covering all of the largest, established automobile markets of the affluent regions of China, such as Beijing, Shanghai, Guangzhou, Zhuhai, Dongguan and Shantou as well as the rapidly developing regions such as Baotou, Nanchang, Chenzhou, Yichang, Hohhot, Changsha, Wuhan and Shiyan. The Group's strategy for dealership network distribution is to achieve balanced development in the established markets as well as with growth potentials.

As at 31 December 2010, the Group had a total of 24 dealership stores. During the year, the Group set up seven new 4S dealership stores by means of new establishment and acquisition, including two new BMW dealership stores in Baotou and Beijing, a Porsche dealership store in Dongguan, a BMW dealership store in Guangzhou and an Audi dealership store in Shanghai which commenced operations at the end of 2010.

Dealership network distribution (for the year ended 31 December 2010)



Total number of dealership stores in operation as at 31 December 2010: 24[1]

Focused on premium brand dealership

The Group has been focusing on the expansion of its premium brands 4S dealership stores whilst endeavouring to optimise the dealership store network for middle market brands. To capture the opportunities from the growth of premium and ultra premium branded automobiles in China, the Group has placed its strategic focus on the most popular premium automobile brands in China such as BMW, MINI and Audi. Moreover, the Group is the second largest and the only BMW dealer in China which covers 6 provinces and 14 cities: Beijing, Guangzhou, Hubei, Hunan, Jiangxi and Inner Mongolia. The Group operates a total of 10 BMW dealership stores. During the year, the Group established its first ultra premium brand dealership store, a Porsche 4S dealership store located in Dongguan, which further optimized the dealership brand portfolio.

During the year, turnover generated from automobile brands namely BMW, MINI and Audi accounted for approximately 65.3% of the turnover from the sales of new automobiles of the Group. The importance that the Group attached to the dealerships of premium and ultra premium automobile brands facilitated the continuous growth of revenue and profitability from the sales of new automobiles. The percentage of new car sales revenue from premium and ultra premium branded automobiles increased from approximately 52.5% in 2009 to approximately 68.5% in 2010.

Number of 4S dealership stores by category

	Year ended 31 December 2010	
	2010	2009
Ultra premium brands		
4S dealership stores	**1**	–
Premium brands		
4S dealership stores	**13**	8
Middle market brands		
4S dealership stores	**10**	9
Total	**24**	17

Customer-oriented after-sales services

The Group maintains a long-term relationship with its customers by offering a comprehensive range of automobile solutions and adopting a customer-oriented approach in its business operation. The Group provides a variety of after-sales services to its customers which consist of maintenance services, repairs under manufacturer's warranty, other repair services and sales of spare parts and accessories. The maintenance and repair services are conducted by the Group's automotive engineers and technicians who are trained in maintaining and repairing the specific brands of automobiles retailed by the Group.

The quality of maintenance and repair services is also a factor considered by automobile manufacturers in determining whether to enter into new dealership authorization agreements with the Group or renew the Group's existing dealership authorization agreements. As part of the Group's maintenance and repair services, the Group's dealership stores may also assist automobile manufacturers to coordinate recalls of automobiles. The 4S dealership stores of the Group also sell spare parts and accessories sourced from automobile manufacturers or suppliers that are independent third parties.

To further strengthen its relationships with automobile manufacturers and complement its automobile dealership business, the Group established its logistics services business in 2002. Leveraging the existing network of its automobile dealership stores and logistics services business, the Group

also established its lubricant oil trading business in 2008 to capture the increasing market demand and enhance its after-sales services in 4S dealership stores.

IT management

The Group is committed to enhancing operating efficiency through scientific and stringent management to allow fast implementation of its strategic expansion plans. Through years of development, the Group has set up a management system which is scientific and stringent to cope with the operations of the Group in various key strategic markets with a view to enhance the operating efficiency of automobile dealership stores and build a firm foundation for the speedy expansion of the Group in the future ahead.

Through real-time recording and analysis of various key performance indices ("KPI") including market data, sales, after-sales, customer services and working capital, the Group has strengthened its data processing procedures to facilitate the process of flexible delegation of authorities and efficient decision-making. Efficient operation can be achieved through refined KPI analysis and follow-up. The refined and comprehensive operational standards alongside with the capital and human resources strategies have provided the Group with the basis for replication of success cases in an efficient and effective manner.

Accolades and awards

As recognitions of the Group's superior services and excellent performance in the automobile dealership business, the Group was named one of the "Top 10 PRC Automobile Dealers of the Year" (2010中國汽車流通年度十佳經銷商集團) and awarded the "Automobile Industry Award of Excellence of the Year" (2010年度汽車流通行業發展卓越貢獻獎) in 2010.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2010, the Group generated turnover of approximately RMB8,034 million, representing an increase of approximately 61.3% over the turnover of RMB4,981 million in 2009. The increase in turnover was mainly due to the Group's focus on premium branded automobile dealership, which facilitated the strong growth in turnover of automobile dealership business. In addition, the Group adopted a number of strategies to enhance its operating efficiency and take advantage of market opportunities in a timely manner. Turnover grew rapidly as a result.

The Group generated revenue mainly from the sales of new automobiles, whereas the remaining from the provision of after-sales services. During the year, revenue from the sales of new automobiles amounted to approximately RMB7,009 million, representing an increase of approximately 64.1% over the year 2009, and accounted for approximately 87.2% of the total revenue for the year ended 31 December 2010; whereas revenue from the provision of after-sales services amounted to approximately RMB602 million, representing an increase of approximately 58.1% over the year 2009, and accounted for approximately 7.5% of the total revenue for the year ended 31 December 2010. The major customers of after-sales services were the customers who purchased new

automobiles from our dealership stores. During the year, the increase in the sales volume of new automobiles of the Group resulted in the expansion of customer base for the after-sales services. In addition, the growth of sales volume of the Group's premium and ultra premium branded automobiles increased the percentage of high-end customers among the customer base of after-sales services. The Company also adjusted the sales strategies of automobile accessories to provide wider selection or higher-priced product offerings. These two factors resulted in the increase in revenue from the after-sales services of the Group.

For the year ended 31 December 2010, turnover from premium and ultra premium branded automobiles was approximately RMB4,802 million, representing a substantial increase of approximately 114.3% over the year 2009, and accounted for approximately 68.5% of the revenue from the sales of new automobiles. Such increase was primarily due to the timely adjustment of sales strategies, marketing and sales of higher-priced models of premium and ultra premium branded automobiles launched by automobile manufacturer, coupled with the overall growth of the premium and ultra premium branded automobile market in China and the expanding dealership business, especially the soaring sales recorded in the new dealership stores opened by the Group during the year.

Revenue from the sales of middle market brand automobiles amounted to RMB2,207 million, representing an increase of approximately 8.7% over the year 2009, and accounted for approximately 31.5% of the revenue from the sales of new automobiles. Such increase was primarily attributable to the overall growth of the automobile market in China and the growth in same store sales.

For the year ended 31 December 2010, revenue from the Group's logistics services business and lubricant oil trading business amounted to approximately RMB423 million, representing an increase of 28.2% over the year 2009, which was due to the overall growth of the automobile market in China.

Cost of sales

For the year ended 31 December 2010, cost of sales amounted to approximately RMB7,308 million, representing an increase of approximately 60.0% over the year 2009. Such increase was mainly due to the increase in the cost of sales for new automobiles. As a result of the increase in sales of new automobiles, the cost of sales for new automobiles rose by approximately 62.9% to approximately RMB6,633 million, as compared with approximately RMB4,072 million for the year 2009.

The cost of sales for premium branded automobiles was up by approximately 110.1% to approximately RMB4,480 million, as compared with approximately RMB2,132 million for the year 2009; whereas the cost of sales for middle market brand automobiles in the mid-end market grew by approximately 10.9% to approximately RMB2,153 million, as compared with approximately RMB1,941 million for the year 2009. The increase in the cost of sales for new automobiles was generally in line with the growth in the revenue generated from the sales of new automobiles.

The increase in cost of sales was also partially due to the increase in cost of sales for after-sales services from approximately RMB231 million to approximately RMB336 million, representing an increase of approximately 45.5%. Such increase was in line with the growth in the revenue generated from the provision of after-sales services. In addition, the cost of sales for logistics services business and lubricant oil trading business was also up by approximately 28.9% to approximately RMB339 million, as compared with approximately RMB263 million for the year 2009. Such increase was in line with the growth in revenue generated from the logistics services business and lubricant oil trading business.

Gross profit

For the year ended 31 December 2010, the Group's gross profit was approximately RMB726 million, representing an increase of approximately 75.2% over approximately RMB415 million for the year 2009. Such increase was due to the optimisation of business portfolio of the Group. Gross profit generated from dealership business rose by approximately 85.0% to approximately RMB642 million, as compared with approximately RMB347 million for the year 2009. Such increase was primarily as a result of the increase in gross profit generated from the sales of new automobiles. Gross profit generated from the sales of premium and ultra premium branded automobiles increased from approximately RMB109 million to approximately RMB322 million; whereas gross profit generated from the sales of branded automobiles in the mid-end market decreased from approximately RMB89 million to approximately RMB55 million. Moreover, gross profit generated from the provision of after-sales services increased from approximately RMB149 million to approximately RMB265 million.

For the year ended 31 December 2010, the gross profit margin was approximately 9.0%, representing an increase of approximately 0.7% as compared with approximately 8.3% for 2009. The increase in gross profit margin was predominantly due to the increase in the sales of premium and ultra premium branded automobiles and the adjustment of sales strategies of the Group, coupled with increase in the sales of higher gross profit margin and higher-priced models of premium branded automobiles.

For the year ended 31 December 2010, the gross profit from the Group's logistics services business and lubricant oil trading business amounted to approximately RMB84 million, representing an increase of approximately 25.7% as compared to RMB67 million for the year 2009.

Selling and distribution expenses

For the year ended 31 December 2010, the Group's selling and distribution expenses amounted to approximately RMB192 million, representing an increase of approximately 38.8% over approximately RMB138 million for the year 2009. Such increase was primarily as a result of the increase in marketing expenses of the Group for the year; the increase in salaries and wages due to recruitment of new sales staff for the establishment of seven new dealership stores in 2010 and the increase in rental and general expenses relating to the dealership stores.

Administrative expenses

For the year ended 31 December 2010, the Group's administrative expenses amounted to approximately RMB176 million, representing an increase of approximately 113.2% over approximately RMB82 million for the year 2009. Such increase was primarily as a result of the increase in salaries and wages and staff benefits due to recruitment of new staff for the establishment of seven new dealership stores in 2010 and the increase in the cost of office.

Profit from operations

For the year ended 31 December 2010, the Group's profit from operations amounted to approximately RMB405 million, representing an increase of approximately 80.2%, as compared with approximately RMB225 million for the year 2009. The operating profit margin for 2010 is 5.0%, an increase of approximately 0.5% over the operating margin for 2009.

Income tax expenses

For the year ended 31 December 2010, the Group's income tax expenses amounted to approximately RMB91 million and the effective tax rate was approximately 23.2%.

Profit for the year

For the year ended 31 December 2010, the Group's profit was approximately RMB299 million, representing an increase of approximately 99.9% over approximately RMB150 million for the year 2009. Such increase was mainly due to the Group's improving operating efficiency as well as expanding and optimising of the dealership network. The ratio of net profit margin for the year was approximately 3.7%, representing an increase of approximately 0.7% over the net profit margin for 2009.

Final dividend

The Company did not recommend payment of final dividend for the financial year ended 31 December 2010.

Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

As at 31 December 2009, subsidiaries comprising the Group issued financial guarantees to related parties and had assets being pledged to financial institutions as security for bank loans borrowed by related parties. Such guarantees and assets pledged to banks have been released prior to the listing of the Company's shares on the Stock Exchange.

Current assets and current liabilities

As at 31 December 2010, the Group's current assets amounted to approximately RMB6,010 million, representing an increase of RMB4,044 million as compared to current assets of approximately RMB1,966 million as at 31 December 2009. Such increase was primarily attributable to the net cash inflow of RMB3,016 million from the net proceeds of the initial listing of the Company on 10 December 2010 and the increase in inventory and receivables of RMB453 million and RMB270 million respectively as a result of the expansion of sales business of dealers and new 4S dealership stores.

As at 31 December 2010, the Group's current liabilities amounted to approximately RMB2,641 million, representing an increase of RMB598 million as compared to current liabilities of approximately RMB2,043 million as at 31 December 2009. Such increase was mainly due to the addition of bank loans and borrowings of RMB373 million and the increase in trade and other payables of RMB213 million as a result of the increase in sales revenue for the year.

Cash flow

As at 31 December 2010, we have cash and cash equivalents amounted to RMB3,432 million, representing an increase of RMB3,255 million over RMB177 million as at 31 December 2009, mainly due to the proceeds from the new issuance of shares in December 2010.

The Group's transactions and monetary assets are principally conducted in RMB. During the year, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate. Currently, the Group does not employ any financial instruments for hedging purposes.

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay our loans, borrowings and other indebtedness, to fund our working capital and normal recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. We finance our liquidity requirements through a combination of cash flows generated from our operating activities, bank loans and other financings. Looking into the future, we believe we can utilize the proceeds from global offering, loans and borrowings, cash flow generated from operating activities and other funds raised from the capital market from time to time to satisfy our liquidity needs.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed scenarios, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's policy is to regularly monitor current and expected liquidity requirements,

and to ensure that it maintains sufficient cash and adequate committed lines of credit from major financial institutes to meet its liquidity requirements in the short and longer term.

For the year ended 31 December 2010, the Group had net cash outflow of RMB124 million in its operating activities, which was mainly due to the expansion of dealership business of the Group for the year by opening up seven dealership stores and the purchase of new automobiles by strategically purchasing additional premium branded automobiles in anticipation of strong demand in 2011.

Capital expenditure and investment

For the year ended 31 December 2010, the Group's capital expenditure was approximately RMB234 million.

Inventory analysis

The Group's inventories included vehicles, which primarily consisted of new automobiles kept in its dealership stores and warehouses as well as automobiles in transit of which the titles and risks had been transferred to the Group. The Group's inventories also included automobile spare parts. Generally, each of its dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventory. In addition, the Group also monitors the inventories within its dealership network and, subject to the consent of automobile manufacturers, may also transfer automobiles from one dealership store to another to rebalance inventory levels. The Group utilises its information technology systems to manage its inventory.

As at 31 December 2010, the inventories of the Group increased by approximately 153.5% to RMB749 million as compared to RMB295 million as at 31 December 2009, which was primarily attributable to the inventory expansion to cope with the anticipated strong market demand and new purchases (especially premium branded automobiles) by new dealership stores in 2010 and the increase in inventories of automobile spare parts due to the anticipated growth of after-sales services business as the Group expanded its customer base.

The following table sets forth the average inventory turnover days of the Group for the years indicated:

	Year ended 31 December	
	2010	2009
Average inventory turnover days	**26**	24

The average inventory turnover days slightly increased from 24 days in 2009 to 26 days in 2010, primarily because of the inventory expansion to cope with the anticipated strong market demand and new purchases (especially premium branded automobiles) by new dealership stores.

Exchange risks

The Group conducts its business primarily in Renminbi and the majority of its monetary assets and liabilities are denominated in Renminbi. Accordingly, the Directors consider that the Group is not exposed to any material foreign exchange risks. The Group does not use any financial instruments for hedging purposes.

Loans and borrowings

As at 31 December 2010, our loans and borrowings amounted to RMB721 million (2009: RMB349 million). The reason for the increase in loans and borrowings for the year was to finance our business expansion.

Pledged assets of the Group

The Group has pledged its corporate assets as guarantee for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2010, the pledged assets of the Group amounted to approximately RMB1,429 million (2009: RMB1,097 million).

Total debt ratio:

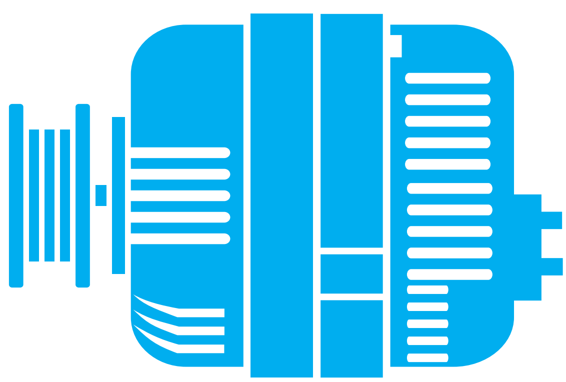
Our interest-bearing liabilities mainly include bills payable and loans and borrowings. As at 31 December 2010, the Group had interest-bearing liabilities totaling RMB2,236 million, including bills payable of RMB1,515 million and loans and borrowings of RMB721 million. Its percentage to assets is as follows:

	2010 RMB million	2009 RMB million	Change RMB million
Interest-bearing liabilities	**2,236**	1,470	766
Total assets	**6,732**	2,509	4,223
Total debt ratio: (Interest bearing liabilities to total assets)	**33.2%**	58.6%	-25.4%

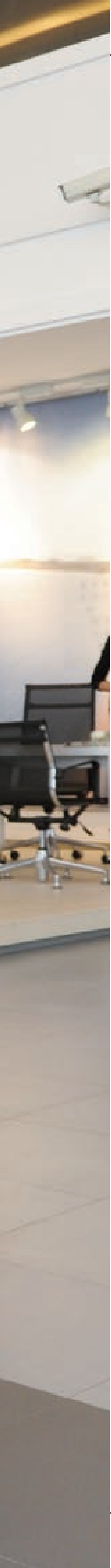
As at 31 December 2010, interest-bearing liabilities to total assets decreased by 25.4% over 2009, primarily as a result of cash inflow from proceeds of new issuance of shares.

Investments held in foreign currency and hedgings

During the year, the Group did not hold any investments denominated in foreign currencies. Further, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate. Currently, the Group does not employ any financial instruments for hedging purposes.




全新BMW 5系Li。
BMW 320
Coupe



Employees and remuneration policies

As at 31 December 2010, the Group had a total of 3,103 employees in China (2009: 2,521 employees).

The Group has always valued human resources development by offering competitive remuneration packages and various training programs to its employees. The Group's employees are highly educated. As at 31 December 2010, approximately 22.1% of its employees have university or associated university or above degrees. The Group typically recruits graduates from vocational schools, colleges and universities around China. The Group attends on-campus and off-campus career fairs. In addition, the Group also recruits employees through various other channels, including advertisements in local newspapers and postings on job recruitment websites.

The Group offers competitive remuneration packages and welfare benefits, including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans. The Group's contributions are made based on specified percentages of the salaries of employees, up to a maximum amount specified by the respective local government authorities where the Group operates its businesses.

Future prospects

Looking into the future, with China becoming the world's largest automobile seller and the formulation of the National China's Twelfth Five-Year Plans for the automobile industry, we expect the automobile industry in China to continue its strong growth and experience a new phase of growth. According to estimates released by the CAAM, the sales volume of the automobile sector in China will exceed 25 million automobiles by 2015. The automobile sector is expected to maintain its strong growth momentum in sales and the Group is very optimistic about the future prospects.

Dealership of premium branded automobiles will continue to be our top priority in the course of our corporate development. Looking ahead, the Group will endeavour to further enhance its leading position in the existing premium and ultra premium automobile dealership market on the one hand, and on the other hand, will be committed to introducing other popular high-end brands through optimising the dealership portfolio of high-end brands and establishing more ultra premium branded automobile dealership stores selectively. The Group intends to expand its 4S dealership stores to 48 stores and 68 stores respectively in 2011 and 2012, and a majority of the dealership stores is planned to feature premium and ultra premium branded automobiles.

Moreover, the Group will also endeavour to expand and optimize the network distribution for automobile dealership and strengthen its leading position in the existing regions including the affluent first tier cities such as, Shanghai and Guangzhou and the high growth regions such as Hubei, Hunan, Jiangxi and Inner Mongolia on the basis of balanced development so as to enhance sales revenue through economies of scale. At the same time, the Group will expand into other attractive affluent regions, top tier cities or provincial capitals by means of acquisition and establishing new stores.

In addition, the Group will further reinforce the cooperation with automobile manufacturers to explore win-win opportunities and strive to become the automobile manufacturers' dealer of choice. Further, the Group intends to tap into the used automobiles sector to leverage on its customer base and capture the opportunities from the growing demand for used premium branded automobiles in China.

The Group will continue to enhance its operating efficiency and invest in information technology system to support the operating direction and speedy expansion of the Group. Meanwhile, the Group will keep attracting, training and retaining high caliber employees to contribute to the Groups' continuous growth and expansion.

Over the past few years, we have been able to seize the market opportunities and achieve speedy business growth under the leadership of its management. The management believes that the Group will become a leading premium branded 4S dealership group in China by differentiating and growing itself in the fast growing automobile market in China in an effort to maximise returns to shareholders.

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2010.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented are explained in this Corporate Governance Report.

Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the Group's success and sustainability.

The Company has adopted the code provisions set out in the CG Code. The Board is of the view that throughout the period from 10 December 2010, the date of which the shares of the Company are listed on the Main Board of the Stock Exchange, to 31 December 2010 (the "Relevant Period"), the Company has complied with the code provisions set out in the CG Code, save for the deviation from code provision A.2.1 which deviation is explained in the relevant paragraph of this report.

The Company will periodically review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Board of Directors

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Company's businesses, strategic decisions and performance. The Board has delegated to the Chief Executive Officer, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

Delegation by the Board

The Board reserves for its decisions on all major matters of the Company, including: the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Operation and Management Committee which is the management authority of the Group. The members of it comprise the Chief Executive Officer and four other executive directors and members of the senior management. Its delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Committee.

Board Composition

Membership of the Board is currently made up of 9 members in total, with 5 executive directors, 1 non-executive director and 3 independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:

Mr. Wang Kunpeng
(Chief Executive Officer, Chairman of the Operation and Management Committee and member of the Remuneration Committee)

Mr. Li Zhubo
(Chief Financial Officer and member of the Operation and Management Committee)

Mr. Cao Limin
(Senior Vice President and member of the Operation and Management Committee)

Mr. Liu Dongli
(Chief Investment Officer, member of the Operation and Management Committee and the Nomination Committee)

Mr. Chen Tao

Non-executive director:

Mr. Wang Muqing

Independent non-executive directors:

Dr. Wong Tin Yau, Kelvin
(Chairman of the Audit Committee and member of the Remuneration Committee)

Mr. Tan Xiangyong
(Chairman of the Remuneration Committee and member of the Nomination Committee and the Audit Committee)

Mr. Zhang Yansheng
(Chairman of the Nomination Committee and member of the Audit Committee)

Mr. Chen Tao, a former non-executive director of the Company, was re-designated as executive director of the Company by the Board at the board meeting held on 12 March 2011. Upon his re-designation as executive director of the Company, Mr. Chen resigned as member of the Audit Committee. Mr. Tan Xiangyong, an independent non-executive director of the Company, was appointed as member of the Audit Committee with effect from 12 March 2011.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

None of the members of the Board is related to one another.

Throughout the Relevant Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise. The Board has adopted the recommended best practice under the CG Code for maintaining, throughout the Relevant Period, the proportion of the independent non-executive directors to at least one-third of the Board.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all such directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All directors, including non-executive director and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Chairman and Chief Executive Officer

The Company fully supports the Code Provision A.2.1 that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual so as to ensure a balance of power and authority.

As the Company has not appointed the Chairman of the Board at this moment, Mr. Wang Kunpeng, the Chief Executive Officer, usually chairs the meetings of the Board. In performing his role as chairman of the meetings, he provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices.

Mr. Wang Kunpeng is also the Chairman of the Operation and Management Committee and is responsible for running the Company's businesses, implementing the Company's strategic plans and business goals and formulating and recommending business plans and budgets to the Board.

The Board considers that the current arrangement does not impair the balance of power and authority between the Board and the management of the Company.

The Board reviews its structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors. Details of the Nomination Committee are set out in the "Board Committees" section below.

Each of the directors of the Company is engaged on a service contract (for executive director) or letter of appointment (for non-executive director and independent non-executive director) for a term of 3 years. The appointment may be terminated by giving 3 months' written notice.

Pursuant to the Company's Articles of Association, at each annual general meeting, one-third of the directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Accordingly, Mr. Wang Kunpeng, Mr. Li Zhubo, Mr. Cao Limin, Mr. Liu Dongli, Mr. Chen Tao, Mr. Wang Muqing, Dr. Wong Tin Yau, Kelvin, Mr. Tan Xiangyong and Mr. Zhang Yansheng will be retiring at the forthcoming annual general meeting and being eligible, offer themselves for re-election at the forthcoming 2011 annual general meeting pursuant to the Company's Articles of Association.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming 2011 annual general meeting of the Company.

Induction and Continuing Development of Directors

Every newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

All directors are also encouraged to undertake continuing education relating to new development on the rights and duties, legal and ethical responsibilities of directors and changes in legal and regulatory compliance requirements so as to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

Board and Committee Meetings

Board Practices and Conduct of Meetings

The Company was incorporated in the Cayman Islands on 9 July 2010 and listed on the Stock Exchange in December 2010. During the financial year ended 31 December 2010, the Board held four meetings, none of which were held during the Relevant Period. The attendance records of each director at the Board meetings are set out below:

Name of Director	Attendance/ Number of Meetings during the Tenure of Office
Mr. Wang Muqing	4/4
Mr. Wang Kunpeng	4/4
Mr. Li Zhubo	4/4
Mr. Cao Limin	3/3
Mr. Liu Dongli	3/3
Mr. Chen Tao	3/3
Dr. Wong Tin Yau, Kelvin	2/2
Mr. Tan Xiangyong	2/2
Mr. Zhang Yansheng	2/2

The Company will comply with the CG Codes to have annual meeting schedules and draft agenda of each meeting of the Board and the Committees made available to directors in advance, serving notices of regular Board meetings at least 14 days before the meetings. For other Board and committee meetings, reasonable notice will be given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 business days before each Board meeting or committee meeting to keep the directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes will be circulated to directors or the committee members for comment and records respectively within a reasonable time after each meeting. Minutes of Board meetings and committee meetings are kept by the Company Secretary or the duly appointed secretaries of the respective meetings (as the case may be) and are available for inspection by all directors at all reasonable time.

The Company's Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Board Committees

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the Company's website and are available to shareholders upon request. Board committees are provided with sufficient resources to discharge their duties and are required to report back to the Board on their decisions or recommendation.

No meeting of the Remuneration Committee, the Nomination Committee and the Audit Committee were held during the financial year ended 31 December 2010.

Remuneration Committee

The Remuneration Committee comprises three members, the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on the Company's policy and structure for all remuneration of the directors and the senior management and determining the remuneration packages of the executive directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

Nomination Committee

The Nomination Committee comprises three members, the majority of them are independent non-executive directors.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as directors, making recommendations to the Board on the appointment or re-appointment of and succession planning of directors and assessing the independence of independent non-executive directors.

Audit Committee

The Audit Committee initially comprised 3 non-executive directors, with independent non-executive directors in majority (including one independent non-executive director with the appropriate professional qualifications and accounting expertise). Upon the re-designation of Mr. Chen Tao as executive director of the Company from non-executive director on 12 March 2011, Mr. Chen resigned as member of the Audit Committee on the same day. Mr. Tan Xiangyong, an independent non-executive director of the Company, was appointed as member of the Audit Committee on 12 March 2011. The Audit Committee now comprises all the three independent non-executive directors. None of the committee members is a former partner of the Company's existing external auditors.

The Audit Committee is responsible to assist the Board to review and supervise the adequacy and effectiveness of the Company's financial reporting system, internal control systems and the risk management system and associated procedures as well as the internal and external audit functions. It is also responsible for reviewing the completeness, accuracy, clarity and fairness of the Company's financial statements, considering the scope, approach and nature of both internal and external audit reviews and reviewing and monitoring connected transactions. The Audit Committee annually assesses the appointment of the external auditors and reviews the interim and final results of the Group prior to recommending them to the Board for approval.

The Company's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee with Dr. Wong Tin Yau, Kelvin, Mr. Zhang Yansheng and Mr. Chen Tao as members.

Model Code for Securities Transactions

The Company has adopted a securities dealing code ("Securities Dealing Code") regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Securities Dealing Code and the Model Code throughout the Relevant Period.

The Company has also adopted a warning to employees about insider dealing ("Insider Dealing Warning") for securities transactions by employees.

No incident of non-compliance of the Insider Dealing Warning by the employees was noted by the Company.

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2010. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about its reporting responsibilities for the financial statements is set out in the Section headed "Independent Auditor's Report" on page 56.

The remuneration charged by the Company's auditors, KPMG, during the year ended 31 December 2010 is set out below:

Category of Services	**Fee Paid/ Payable** RMB
Audit Service	1,500,000
Non-audit Services	–
TOTAL	1,500,000

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and, through the Audit Committee, reviewing the effectiveness of such system on an annual basis. The Board is committed to conduct at least annually a review of the effectiveness of the internal control systems of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

As the Company was just listed in December 2010, the annual review of the internal control system will be conducted as soon as possible.

Non-Compete Undertakings by the Controlling Shareholders

In accordance with the non-compete undertakings ("Non-Compete Undertakings") contained in the share purchase agreement dated 17 November 2010 and made between the Company, Mr. Wang Muqing, Grand Glory Enterprises Limited ("Grand Glory") and Joy Capital Holdings Limited ("Joy Capital"), each of Mr. Wang, Grand Glory and Joy Capital (collectively, the "Covenantors") has undertaken in favour of the Company that during the period in which he and his associates, individually or taken as a whole, remains a controlling shareholder (as defined under the Listing Rules) of the Company, they would comply with the terms of the Non-Compete Undertakings.

In addition, under the Non-Compete Undertakings, each of the Covenantors has undertaken to the Company that he shall provide to the Company and/or the Directors (including the independent non-executive directors) from time to time all information necessary for annual review by the independent non-executive directors with regard to compliance with the terms of the Non-Compete Undertakings. Each of the Covenantors has also undertaken to issue an annual confirmation to the Company on compliance with the terms of the Non-Compete Undertaking, their interests in any projects or business opportunities, if any, and consenting to the disclosure of such confirmation in the annual reports of the Company, thereby enabling the Company to keep monitoring the relevant compliance by the Covenantors.

The Company has received an annual confirmation from the Covenantors in respect of their compliance with the terms of the Non-Compete Undertakings and that they have not engaged, nor been interested, in any business which directly or indirectly, competes or may compete with the business of the Group since the Listing Date up to 31 December 2010.

The independent non-executive directors have reviewed the said undertakings and are of the view that the Covenantors have complied with the Non-Compete Undertakings during the period between the Listing Date and 31 December 2010.

Communications with Shareholders and Investors

The Company considers that effective and on-going communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to evaluate the performance of the Group.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company also communicates with the shareholders, investors and general public through annual reports, interim announcements and other corporate announcements.

To promote effective communication, the Company maintains a website at http://www.zhengtongauto.com, where up-to-date information and updates on the Company's structure, Board of Directors, business developments and operations, financial information, corporate governance practices and other information are posted.

Shareholder Rights

To safeguard the shareholder interests and rights, a separate resolution should be proposed for each substantially separate issue at shareholders meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the requirements of the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting. Detailed procedures for conducting a poll will be explained during the proceedings of meetings.

DIRECTORS

Executive Directors

Mr. WANG Kunpeng (王昆鵬先生), aged 39, is an executive director appointed on 20 July 2010 and has served as the chief executive officer since 1 May 2010. Mr. Wang is also the Chairman of the Operation and Management Committee and a member of the Remuneration Committee of the Company. He has held several senior management positions within the Group since 2006, including at Hubei Shengze Industry Co., Ltd. (湖北聖澤實業有限公司) where he has been the chief executive officer since 2009 and was previously the special assistant of the president and at Wuhan Shengze Jietong Logistics Co., Ltd. (武漢聖澤捷通物流有限公司), where he was the general manager and had the primary responsibilities of overseeing the logistics services business. Prior to joining the Group, Mr. Wang held several positions in FAW-Volkswagen Sales Company Ltd. (一汽大眾銷售有限責任公司), a company engaged in distribution-related activities with respect to Volkswagen automobiles, from 1997 to 2006, including as the general manager of the central south China region from 2002 to 2006, the chief executive manager of Liaoning and Shandong region from 2000 to 2002, the manager of the Liaoning region from 1997 to 2000, where his primary responsibilities included the management of sales of, after-sales services for, and logistics services relating to Audi and Volkswagen branded automobiles. Mr. Wang received a diploma in vehicle engineering from Jilin University of Technology in 1994.

Mr. LI Zhubo (李著波先生), aged 41, is an executive director appointed on 20 July 2010 and has served as the chief financial officer since 1 May 2010 with primary responsibilities for overall financial management of the Group. He is also a member of the Operation and Management Committee of the Company. Mr. Li has also served as a vice president of Hubei Shengze Industry Co., Ltd. (湖北聖澤實業有限公司) since 2003. Mr. Li has 18 years of experience in financial management in the automobile industry. Prior to joining the Group in 1999, Mr. Li served as an accounting officer of Hubei Shenying Automobile Co., Ltd. (湖北神鷹汽車有限責任公司), a specialty vehicle manufacturer based in Hubei province, from July 1992 to July 1996. Mr. Li received a diploma in audit from Finance and Trading School of Yunyang, a junior college certificate in financial accounting jointly issued by the Amateur College and Direct Subordinate Organisation of Hubei Provincial Government in 1992 and 2004 respectively. He also completed the non-degree undergraduate accounting program jointly sponsored by Beijing Technology and Business University and The Open University of China in 2006.

Mr. CAO Limin (曹里民先生), aged 41, has been an executive director since 7 August 2010 and a senior vice president since 1 August 2010. He is also a member of the Operation and Management Committee of the Company. Mr. Cao has held several senior positions in Hubei Shengze Industry Co., Ltd. (湖北聖澤實業有限公司), including as vice president from 1998 to 2002, executive president from 2003 to 2009 and president since 2009. Mr. Cao has approximately 20 years of experience in automobile industry. Prior to joining the Group in 1998, Mr. Cao was an assistant engineer in the manufacture design institute of Dongfeng Motor Corporation (東風汽車公司), an automobile manufacturer in China, from July 1991 to November 1996. Mr. Cao served as business manager of Dongfeng Automobile Industrial Financing Company (東風汽車工業財務公司) from November 1996 to March 1998. Mr. Cao received a bachelor's degree in computer applications from Fudan University in 1991.

Mr. LIU Dongli (柳東靂先生), aged 40, has been an executive director since 7 August 2010 and the chief investment officer of the Group since 1 May 2010 and is responsible for strategic investments and the development of dealership network, including the establishment and acquisition of dealership stores. Mr. Liu has over 10 years of experience in the automobile industry. He is also a member of the Nomination Committee and a member of the Operation and Management Committee of the Company. Mr. Liu was the vice president of Hubei Shengze Industry Co., Ltd. (湖北聖澤實業有限公司) from August 2009 to July 2010. Prior to joining the Group, Mr. Liu was the chief operating officer of China Grand Automotive Service Co., Ltd. (廣匯汽車服務股份公司), a major automobile dealership group in China, from October 2007 to February 2009, as its acting chief executive officer for one year and the chief dealership network officer from February 2009 to July 2009. From 1999 to 2007, Mr. Liu held various positions in Shanghai Shenhua Holdings Co., Ltd. (上海申華控股股份有限公司 stock code: 600653), a listed subsidiary of Brilliance Auto Group Co., Ltd. (華晨汽車集團控股有限公司), which is an automobile manufacturer that has indirectly established BMW Brilliance Automotive Co., Ltd.

(華晨寶馬汽車有限公司) with BMW AG to manufacture BMW branded automobiles in China, including acting as the deputy manager of investment department from 1999 to 2002, the secretary of the board of directors and the head of investment department from 2002 to 2003, the vice president from June 2002 to October 2007 and a director from December 2005 to October 2007. Mr. Liu received a bachelor's degree in business management from Shanghai University of Finance and Economics in 1992 and a master's degree in business administration from Shanghai University of Finance and Economics in 2000. Mr. Liu is also the vice chairman of the China Auto Dealers Chambers of Commerce and an executive member of China Automobile Dealers Association.

Mr. CHEN Tao (陳弢先生), aged 40, has served as a non-executive director of the Group since 7 August 2010 and is re-designated as an executive director on 12 March 2011. Mr. Chen was a member of the Audit Committee of the Company from 17 November 2010 to 12 March 2011. He is responsible for investors' relationship. Mr. Chen has over 16 years of experience in management consulting and has been a consultant to Hubei Shengze Industry Co., Ltd. (湖北聖澤實業有限公司) since 2009. Prior to joining the Group, Mr. Chen served as a management consultant of Beijing Pilot Sales Marketing Management Consultant Co., Ltd. (北京派力營銷管理諮詢有限公司) from 1994 to 1998 and as a management consultant of Shanghai Bexcel Management Consultants Co., Ltd. (上海遠卓企業管理諮詢有限責任公司) from 1999 to 2009. Mr. Chen received a bachelor's degree in machinery design and manufacture from Zhejiang University in 1992.

Non-executive Director

Mr. WANG Muqing (王木清先生), aged 60, is the founder of the Group and has served as a non-executive director since 9 July 2010. Mr. Wang is also the controlling shareholder of the Company. Prior to founding the Group in 1999, Mr. Wang held various positions from 1970 to 1998 in the Shiyan Representative Office of Hubei Industrial Building Group Installation Engineering Co., Ltd. (湖北省工業建築集團安裝工程有限公司十堰辦事處), which engaged in the business of the installation and commission of equipment. As he had an opportunity to meet with some of the manufacturers and/or distributors of automobiles, he became interested in establishing his own business in the automobile industry. He thus established an automobile trading business in 1996 with an initial registered capital amounted to RMB688,000. The management responsibility of such enterprise was then entrusted with other family members of Mr. Wang, and to date, he has not actively participate in the management of any 4S dealership business.

Independent Non-executive Directors

Mr. TAN Xiangyong (譚向勇先生), aged 53, has served as an independent non-executive director of the Group since 17 November 2010. Mr. Tan is also the Chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee of the Company. Mr. Tan has been the president of Beijing Technology and Business University and as a doctoral supervisor in Economics since March 2008. Mr. Tan also holds several senior management positions in various associations and public bodies including, serving as the vice chairman of the China Logistic and Supply Association since 2007, the vice chairman of the China Agricultural Economics Institution since 1999, a council of the 7th and 8th Beijing municipal government since 2003 and a member of the expert committee of the "11th Five-Year Plan" of Beijing since 2005. Mr. Tan has also held several positions in various educational institutions, including Beijing Agricultural University (which became China Agricultural University in September 1995) from August 1982 to October 2005, where he was a professor and dean of the Economics and Management School from 1993 to 1997 and the executive vice dean of the postgraduate school from 1997 to 1998 and the vice president of the China Agricultural University from 1998 to 2005. Mr. Tan was also the president of Beijing Wuzi University from 2005 to 2008. Mr. Tan received a bachelor's degree in agricultural economics in 1982, a master's degree in agricultural economics and administration in 1988 and a doctor's degree in agricultural economics and management in 1995 from Beijing Agricultural University. Mr. Tan is an expert entitled to special subsidy from the State Council of the PRC. Mr. Tan was recognized as a Beijing Excellent Tutor and National Excellent Tutor in 1995.

Mr. ZHANG Yansheng (張燕生先生), aged 56, has served as an independent non-executive director of the Group since 17 November 2010. Mr. Zhang is also the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. Mr. Zhang also serves in several senior management positions of various official bodies including as the head of the Institute for International Economic Research of the National Development and Reform Commission since 1996 and professor of international finance of the Central University of Finance and Economics. Mr. Zhang previously served as the senior supervisor of the Central University of Finance and Economics from 1984 to 1996. Mr. Zhang received a bachelor's degree in law from Sichuan Normal College (now become Sichuan Normal University) in 1981 and graduated from the graduate school of Huazhong University of Science and Technology with a master's degree in Economics. Mr. Zhang is an expert entitled to special subsidy from the State Council of the PRC.

Dr. WONG Tin Yau Kelvin (黃天祐博士), aged 50, has served as an independent non-executive director of the Group since 17 November 2010. Dr. Wong is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Dr. Wong is also an executive director and deputy managing director of, the chairman of the corporate governance committee and a member of the executive committee of COSCO Pacific Limited 中遠太平洋有限公司 (stock code: 1199), where he is responsible for the overall management, strategic planning, financial management, and investor relations. Dr. Wong held various senior positions in several listed companies in Hong Kong before he joined COSCO Pacific Limited 中遠太平洋有限公司 in July 1996. In addition, Dr. Wong is the Chairman of The Hong Kong Institute of Directors, Council Advisor and former Chairman of the Hong Kong Chinese Orchestra Limited, a member of the OECD/World Bank Asian Corporate Governance Roundtable, a member of Main Board and GEM Listing Committee of The Stock Exchange of Hong Kong Limited, a member of the SFC (HKEC Listing) Committee of the Securities and Futures Commission, a member of the Appeal Board Panel (Town Planning), a member of the Standing Committee on Company Law Reform, a member of Corruption Prevention Advisory Committee of Independent Commission Against Corruption, a member of The Board of Review (Inland Revenue Ordinance) and a Board Director of Business Environment Council. He was a member of the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants and a member of the China Trade Advisory Committee of the Hong Kong Trade Development Council. Dr. Wong received a master of business administration from Andrews University in Michigan in the United States in 1992 and a doctor's degree from The Hong Kong Polytechnic University in 2007. He is an associate member of The Chartered Institute of Bankers, a member of the Hong Kong Securities Institute, The Chartered Institute of Marketing and the former National Investor Relations Institute in the United States. He has more than 25 years of working experience in management, banking and securities industries. Dr. Wong is also currently an independent non-executive director and chairman of the audit committee of China Metal International Holdings Inc. 勤美達國際控股有限公司 (stock code: 0319), an independent non-executive director of CIG Yangtze Ports PLC (stock code: 8233) and an independent non-executive director of I.T Limited (stock code: 0999) and was an independent non-executive Director and the chairman of the audit committee of Tradelink Electronic Commerce Limited 貿易通電子貿易有限公司 (stock code: 0536). Dr. Wong is the independent non-executive director who has the qualifications and experience (as mentioned above) to meet the requirements under Rule 3.10(2) of the Listing Rules.

OTHER SENIOR MANAGEMENT

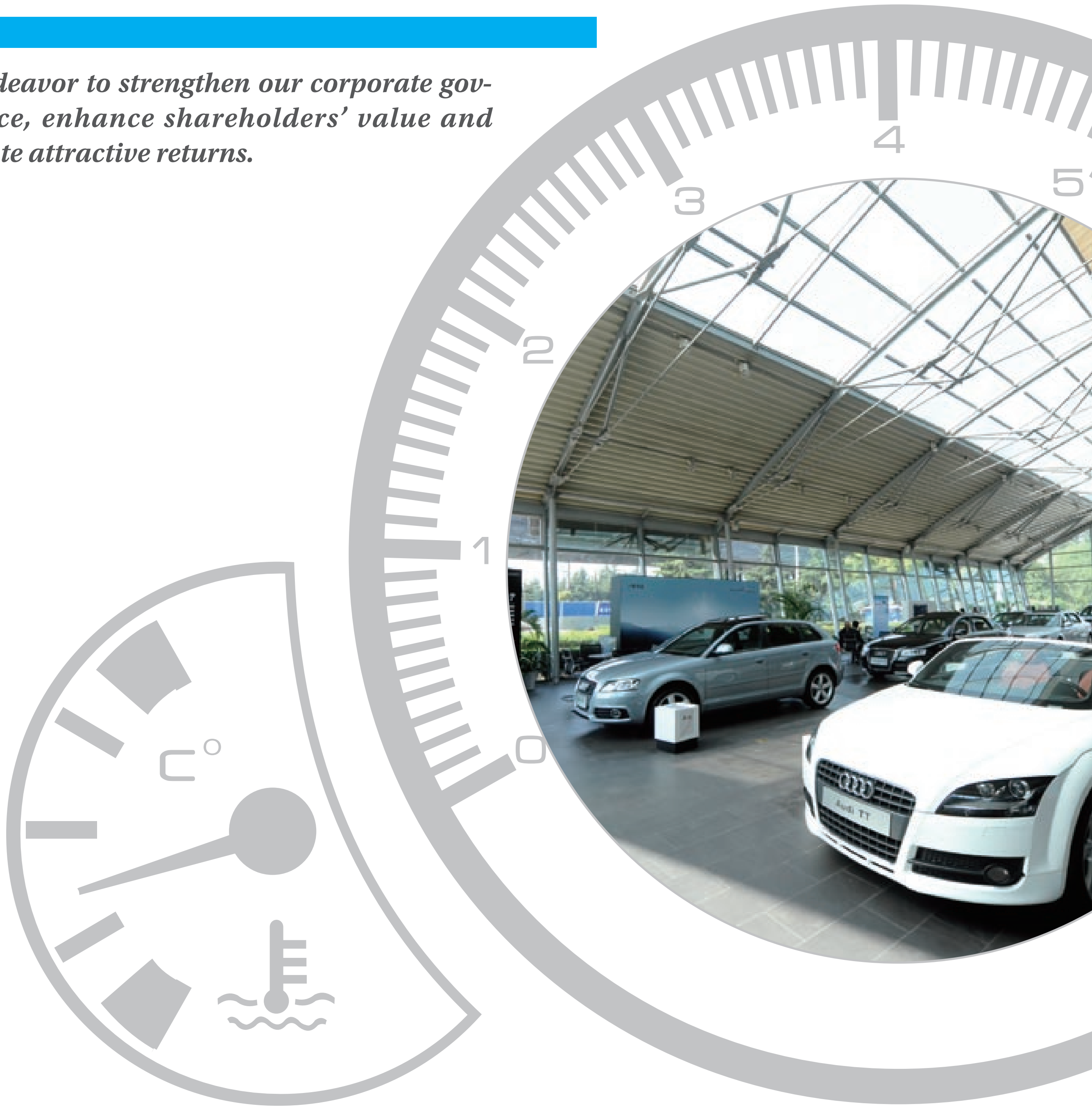
Mr. MOK Kwok Choi Peter (莫國材先生), aged 41, has served as the chief operating officer since 16 July 2010 and oversees the management and operation of all of the Group's dealership stores. Mr. Mok has over 8 years of experience in the operation of automobile dealership stores. Prior to joining the Group, Mr. Mok held various positions at Northern China German Auto Co. Limited 燕京德國汽車有限公司 and its subsidiaries, a BMW dealership company in northern China, from April 2003 to July 2010, including as the director of sales and marketing of the Beijing region from April 2003 to March 2004, the general manager of Beijing Yandebao Auto Sales Co., Ltd. (北京燕德寶汽車銷售有限公司), a subsidiary of Northern China German Auto Co., Limited 燕京德國汽車有限公司 from April 2004 to August 2005, the general manager of the Beijing region from September 2005 to June 2010, and the general manager of the northern China region for the BMW department from June 2010 to July 2010, with responsibilities that included managing the growth and expansion of the dealership network. Mr. Mok received a bachelor's degree in art with honors from the University of Hong Kong in 1991 and a master of business administration (distance education) from the University of Strathclyde in 2005. Mr. Mok has received several awards from BMW, including first place in the northern region of the BMW China Incentive 2006 Program and general manager of the Outstanding MINI Team 2009.

Ms. WANG Guoqing (王國清女士), aged 45, has served as the chief human resource officer since 17 June 2010 and oversees the Group's human resources. Ms. Wang has over 10 years of experience in human resources management. Prior to joining the Group, from 1999 to 2010, Ms. Wang held various positions in Auchan Group (歐尚集團), which operates supermarkets and hypermarkets internationally, including as the human resource manager of its Shanghai Zhongyuan store from 1999 to 2002 and recruiting manager and career development planning manager of Auchan Group China (歐尚中國) from 2002 to 2004. From 2004 to 2010, Ms. Wang was the chief human resources officer of Leroy Merlin China (樂華梅蘭集團中國公司), a member of company of Groupe Adeo, an international association of "do it yourself" home improvement retailers. Ms. Wang received a bachelor's degree in international politics from Fudan University in 1986 and a master's degree in marketing from ESSEC Business School of France in 1996.

Mr. LIANG, Current Tien Tzu (梁天柱先生), also known as T.T. Liang, aged 54, has served as the financial controller and company secretary of the Company since 4 September 2010 and 17 November 2010 respectively. He has over 27 years of experience in accounting, finance and corporate finance. Prior to his joining the Group, he worked in Guocoland Limited (stock code: F17) as the group financial controller for its China division. He held a number of senior appointments which include director of investor relations of Samson Holding Ltd. (stock code: 531), chief financial officer of Lacquercraft (a subsidiary of Samson Holding Ltd. in China), deputy general manager of Lee & Man Paper Manufacturing Limited (stock code: 2314), executive director and chief financial officer of Minth Group Limited 敏實集團有限公司 (stock code: 425), chief financial officer of NWS Holdings Limited (stock code: 659), chief internal auditor of New World Development Company Limited 新世界發展有限公司 (stock code: 17), and manager of Corporate Advisory Services of Thorne Ernst & Whinney in Toronto, Canada. He is a member of the Canadian Institute of Chartered Accountants and a fellow of the Hong Kong Institute Certified Public Accountants. He held a Master of Professional Accounting degree from The Hong Kong Polytechnic University and a Bachelor of Commerce degree from Concordia University of Montreal, Canada.

Add Value and Attractive Returns

We endeavor to strengthen our corporate governance, enhance shareholders' value and generate attractive returns.

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China Zhengtong management team

The directors are pleased to submit their report together with the audited consolidated financial statements of China ZhengTong Auto Services Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2010.

CORPORATE REORGANISATION

Pursuant to a reorganisation scheme to rationalise the Group's corporate structure in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**"), the Company became the holding company of the companies now comprising the Group. Details of the reorganisation are set out in note 27 to the consolidated financial statements. The shares of the Company were listed on the Stock Exchange on 10 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to the consolidated financial statements.

USE OF NET PROCEEDS RECEIVED FROM THE LISTING

In December 2010, net proceeds received from the Listing, after deducting related expenses, were approximately RMB3,015,689,000. Up to the date of this annual report, the proceeds were deposited in banks and will be utilised in the manner consistent with that mentioned in the prospectus dated 29 November 2010 (the "Prospectus") under the section headed "Future Plans and Use of Proceeds".

RESULTS AND APPROPRIATION

The directors did not recommend the payment of a final dividend.

PLANT, PROPERTY AND EQUIPMENT

The Group acquired property, plant and equipment during the year at an aggregate cost of approximately RMB204.4 million for the expansion of its business. Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

The share capital of the Company during the year is set out in note 27 to the consolidated financial statements.

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 82.63%

and 38.59% of the Group's total purchases for the year ended 31 December 2010 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 5.01% and 3.45% respectively of the Group's total sales for the year.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2010 had any interest in any of the five largest suppliers and customers disclosed above.

TRANSFER TO RESERVES

Total comprehensive income attributable to shareholders of RMB277.0 million (2009: RMB145.9 million) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

DIRECTORS

The directors of the Company (the "**Directors**") during the year and up to the date of this report were:

Executive Directors:

Mr. Wang Kunpeng *(Chief Executive Officer)*	(Appointed on 20 July 2010)
Mr. Li Zhubo	(Appointed on 20 July 2010)
Mr. Cao Limin	(Appointed on 7 August 2010)
Mr. Liu Dongli	(Appointed on 7 August 2010)
Mr. Chen Tao *(Note)*	(Re-designated on 12 March 2011)

Note: Mr. Chen Tao was appointed as non-executive director on 7 August 2010

Non-Executive Director:

Mr. Wang Muqing	(Appointed on 9 July 2010)

Independent Non-Executive Directors:

Dr. Wong Tin Yau, Kelvin	(Appointed on 17 November 2010)
Mr. Tan Xiangyong	(Appointed on 17 November 2010)
Mr. Zhang Yansheng	(Appointed on 17 November 2010)

In accordance with the Company' s articles of association, all Directors shall retire at the forthcoming annual general meeting ("**AGM**") and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in the section "Connected Transactions" in this report, no contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

COMPETING BUSINESS INTERESTS OF DIRECTORS

Save as disclosed under the section "Connected Transactions" in this report, none of the Directors or their respective associates has any interests in a business, which competes or may compete with the business of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Company considers all the independent non-executive Directors are independent.

CONNECTED TRANSACTIONS

Certain transactions entered into by the Company constituted non-exempt continuing connected transactions under the Listing Rules but they have been the subject of waiver granted to the Company by the Stock Exchange subject to compliance of certain conditions.

(A) Contractual Arrangements

A series of contracts entered into by, among others, 武漢聖澤捷通物流有限公司 (Wuhan Shengze Jietong Logistics Co., Ltd.) ("**Wuhan Jietong**"), Rising Wave Development Limited ("**Rising Wave**"), both wholly-owned subsidiaries of the Company, Mr. Li Zhubo ("**Mr. Li**"), an executive director of the Company, and the PRC Operating Entities (as defined in the Prospectus of the Company) serves the purpose of providing the Group with effective control over the PRC Operating Entities to which the Group does not have direct shareholding, and to effectively transfer the economic benefits and pass the risks associated therewith of the PRC Operating Entities (details of which are set out in note 16 to the consolidated financial statements to the Company (the "**Contractual Arrangements**"). The Contractual Arrangements include:

1. *Equity Pledge Agreements*

   Pursuant to 27 several equity pledge agreements (the "**Equity Pledge Agreements**") all dated 17 November 2010 and entered into between Wuhan Jietong as pledgee and

   (i) Hubei Shengze Industry Co., Ltd. ("**Hubei Shengze**") (as the controlling shareholder of Zhuhai Baoze Automobile Sales Services Co., Ltd. ("**Zhuhai Baoze**"), Inner Mongolia Dingjie Automobile Trading Co., Ltd. ("**Inner Mongolia Dingjie**"), Hubei Dingjie Automobile Sales Services Co., Ltd. ("**Hubei Dingjie**"), Hubei Xinrui Automobile Sales Services Co., Ltd. ("**Hubei Xinrui**"), Changsha Ruibao Automobile Sales Services Co., Ltd. ("**Changsha Ruibao**"), Beijing Baozehang Automobile Sales Services Co., Ltd. ("**Beijing Baozehang**"), Wuhan Baoze Automobile Sales Services Co., Ltd. ("**Wuhan Baoze**"), Shantou Hongxiang Materials Co., Ltd. ("**Shantou Hongxiang**"), Dongguan Jieyunhang Automobile Sales Services Co., Ltd. ("**Dongguan Jieyunhang**"), Shanghai Shenxie Automobile Trading Co., Ltd. ("**Shanghai Shenxie**") and Chenzhou Ruibao Automobile Sales Services Co., Ltd. ("**Chenzhou Ruibao**")) as pledgor;

   (ii) Hubei Dingjie (as the controlling shareholder of Wuhan Kaitai Automobile Sales Services Co., Ltd. ("**Wuhan Kaitai**") and Shiyan Shenxie Automobile Trading Co., Ltd. ("**Shiyan Shenxie**")) as pledgors;

   (iii) Wuhan Kaitai (as the controlling shareholder of Inner Mongolia Dingze Automobile Sales Services Co., Ltd. ("**Inner Mongolia Dingze**")) and Inner Mongolia Dingjie (as the other shareholder of Inner Mongolia Dingze) as pledgors;

   (iv) Shanghai Shenxie (as the controlling shareholder of Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. ("**Shenxie Shentong**"), Shanghai Luda Automobile Sales Services Co., Ltd. ("**Shanghai Luda**") and Shanghai Aohui Automobile Sales Services Co., Ltd. ("**Shanghai Aohui**")) as pledgor;

   (v) Wuhan Baoze (as the controlling shareholder of Nanchang Baoze Automobile Sales Services Co., Ltd. ("**Nanchang Baoze**")) and Changsha Ruibao (as the other shareholder of Nanchang Baoze) as pledgors;

   (vi) Wuhan Baoze (as the controlling shareholder of Guangzhou Baoze Automobile Sales Services Co., Ltd. ("**Guangzhou Baoze**")) and Changsha Ruibao (as the other shareholder of Guangzhou Baoze) as pledgors;

   (vii) Wuhan Baoze (as the controlling shareholder of Yichang Baoze Automobile Sales Services Co., Ltd. ("**Yichang Baoze**") and Huhhot Qibao Automobile Sales Services Co., Ltd. ("**Huhhot Qibao**")) as pledgor;

(viii) Shanghai Luda (as the controlling shareholder of Hubei Bocheng Automobile Sales Services Co., Ltd. ("**Hubei Bocheng**")) as pledgor;

(ix) Hubei Bocheng (as the controlling shareholder of Hubei Jierui Automobile Sales Services Co., Ltd. ("**Hubei Jierui**")) as pledgor; and

(x) Huhhot Qibao (as the controlling shareholder of Baotou Baoze Automobile Sales Services Co., Ltd. ("**Baotou Baoze**")) as pledgor,

whereby the above pledgors granted a continuing first priority security over all their direct equity interests in the PRC Operating Entities to Wuhan Jietong for guaranteeing the payment of the service fees under the relevant Exclusive Management and Consultation Services Agreements (as defined below).

2. *Exclusive Option Agreements*
Pursuant to 27 several option agreements (the "**Exclusive Option Agreements**") all dated 17 November 2010 and entered into between Rising Wave and:

(i) Hubei Shengze (as the controlling shareholder of Zhuhai Baoze, Inner Mongolia Dingjie, Hubei Dingjie, Hubei Xinrui, Changsha Ruibao, Beijing Baozehang, Wuhan Baoze, Shantou Hongxiang, Dongguan Jieyunhang, Shanghai Shenxie and Chenzhou Ruibao) and each of the said PRC Operating Entities;

(ii) Hubei Dingjie (as the controlling shareholder of Wuhan Kaitai and Shiyan Shenxie) and each of the said PRC Operating Entities;

(iii) Wuhan Kaitai (as the controlling shareholder of Inner Mongolia Dingze), Inner Mongolia Dingjie (as controlling shareholder of Inner Mongolia Dingze) and Inner Mongolia Dingze;

(iv) Shanghai Shenxie (as the controlling shareholder of Shenxie Shentong, Shanghai Luda and Shanghai Aohui) and each of the said PRC Operating Entities;

(v) Wuhan Baoze (as the controlling shareholder of Nanchang Baoze), Changsha Ruibao (as the other shareholder of Nanchang Baoze) and Nanchang Baoze;

(vi) Wuhan Baoze (as the controlling shareholder of Guangzhou Baoze), Changsha Ruibao (as the other shareholder of Guangzhou Baoze) and Guangzhou Baoze;

(vii) Wuhan Baoze (as the controlling shareholder of Yichang Baoze and Huhhot Qibao) and each of the said PRC Operating Entities;

(viii) Shanghai Luda (as the controlling shareholder of Hubei Bocheng) and Hubei Bocheng;

(ix) Hubei Bocheng (as the controlling shareholder of Hubei Jierui) and Hubei Jierui; and

(x) Huhhot Qibao (as the controlling shareholder of Baotou Baoze) and Baotou Baoze,

whereby Rising Wave was granted options to acquire, directly or through one or more nominees, any part of the equity interest in the PRC Operating Entities at nil consideration or the minimum amount as permitted under the applicable PRC laws.

3. *Exclusive Business Operation Agreements*
Pursuant to 24 several business operation agreements (the "**Exclusive Business Operation Agreements**") all dated 17 November 2010 and entered into between Wuhan Jietong and:

(i) Hubei Shengze (as the controlling shareholder of Zhuhai Baoze, Inner Mongolia Dingjie, Hubei Dingjie, Hubei Xinrui, Changsha Ruibao, Beijing Baozehang, Wuhan Baoze, Shantou Hongxiang, Dongguan Jieyunhang, Shanghai Shenxie and Chenzhou Ruibao) and each of the said PRC Operating Entities;

(ii) Hubei Dingjie (as the controlling shareholder of Wuhan Kaitai and Shiyan Shenxie) and each of the said PRC Operating Entities;

(iii) Wuhan Kaitai (as the controlling shareholder of Inner Mongolia Dingze), Inner Mongolia Dingjie (as the controlling shareholder of Inner Mongolia Dingze) and Inner Mongolia Dingze;

(iv) Shanghai Shenxie (as the controlling shareholder of Shenxie Shentong, Shanghai Luda and Shanghai Aohui) and each of the said PRC Operating Entities;

(v) Wuhan Baoze (as the controlling shareholder of Nanchang Baoze), Changsha Ruibao (as the other shareholder of Nanchang Baoze) and Nanchang Baoze;

(vi) Wuhan Baoze (as the controlling shareholder of Guangzhou Baoze), Changsha Ruibao (as the other shareholder of Guangzhou Baoze) and Guangzhou Baoze;

(vii) Wuhan Baoze (as the controlling shareholder of Yichang Baoze and Huhhot Qibao) and each of the said PRC Operating Entities;

(viii) Shanghai Luda (as the controlling shareholder of Hubei Bocheng) and Hubei Bocheng;

(ix) Hubei Bocheng (as the controlling shareholder of Hubei Jierui) and Hubei Jierui; and

(x) Huhhot Qibao (as the controlling shareholder of Baotou Baoze) and Baotou Baoze,

whereby the PRC Operating Entities have undertaken not to enter into any material business transaction without the prior written consent of Wuhan Jietong and to appoint individuals as nominated by Wuhan Jietong to be the directors and key management of the PRC Operating Entities.

4. *Exclusive Management and Consultation Services Agreements*

Pursuant to 24 several management and consultation services agreements (the "**Exclusive Management and Consultation Services Agreements**") all dated 17 November 2010 and entered into between Wuhan Jietong and:

(i) each of the PRC Operating Entities (other than Shantou Hongxiang, Dongguan Jieyunhang and Baotou Baoze);

(ii) Lin Limin, Wu Yihong (being the minority shareholders of Shantou Hongxiang) and Shantou Hongxiang;

(iii) Lin Cheng (being the minority shareholder of Dongguan Jieyunhang) and Dongguan Jieyunhang; and

(iv) Wang Jianye (being the minority shareholder of Baotou Baoze) and Baotou Baoze,

whereby the PRC Operating Entities have engaged Wuhan Jietong on an exclusive basis to provide consultation services and other supporting services in connection with the PRC Operating Entities' business services as permitted under the PRC laws.

5. *Proxy Agreements*

Pursuant to 27 several proxy agreements (the "**Proxy Agreements**") all dated 17 November 2010 and entered into between Wuhan Jietong, Mr. Li as chairman of Wuhan Jietong and an executive Director, and:

(i) Hubei Shengze (as the controlling shareholder of Zhuhai Baoze, Inner Mongolia Dingjie, Hubei Dingjie, Hubei Xinrui, Changsha Ruibao, Beijing Baozehang, Wuhan Baoze, Shantou Hongxiang, Dongguan Jieyunhang, Shanghai Shenxie and Chenzhou Ruibao);

(ii) Hubei Dingjie (as the controlling shareholder of Wuhan Kaitai and Shiyan Shenxie);

(iii) Wuhan Kaitai (as the controlling shareholder of Inner Mongolia Dingze) and Inner Mongolia Dingjie (as the controlling shareholder of Inner Mongolia Dingze);

(iv) Shanghai Shenxie (as the controlling shareholder of Shenxie Shentong, Shanghai Luda and Shanghai Aohui);

(v) Wuhan Baoze (as the controlling shareholder of Nanchang Baoze) and Changsha Ruibao (as the other shareholder of Nanchang Baoze);

(vi) Wuhan Baoze (as the controlling shareholder of Guangzhou Baoze) and Changsha Ruibao (as the other shareholder of Guangzhou Baoze);

(vii) Wuhan Baoze (as the controlling shareholder of Yichang Baoze and Huhhot Qibao);

(viii) Shanghai Luda (as the controlling shareholder of Hubei Bocheng);

(ix) Hubei Bocheng (as the controlling shareholder of Hubei Jierui); and

(x) Huhhot Qibao (as the controlling shareholder of Baotou Baoze),

whereby Mr. Li (or such other person being the chairman of Wuhan Jietong) is authorised to exercise the shareholders' rights in each of the PRC Operating Entities including attending shareholders' meeting and exercising voting rights according to the best interest and at the instructions of Wuhan Jietong; any person designated by Wuhan Jietong is authorised to enjoy and exercise the shareholders' rights in each of the PRC Operating Entities (in the event that Mr. Li shall cease to be the chairman of Wuhan Jietong); and any dividend and/or capital gain derived from the equity interests in the PRC Operating Entities shall be paid to Wuhan Jietong as soon as practicable and in any event no later than three days upon receipt of the payment or distribution.

The above Contractual Arrangements allow the Company to consolidate the financial results of the PRC Operating Entities into the Group's financial statements as if they were the Group's wholly-owned subsidiaries. The Directors consider that the Contractual Arrangements are fundamental to the Group's legal structure and business operations and are on normal commercial terms or terms more favourable to the Group and are fair and reasonable or to the advantage of the Group and are in the interests of the shareholders as a whole.

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out from the date when the Contractual Arrangements became effective up to 31 December 2010 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, had been operated so that the profits generated by the PRC Operating Entities has been substantially retained by Wuhan Jietong; (ii) no dividends or other distributions had been made by the PRC Operating Entities to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) such are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders as a whole.

(B) Lease Agreements

The Group has entered into the following non-exempt continuing connected transactions which are subject to the reporting and announcement requirements. The following lease agreements ("**Lease Agreements**") with respective landlords, all being members of the Group, for leasing of the premises are necessary for the business operation of the Group in the PRC:

	Date of Agreement	Location	Monthly Rental	Term
1.	1 August 2010	4S Shop, No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	RMB126,000	From 1 August 2010 to 31 July 2013 (Note 1)
2.	1 August 2010	4S Shop, No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	RMB176,000	From 1 August 2010 to 31 July 2013 (Note 1)
3.	30 September 2010	4S Shop, No. 40 Xingan North Road, Xincheng District, Huhhot City, Inner Mongolia Autonomous Region (Note 2)	RMB13,000	From 30 September 2010 to 29 September 2013 (Note 3)
4.	30 September 2010	4S Shop, No. 688 Changsha Avenue, Yuhua District, Changsha City, Hunan Province, the PRC	RMB175,000	From 30 September 2010 to 29 September 2013 (Note 1)
5.	30 September 2010	4S Shop, No. 42 Xingan North Road, Xincheng District, Huhhot City, Inner Mongolia Autonomous Region, the PRC	RMB78,000	From 30 September 2010 to 29 September 2013 (Note 1)
6.	1 August 2010	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	RMB525,000	From 1 August 2010 to 31 July 2013 (Note 1)
7.	1 August 2010	Lot 5C2, Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	RMB125,000	From 1 August 2010 to 31 July 2013 (Note 1)
8.	1 June 2010	4S Shop on Levels 1 to 3 and Basement 1 No. 59 West Third Ring South Road, Feng Tai District, Beijing City, the PRC	RMB545,175	From 1 June 2010 to 31 May 2013

Notes:

1. Option granted to renew for successive terms of no more than three years each up to 2020.
2. Pursuant to this Lease Agreement, the piece of land located at 呼和浩特市新城區興安北路40號, instead of the premises thereon, is leased to Huhhot Qibao as lessee. Huhhot Qibao is the owner of the premises located on the said piece of land.
3. Option granted to renew on similar terms of the agreement up to 2020.

The annual cap on the rental payable in respect of the lease under the Lease Agreements for each of years ended 31 December 2010 and ending 31 December 2011 and 2012 would not exceed approximately RMB11.5 million, RMB21.2 million and RMB21.2 million respectively (equivalent to approximately HK$13.1 million, HK$24.0 million and HK$24.0 million respectively). The aggregate amount paid by the Group to the relevant landlord in respect of the Lease Agreements during the year was approximately RMB10.9 million, which did not exceed the capped amount.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Group for the year ended 31 December 2010 which has reported to the board of Directors in a letter dated 12 March 2011.

The independent non-executive Directors of the Company have reviewed the non-exempt continuing connected transactions and the report of KPMG and are of the opinion that the transactions were entered into by the Group:

(a) in the ordinary and usual course of the Group's business;

(b) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Save as disclosed in the section headed "Connected transactions" of this report, the Group had not entered into any related party transaction during the year under review.

SHARE OPTION SCHEMES

(A) Share Option Scheme

The Company has adopted a share option scheme ("**Share Option Scheme**") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee ("**Eligible Employee(s)**") (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of the Company's subsidiaries or any entity (the "**Invested Entity**") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange (the "**General Scheme Limit**"), i.e. 200,000,000 shares, representing 10% of the issued share capital of the Company as at the date of Listing and as at the date of this report.

No option has been granted under the Share Option Scheme as at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other Share Option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "**Individual Limit**"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules) ("**Connected Persons**"), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the earlier termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

No options have been granted under the Share Option Scheme.

(B) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("**Pre-IPO Share Option Scheme**") pursuant to a resolution in writing passed by the shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options for the subscription of 23,435,900 shares to certain Directors, senior management, employees and former employees of the Group on 10 August 2010, 20 August 2010 and 10 November 2010 respectively.

None of the options granted under the Pre-IPO Share Option Scheme were exercised or cancelled.

Particulars of the Pre-IPO Share Options are set out below:

Category of grantees	**Number of grantees**	**Number of underlying Shares under the Pre-IPO Share Option Scheme**
Directors (including executive and independent non-executive Directors)	4	8,200,000
Senior management of the Group and company secretary of the Company	3	3,430,000
Holders of Pre-IPO Share Options in respect of each of which the number of underlying Shares is 1 million or more	3	4,110,000
Other employees or former employees of the Group	83	7,695,900
	93	23,435,900

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Settlor of The Grand Glory Trust	1,453,977,500 Shares (Note 1)	72.70%
Wang Kunpeng	Beneficial Owner	2,050,000 Shares (Note 2)	0.103%
Li Zhubo	Beneficial Owner	2,050,000 Shares (Note 2)	0.103%
Cao Limin	Beneficial Owner	2,050,000 Shares (Note 2)	0.103%
Liu Dongli	Beneficial Owner	2,050,000 Shares (Note 2)	0.103%

Notes:

1 These shares are directly held by Joy Capital Holdings Limited ("**Joy Capital**"). The entire issued share capital of Joy Capital is owned by Grand Glory Enterprises Limited ("**Grand Glory**"), whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2 These represent the maximum number of Shares which may be allotted and issued to such Directors upon the exercise of the Pre-IPO Share Options granted to each of them. In respect of these four Directors, the Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of Shares which may be subscribed for upon the exercise of the Pre-IPO Share Option, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of Shares which may be subscribed for upon the exercise of the Pre-IPO Share Option, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of Shares which may be subscribed for upon the exercise of the Pre-IPO Share Option, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each Share upon the exercise of the Pre-IPO Share Options is RMB1.5.

(ii) Long Positions in the associated corporations of the Company:

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Wang Muqing	Joy Capital	Settlor of The Grand Glory Trust (Note 1)	100%
Wang Muqing	Wuhan Kaitai	Interest of controlled corporations (Note 2)	100% (Note 26)
Wang Muqing	Yichang Baoze	Interest of a controlled corporation (Note 3)	100% (Note 26)
Wang Muqing	Hubei Xinrui	Interest of a controlled corporation (Note 4)	100% (Note 26)
Wang Muqing	Zhuhai Baoze	Interest of a controlled corporation (Note 5)	100% (Note 26)
Wang Muqing	Inner Mongolia Dingjie	Interest of a controlled corporation (Note 6)	100% (Note 26)
Wang Muqing	Hubei Dingjie	Interest of a controlled corporation (Note 7)	100% (Note 26)
Wang Muqing	Changsha Ruibao	Interest of a controlled corporation (Note 8)	100% (Note 26)
Wang Muqing	Beijing Baozehang	Interest of a controlled corporation (Note 9)	100% (Note 26)
Wang Muqing	Wuhan Baoze	Interest of a controlled corporation (Note 10)	100% (Note 26)
Wang Muqing	Shanghai Shenxie	Interest of a controlled corporation (Note 11)	100% (Note 26)
Wang Muqing	Shantou Hongxiang	Interest of a controlled corporation (Note 12)	80% (Note 26)
Wang Muqing	Chenzhou Ruibao	Interest of a controlled corporation (Note 13)	100% (Note 26)
Wang Muqing	Dongguan Jieyunhang	Interest of a controlled corporation (Note 14)	75% (Note 26)
Wang Muqing	Shiyan Shenxie	Interest of a controlled corporation (Note 15)	100% (Note 26)
Wang Muqing	Shenxie Shentong	Interest of a controlled corporation (Note 16)	100% (Note 26)
Wang Muqing	Shanghai Luda	Interest of a controlled corporation (Note 17)	100% (Note 26)
Wang Muqing	Shanghai Aohui	Interest of a controlled corporation (Note 18)	100% (Note 26)
Wang Muqing	Inner Mongolia Dingze	Interest of a controlled corporation (Note 19)	100% (Note 26)
Wang Muqing	Hubei Bocheng	Interest of a controlled corporation (Note 20)	100% (Note 26)
Wang Muqing	Hubei Jierui	Interest of a controlled corporation (Note 21)	100% (Note 26)

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Wang Muqing	Huhhot Qibao	Interest of a controlled corporation (Note 22)	100% (Note 26)
Wang Muqing	Baotou Baoze	Interest of a controlled corporation (Note 23)	70% (Note 26)
Wang Muqing	Nanchang Baoze	Interest of a controlled corporation (Note 24)	100% (Note 26)
Wang Muqing	Guangzhou Baoze	Interest of a controlled corporation (Note 25)	100% (Note 26)

Notes:

1 Joy Capital is the direct owner of 1,453,977,500 Shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2 Yichang Baoze is held as to 100% by Wuhan Baoze, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Yichang Baoze held by Wuhan Baoze which is held by Hubei Shengze, all of which are his controlled corporations.

3 Wuhan Kaitai is held as to 100% by Hubei Dingjie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Wuhan Kaitai held by Hubei Dingjie which is held by Hubei Shengze, all of which are his controlled corporations.

4 Hubei Xinrui is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Hubei Xinrui held by Hubei Shengze, both of which are his controlled corporations.

5 Zhuhai Baoze is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Zhuhai Baoze held by Hubei Shengze, both of which are his controlled corporations.

6 Inner Mongolia Dingjie is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Inner Mongolia Dingjie held by Hubei Shengze, both of which are his controlled corporations.

7 Hubei Dingjie is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Hubei Dingjie held by Hubei Shengze, both of which are his controlled corporations.

8 Changsha Ruibao is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Changsha Ruibao held by Hubei Shengze, both of which are his controlled corporations.

9 Beijing Baozehang is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Beijing Baozehang held by Hubei Shengze, both of which are his controlled corporations.

10 Wuhan Baoze is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Wuhan Baoze held by Hubei Shengze, both of which are his controlled corporations.

11 Shanghai Shenxie is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Shenxie held by Hubei Shengze, both of which are his controlled corporations.

12 Shantou Hongxiang is held as to 80% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shantou Hongxiang held by Hubei Shengze, both of which are his controlled corporations.

13 Chenzhou Ruibao is held as to 100% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Chenzhou Ruibao held by Hubei Shengze, both of which are his controlled corporations.

14 Dongguan Jieyunhang is held as to 75% by Hubei Shenze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Dongguan Jieyunhang held by Hubei Shengze, both of which are his controlled corporations.

15 Shiyan Shenxie is held as to 100% by Hubei Dingjie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shiyan Shenxie held by Hubei Dingjie which is held by Hubei Shengze, all of which are his controlled corporations.

16 Shenxie Shentong is held as to 100% by Shanghai Shenxie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shenxie Shentong held by Shanghai Shenxie which is held by Hubei Shengze, all of which are his controlled corporations.

17 Shanghai Luda is held as to 100% by Shanghai Shenxie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Luda held by Shanghai Shenxie which is held by Hubei Shengze, all of which are his controlled corporations.

18 Shanghai Aohui is held as to 100% by Shanghai Shenxie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shanghai Aohui held by Shanghai Shenxie which is held by Hubei Shengze, all of which are his controlled corporations.

19 Inner Mongolia Dingze is held as to 70% by Wuhan Kaitai, which is held by Hubei Dingjie and is in turn held by Hubei Shengze, and as to 30% by Inner Mongolia Dingjie, which is also held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Inner Mongolia Dingze held by Wuhan Kaitai, which is held by Hubei Dingjie and is in turn held by Hubei Shengze, and Inner Mongolia Dingjie, which is also held by Hubei Shengze, all of which are his controlled corporations.

20 Hubei Bocheng is held as to 100% by Shanghai Luda, which is held by Shanghai Shenxie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Hubei Bocheng held by Shenxie Shentong and further held by Shanghai Shenxie which is held by Hubei Shengze, all of which are his controlled corporations.

21 Hubei Jierui is held as to 100% by Hubei Bocheng, which is held by Shanghai Luda, which is held by Shanghai Shenxie, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Hubei Jierui held by Hubei Bocheng, which is held by Shenxie Shentong and further held by Shanghai Shenxie which is held by Hubei Shengze, all of which are his controlled corporations.

22 Huhhot Qibao is held as to 100% by Wuhan Baoze, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Huhhoi Qibao held by Wuhan Baoze which is held by Hubei Shengze, all of which are his controlled corporations.

23 Baotou Baoze is held as to 70% by Huhhoi Qibao, which is held by Wuhan Baoze, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Baotou Baoze, which is held by Huhhoi Qibao held by Wuhan Baoze, which is further held by Hubei Shengze, all of which are his controlled corporations.

24 Nanchang Baoze is held as to 20% by Changsha Ruibao and as to 80% by Wuhan Baoze, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Nanchang Baoze held by Changsha Ruibao and Wuhan Baoze, which are held by Hubei Shengze, all of which are his controlled corporations.

25 Guangzhou Baoze is held as to 40% by Changsha Ruibao and as to 60% by Wuhan Baoze, the entire equity interest of which is held by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Guangzhou Baoze held by Changsha Ruibao and Wuhan Baoze, which are held by Hubei Shengze, all of which are his controlled corporations.

26 The percentage shareholding shown is the equity interest in the relevant subsidiary attributable to Hubei Shengze (or its wholly owned subsidiary). Wang Muqing is interested in approximately 70.4% of the entire registered capital in Hebei Shengze.

Save as disclosed above, as at 31 December 2010, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares of the Company:

Name of Shareholders	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,453,977,500 Shares	72.70%
Grand Glory	Interest of a controlled corporation (Note 1)	1,453,977,500 Shares	72.70%

Note:

1 Joy Capital is the direct owner of 1,453,977,500 Shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option schemes, at no time during the year under review was the Company, or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received an annual confirmation from the controlling shareholders, Mr. Wang Muqing, Joy Capital and Grand Glory in respect of their compliance with the terms of the non-compete undertakings as described in the Prospectus and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group since the date of Listing up to 31 December 2010.

The independent non-executive directors have reviewed the said undertakings and are of the view that Mr. Wang Muqing, Joy Capital and Grand Glory have complied with the non-compete undertakings during the period between the date of Listing and 31 December 2010.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2010 are set out in notes 22 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Group is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

CORPORATE GOVERNANCE

As the Company was just listed on 10 December 2010, the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules did not apply to the Company before the date of Listing. The manner in which the principles and code provisions in the CG Code are applied and implemented by the Company is set out on page 28 to page 33 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("**Securities Dealing Code**") regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors of the Company, all Directors of the Company confirmed that they have complied with the Securities Dealing Code and the Model Code since the date of Listing and up to the date of this report.

The Company has also adopted a warning to employees about insider dealing ("**Insider Dealing Warning**") for securities transactions by employees. No incident of non-compliance of the Insider Dealing Warning by the employees was noted by the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient public float throughout the period from the date of Listing up to the date of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDITORS

The consolidated financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in 2011.

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM of the Company.

On behalf of the Board

Wang Kunpeng
Executive Director
12 March 2011

Independent Auditor's Report

Independent auditor's report to the shareholders of
China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 57 to 116, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of the 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Expressed in RMB'000)

	Note	For the year ended 31 December 2010	2009
Turnover	3	**8,034,249**	4,981,174
Cost of sales		**(7,307,933)**	(4,566,633)
Gross profit		**726,316**	414,541
Other revenue	4	**39,305**	23,942
Other net income	4	**7,300**	7,182
Selling and distribution expenses		**(191,993)**	(138,337)
Administrative expenses		**(175,557)**	(82,334)
Profit from operations		**405,371**	224,994
Finance costs	5(a)	**(56,146)**	(31,465)
Share of profit of an associate or a jointly controlled entity		**10,355**	4,570
Gain on remeasurement of previously held equity interest in a jointly controlled entity	17	**3,177**	–
Gain on bargain purchase	17	**27,266**	–
Profit before taxation	5	**390,023**	198,099
Income tax	6(a)	**(90,571)**	(48,277)
Profit for the year		**299,452**	149,822
Other comprehensive income for the year:			
Exchange differences on translation of financial statements of foreign operations		**1,030**	62
Other comprehensive income for the year, net of tax		**1,030**	62
Total comprehensive income for the year		**300,482**	149,884
Profit attributable to:			
Equity holders of the Company		**276,004**	145,854
Non-controlling interests		**23,448**	3,968
Profit for the year		**299,452**	149,822
Total comprehensive income attributable to:			
Equity holders of the Company		**277,034**	145,916
Non-controlling interests		**23,448**	3,968
Total comprehensive income for the year		**300,482**	149,884
Earnings per share	10		
Basic and diluted (RMB cent)		**18.0**	9.7

The notes on pages 63 to 116 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2010
(Expressed in RMB'000)

	Note	At 31 December 2010	2009
Non-current assets			
Fixed assets:	12		
– Investment properties		**–**	10,639
– Other property, plant and equipment		**404,424**	340,643
Lease prepayments	13	**117,864**	150,265
Intangible assets	14	**58,601**	363
Goodwill	15	**16,236**	–
Interest in an associate	17	**–**	38,677
Interest in a jointly controlled entity	17	**120,475**	–
Deferred tax assets	26	**4,530**	2,225
		722,130	542,812
Current assets			
Inventories	18	**748,733**	295,312
Trade and other receivables	19	**868,442**	598,874
Pledged bank deposits	20	**960,928**	894,853
Cash and cash equivalents	21	**3,432,060**	176,898
		6,010,163	1,965,937
Current liabilities			
Loans and borrowings	22	**721,292**	348,517
Trade and other payables	23	**1,847,037**	1,634,000
Income tax payables	6(c)	**73,053**	60,506
		2,641,382	2,043,023
Net current assets/(liabilities)		**3,368,781**	(77,086)
Total assets less current liabilities		**4,090,911**	465,726
Non-current liabilities			
Deferred tax liabilities	26	**17,920**	6,061
		17,920	6,061
NET ASSETS		**4,072,991**	459,665
Equity			
Share capital	27	**171,420**	223,500
Reserves		**3,843,363**	220,524
Equity attributable to equity holders of the Company		**4,014,783**	444,024
Non-controlling interests		**58,208**	15,641
TOTAL EQUITY		**4,072,991**	459,665

Approved and authorised for issue by the board of directors on 12 March 2011.

Wang Kunpeng
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 63 to 116 form part of these financial statements.

Balance Sheet

At 31 December 2010
(Expressed in RMB'000)

	Note	At 31 December 2010	2009
Non-current assets			
Investment in subsidiaries	16	**82,599**	–
		82,599	–
Current assets			
Trade and other receivables	19	**581**	–
Cash and cash equivalents	21	**3,020,208**	–
		3,020,789	–
Current liabilities			
Trade and other payables	23	**22,721**	–
		22,721	–
Net current assets		**2,998,068**	–
Total assets less current liabilities		**3,080,667**	–
NET ASSETS		**3,080,667**	–
Equity			
Share capital	27	**171,420**	–
Reserves	28	**2,909,247**	–
TOTAL EQUITY		**3,080,667**	–

Approved and authorised for issue by the board of directors on 12 March 2011.

Wang Kunpeng
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 63 to 116 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Expressed in RMB'000)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserves	PRC statutory reserves	Exchange reserves	Discretionary surplus reserves	Retained earnings	Sub-total	Non-controlling interests	Total equity
	(note 27)	(note 28(a))	(note 28(b))	(note 28(c))	(note 28(d))	(note 28(e))				
Balance at 1 January 2009	**126,800**	**–**	**(116,455)**	**13,593**	**2,762**	**2,591**	**61,303**	**90,594**	**9,173**	**99,767**
Capital increase arising from the Reorganisation (note 1)	79,200	–	–	–	–	–	–	79,200	–	79,200
Capital injection	17,500	–	–	–	–	–	–	17,500	2,500	20,000
Contribution by equity holder of the Company	–	–	110,814	–	–	–	–	110,814	–	110,814
Total comprehensive income for the year	–	–	–	–	62	–	145,854	145,916	3,968	149,884
Appropriation to reserves	–	–	–	11,625	–	1,000	(12,625)	–	–	–
Balance at 31 December 2009 and 1 January 2010	**223,500**	**–**	**(5,641)**	**25,218**	**2,824**	**3,591**	**194,532**	**444,024**	**15,641**	**459,665**
Capital reduction arising from the Reorganisation	(25,000)	–	–	–	–	–	–	(25,000)	–	(25,000)
Capital contribution to a subsidiary by non-controlling interests	–	–	2,957	–	–	–	–	2,957	9,068	12,025
Acquisition of a subsidiary through business combination (note 29)	4,000	–	52,440	–	–	–	–	56,440	10,051	66,491
Capitalisation of shareholder's loans (note 33(b))	–	–	83,195	–	–	–	–	83,195	–	83,195
Capital injection	154,500	–	–	–	–	–	–	154,500	–	154,500
Elimination on the completion of the Reorganisation	(348,429)	–	348,429	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs	42,855	2,972,834	–	–	–	–	–	3,015,689	–	3,015,689
Capitalisation issue	119,994	(119,994)	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,030	–	276,004	277,034	23,448	300,482
Equity settled share-based transactions	–	–	5,944	–	–	–	–	5,944	–	5,944
Appropriation to reserves	–	–	–	25,309	–	868	(26,177)	–	–	–
Balance at 31 December 2010	**171,420**	**2,852,840**	**487,324**	**50,527**	**3,854**	**4,459**	**444,359**	**4,014,783**	**58,208**	**4,072,991**

The notes on pages 63 to 116 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in RMB'000)

	Note	For the year ended 31 December 2010	2009
Operating activities:			
Profit before taxation		**390,023**	198,099
Adjustments for:			
– Depreciation	5(c)	**42,737**	33,881
– Amortisation of lease prepayments	5(c)	**4,039**	3,040
– Amortisation of intangible assets	5(c)	**1,494**	–
– Net gain on disposal of other property, plant and equipment	4	**(6,590)**	(6,411)
– Finance costs	5(a)	**56,146**	31,465
– Share of profit of an associate or a jointly controlled entity		**(10,355)**	(4,570)
– Gain on remeasurement of previously held equity interest in a jointly controlled entity	17	**(3,177)**	–
– Gain on bargain purchase	17	**(27,266)**	–
– Interest income from bank deposits	4	**(8,874)**	(5,137)
– Equity settled share-based transactions	25	**5,944**	–
Operating profit before changes in working capital		**444,121**	250,367
(Increase)/decrease in inventories		**(404,346)**	14,513
Increase in trade and other receivables		**(290,140)**	(174,139)
Increase in pledged bank deposits		**(12,159)**	(660,026)
Increase in trade and other payables		**224,101**	848,695
Net cash (used in)/generated from operations		**(38,423)**	279,410
Income tax paid	6(c)	**(85,184)**	(6,216)
Net cash (used in)/generated from operating activities		**(123,607)**	273,194
Investing activities:			
Payment for purchase of other property, plant and equipment		**(198,257)**	(95,998)
Proceeds from disposal of other property, plant and equipment		**21,047**	25,947
Payment for purchase of lease prepayments		**(17,940)**	(24,495)
Acquisition of an associate and a jointly controlled entity		**(41,000)**	(34,107)
Net cash assumed in acquisition of a subsidiary	29	**2,662**	–
Advances to related parties		**(464)**	(52,651)
Repayment of advances to related parties		**52,217**	26,722
Interest received		**8,874**	5,137
Net cash used in investing activities		**(172,861)**	(149,445)

The notes on pages 63 to 116 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2010
(Expressed in RMB'000)

	Note	For the year ended 31 December **2010**	2009
Financing activities:			
Proceeds from loans and borrowings		**1,823,227**	1,468,439
Repayment of loans and borrowings		**(1,367,257)**	(1,457,516)
Issue of ordinary shares by initial public offering, net of issuance costs		**3,015,689**	–
Advances from related parties		**59,479**	13,082
Repayment of advances from related parties		**(53,892)**	(14,248)
Distribution to equity holder of the Company as a result of capital reduction		**(25,000)**	–
Capital injection from equity holder of the Company		**154,500**	17,500
Capital injection from non-controlling interests		**–**	2,500
Interest paid		**(56,146)**	(31,465)
Net cash generated from/(used in) financing activities		**3,550,600**	(1,708)
Net increase in cash and cash equivalents		**3,254,132**	122,041
Cash and cash equivalents at beginning of the year		**176,898**	54,795
Effect of foreign exchange rate changes		**1,030**	62
Cash and cash equivalents at end of the year	21	**3,432,060**	176,898
Supplemental disclosure of material non-cash transactions:			
Contribution by equity holder of the Company		**53,778**	190,014
Land use rights contributed by non-controlling interests		**12,025**	–
Disposal of fixed assets and lease prepayments to related parties	33(b)	**160,644**	–
Capitalisation of shareholder's loans	33(b)	**83,195**	–

The notes on pages 63 to 116 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company and its subsidiaries (collectively, the "Group") are principally engaged in 4S dealership business, motor-related logistics business and lubricant oil trading business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on 17 November 2010 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as defined in the Company's prospectus dated 29 November 2010 (the "Prospectus"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company's shares were listed on the Stock Exchange on 10 December 2010 (the "Listing Date").

Prior to 17 November 2010, the Group's 4S dealership businesses were conducted through various domestic companies established in the PRC (the "PRC Operating Entities"), which were ultimately owned and controlled by the same equity holder, namely Mr. Wang Muqing (hereinafter referred to as the "Controlling Shareholder") through direct or indirect equity holdings in the PRC Operating Entities. On 17 November 2010, Wuhan Shengze Jietong Logistics Co., Ltd. ("Wuhan Jietong"), an indirect wholly-owned subsidiary of the Company, entered into certain agreements (the "Contractual Arrangements") with the PRC Operating Entities and their respective equity holders. The Contractual Arrangements, taken as a whole, enable Wuhan Jietong to have effective control over the operating and financial policies of the PRC Operating Entities and to obtain the economic benefits from the businesses of the PRC Operating Entities. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the Contractual Arrangements effectively provide Wuhan Jietong the power to govern and control the PRC Operating Entities so as to obtain benefits from their business activities. As a result, the Group retained control of the PRC Operating Entities and continued to obtain the economic benefits from the 4S dealership businesses by executing the Contractual Arrangements. Accordingly, the PRC Operating Entities are included in the Group's consolidated financial statements as controlled subsidiaries.

All the companies now comprising the Group (including the PRC Operating Entities) that took part in the Reorganisation were ultimately controlled by the Controlling Shareholder both before and after the Reorganisation. Since there was a continuation of the risks and benefits to the Controlling Shareholder, the Reorganisation is considered to be a combination of entities under common control. These financial statements have been prepared using the merger basis of accounting as if the current Group structure had always been in existence at the beginning of the earliest year presented.

All material intra-group transactions and balances have been eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable 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. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. For the purpose of these consolidated financial statements, the Group has adopted at the beginning of the earliest year presented, all the HKFRSs that have been issued and effective for the entire year, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2010 are set out in note 35.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in an associate and a jointly controlled entity.

These consolidated financial statements is presented in Renminbi ("RMB") which is the Group's presentation currency, rounded to the nearest thousand, except for earnings per share information. It is prepared on the historical cost basis.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 34.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The Group measures non- controlling interests at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity holders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still remains control, this transaction will be accounted for as a transaction with equity holders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests represent the portion of the net assets of subsidiaries attribute to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non- controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non- controlling interests.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).

(d) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the Controlling Shareholder.

The assets and liabilities of the combining entities or businesses are consolidated at the carrying amounts previously recognised in the respective Controlling Shareholder's financial statements.

The consolidated statement of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when 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 comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is later.

(e) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(k)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the other comprehensive income.

If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(k)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash-generating unit or an associate or a jointly controlled entity during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)). Depreciation is calculated to write off the cost of an item of investment property, less the estimated residual value, if any, using the straight line method over 30 years. Both the useful life of an investment property and its residual value, if any, are reviewed annually. Rental income from investment properties is accounted for as described in note 2(t).

Gains or losses arising from the disposal of an item of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of disposal.

(h) Other property, plant and equipment

Other property, plant and equipment, other than construction in progress, are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30-40 years after the date of completion.
–	Leasehold improvements	Over the shorter of the unexpired term of the lease and 5 years
–	Plant and machinery	10 years
–	Motor vehicles	5 years
–	Office equipment and furniture	5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Subsequent expenditures relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. Any other subsequent expenditure is recognised in profit or loss as an expense as incurred.

Construction in progress is stated at cost less impairment losses (see note 2(k)). Cost comprises direct costs of construction during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to other property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are complete, notwithstanding any delays in the issue of the relevant completion certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Car dealership is amortised from the date of acquisition over its estimated useful life of 20 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 2(k)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If any event or change in circumstances indicates that the carrying amount may not be recoverable, an impairment loss is determined and recognised as follows:

For trade and other receivable carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the provision account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the respective balance sheet dates to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment properties;

– other property, plant and equipment;

– lease prepayments;

– intangible assets;

– investments in associates and jointly controlled entities;

– investments in subsidiaries; and

– goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average 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 necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expenses in the period in which the reversal occurs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

The Group derecognises trade and other receivables when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on trade and other receivables in a transaction in which substantially all the risks and rewards of ownership of trade and other receivables are transferred.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Interest-bearing borrowings are derecognised when the Group's contractual obligations are discharged, cancelled or expire.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Trade and other payables are derecognised when the Group's contractual obligations are discharged, cancelled or expire.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Obligation for contributions to defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated statement of comprehensive income as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the respective balance sheet dates and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sales of motor vehicles*

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) *Sales of motor spare parts*

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

(iii) *Maintenance services income*

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) *Logistics services income and other related services income*

Revenue arising from logistics services and other related services is recognised when the service is rendered to customers.

(v) *Sales of lubricant oil*

Revenue arising from the sales of lubricant oil is recognised when lubricant oil is delivered at the customers' premises.

(vi) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(vii) *Commission income*

Commission income is recognised at the time when the services concerned are rendered to customers.

(viii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The segment information is reported to the chief executive officer of the Company, who is the Group's chief operating decision maker for the purpose of resource allocation and assessment of performance.

3 TURNOVER

The Group is mainly engaged in sales of passenger automobile, motor spare parts, provision of maintenance services, provision of logistics services and sales of lubricant oil. Turnover represents the sales of goods and services income rendered to customers.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Sales of motor vehicles	**7,009,426**	4,270,453
Sales of motor spare parts	**127,821**	68,028
Provision of maintenance services	**473,694**	312,420
Provision of logistics services	**167,397**	128,447
Sales of lubricant oil	**255,911**	201,826
	8,034,249	4,981,174

4 OTHER REVENUE AND NET INCOME

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Other revenue:		
Commission income	**28,585**	17,488
Interest income from bank deposits	**8,874**	5,137
Rental income	**1,242**	1,186
Others	**604**	131
	39,305	23,942
Other net income:		
Net gain on disposal of other property, plant and equipment	**6,590**	6,411
Others	**710**	771
	7,300	7,182

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Note	For the year ended 31 December 2010 RMB'000	2009 RMB'000
(a)	**Finance costs:**			
	Interest on loans and borrowings wholly repayable within 5 years		**22,318**	16,398
	Other finance costs	(i)	**33,828**	15,067
			56,146	31,465
(b)	**Staff costs:**			
	Salaries, wages and other benefits		**131,505**	72,772
	Contributions to defined contribution retirement plans	(ii)	**7,846**	4,407
	Equity settled share-based transactions	25	**5,944**	–
			145,295	77,179

(i) It mainly represents the interest expenses arising from discount of bills.

(ii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal government where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

		For the year ended 31 December 2010 RMB'000	2009 RMB'000
(c)	**Other items:**		
	Cost of inventories	**7,160,227**	4,447,967
	Depreciation	**42,737**	33,881
	Amortisation of lease prepayments	**4,039**	3,040
	Amortisation of intangible assets	**1,494**	–
	Operating lease charges	**18,903**	12,137
	Rental receivables from investment properties less direct outgoings	**–**	(238)
	Net foreign exchange loss	**7,038**	–
	Auditors' remuneration	**1,500**	230

6 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the year	**96,179**	44,153
Deferred tax:		
(Origination)/reversal of temporary differences (note 26)	**(5,608)**	4,124
	90,571	48,277

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) On 16 March 2007, the PRC government enacted the new Enterprise Income Tax law ("new EIT law"), which unified the income tax rate to 25% for all companies. The new EIT law was effective as of 1 January 2008. Consequently, the Group's PRC subsidiaries (including the PRC Operating Entities under the Contractual Arrangements) are subject to income tax at 25% from 2008 onwards, except for Wuhan Jietong, which as a qualified production-oriented foreign invested enterprise, is subject to income tax at 12.5% for the three years from 2009 to 2011. Thereafter, it will be subject to the unified tax rate of 25%.

(iv) The new EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

Under the Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%.

On 27 October 2009, the State Administration of Taxation issued Guoshuihan [2009] No. 601 which clarified that a "beneficial owner" under a tax treaty is determined not purely by its place of legal registration but also by other factors which depend on the specific facts and circumstances and significant judgment may be involved. Hence, this reduction of withholding tax rate from 10% to 5% requires pre-approval by respective local tax bureaux in the PRC.

6 INCOME TAX (CONTINUED)

(a) Income tax in the consolidated statement of comprehensive income represents: (continued)

The Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding company, Rising Wave Development Limited ("Rising Wave"), a Hong Kong tax resident. Since the Group can control the quantity and timing of distribution of profits of the Group's PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

As of 31 December 2010, the Group has not provided for income taxes on accumulated earnings generated by its PRC entities subsequent to 31 December 2007 amounting to RMB390,175,000, because directors confirm that no dividends out of such accumulated earnings will be distributed to overseas company in the foreseeable future.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit before taxation	**390,023**	198,099
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**97,506**	49,525
Non-deductible expenses	**6,772**	514
Effect of tax concessions	**(2,586)**	(1,556)
Non-taxable income on:		
– Share of profits recognised under the equity method	**(2,589)**	(1,143)
– Gain on remeasurement of previously held equity interest in a jointly controlled entity	**(794)**	–
– Gain on bargain purchase	**(6,817)**	–
Others	**(921)**	937
Income tax	**90,571**	48,277

(c) Income tax payables in the consolidated balance sheet represent:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	**60,506**	22,569
Acquisition of a subsidiary through business combination (note 29)	**1,552**	–
Provision for current income tax for the year	**96,179**	44,153
Payment during the year	**(85,184)**	(6,216)
Income tax payables at the end of the year	**73,053**	60,506

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2010

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000 (note)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Executive directors						
Wang Kunpeng	–	180	–	568	1	749
Li Zhubo	–	108	–	568	12	688
Cao Limin	–	180	–	568	12	760
Liu Dongli	–	108	–	568	36	712
Non-executive directors						
Wang Muqing	–	–	–	–	–	–
Chen Tao	–	–	–	–	–	–
Independent non-executive directors						
Wong Tin Yau, Kelvin	32	–	–	–	–	32
Tan Xiangyong	32	–	–	–	–	32
Zhang Yansheng	32	–	–	–	–	32
	96	576	-	2,272	61	3,005

Year ended 31 December 2009

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000 (note)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Executive directors						
Wang Kunpeng	–	108	–	–	–	108
Li Zhubo	–	108	–	–	13	121
Cao Limin	–	120	–	–	13	133
Liu Dongli	–	54	–	–	19	73
Non-executive directors						
Wang Muqing	–	–	–	–	–	–
Chen Tao	–	–	–	–	–	–
Independent non-executive directors						
Wong Tin Yau, Kelvin	–	–	–	–	–	–
Tan Xiangyong	–	–	–	–	–	–
Zhang Yansheng	–	–	–	–	–	–
	–	390	–	–	45	435

Note: These represent the estimated value of share options granted to the directors under the Company's pre-IPO employee share option plan. The value of these share options is measured according to the Company's accounting policies for share-based payment transactions as set out in note 2(q)(iii). Details are disclosed in note 25.

7 DIRECTORS' REMUNERATION (CONTINUED)

No directors of the Company waived or agreed to waive any remuneration during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group during the year, none of them are directors of the Company. The aggregate of the emoluments in respect of five highest paid individuals are as follows:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Salaries, allowance and benefits in kind	**320**	485
Discretionary bonuses	**2,324**	1,113
Contributions to retirement benefit schemes	**84**	41
Equity settled share-based transactions	**124**	–
	2,852	1,639

The above individuals' emoluments are within the band of Nil to HK$1,000,000.

9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2010 includes a loss of RMB23,565,000 (2009: Nil) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 was based on the profit attributable to equity holders of the Company for the year of RMB276,004,000 (2009: RMB145,854,000) and the weighted average number of shares in issue during the year ended 31 December 2010 of 1,530,136,986 (2009: 1,500,000,000). The weighted average number of shares in issue during the year ended 31 December 2010 and 2009 was based on the assumption that 1,500,000,000 shares were in issue as if these shares issued at the date the Company became the holding company of the Group were outstanding throughout both years presented, calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2010	2009
Issued ordinary shares at 1 January	**1,500,000,000**	1,500,000,000
Effect of shares issued on initial public offering (see note 27(b)(iii))	**30,136,986**	–
Weighted average number of ordinary shares at 31 December	**1,530,136,986**	1,500,000,000

The pre-IPO employee share option scheme (see note 25(a)) does not give rise to any dilution effect on the Company's earnings per share and there were no dilutive potential ordinary shares throughout the year, and therefore, the basic and diluted earnings per share are the same.

11 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three major operating segments:

1 **4S dealership business**

4S dealership business mainly includes sales of motor vehicles, motor spare parts and provision of maintenance services through the Group's network of 4S dealerships in the PRC.

2 **Logistics business**

Logistics business mainly includes provision of motor-related logistics services.

3 **Lubricant oil business**

Lubricant oil business mainly includes trading of lubricant oil.

As neither of logistics business nor lubricant oil business has exceeded the quantitative threshold for determining a reportable segment, they are grouped together to form one reportable segment. Consequently, the Group has two reportable segments, namely "4S dealership business" and "Logistics and lubricant oil businesses".

11 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.

- Segment assets include all current and non-current assets with the exception of investment properties, intangible assets, goodwill, deferred tax assets, unallocated head office assets and non-trade receivables due from related parties. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities, unallocated head office liabilities and non-trade payables due to related parties.

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business Year ended 31 December		Logistics and lubricant oil businesses Year ended 31 December		Total Year ended 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Turnover from external customers	**7,610,941**	4,650,901	**423,308**	330,273	**8,034,249**	4,981,174
Inter-segment turnover	**–**	–	**5,044**	2,250	**5,044**	2,250
Reportable segment turnover	**7,610,941**	4,650,901	**428,352**	332,523	**8,039,293**	4,983,424
Reportable segment profit	**362,430**	170,790	**60,897**	28,223	**423,327**	199,013
Depreciation and amortisation for the year	**43,450**	32,853	**4,820**	4,068	**48,270**	36,921
Reportable segment assets	**3,358,051**	2,230,148	**414,035**	182,941	**3,772,086**	2,413,089
Additions to non-current segment assets during the year	**230,236**	119,445	**12,382**	1,048	**242,618**	120,493
Reportable segment liabilities	**(2,396,624)**	(1,655,906)	**(280,816)**	(84,949)	**(2,677,440)**	(1,740,855)
Interest in an associate	**–**	–	**–**	38,677	**–**	38,677
Interest in a jointly controlled entity	**–**	–	**120,475**	–	**120,475**	–

11 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment turnover, profit before taxation, assets and liabilities

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Turnover:		
Reportable segment turnover	**8,039,293**	4,983,424
Elimination of inter-segment turnover	**(5,044)**	(2,250)
Consolidated turnover	**8,034,249**	4,981,174
Profit before taxation:		
Reportable segment profit	**423,327**	199,013
Unallocated head office expenses	**(23,763)**	(573)
Other revenue	**39,305**	23,942
Other net income	**7,300**	7,182
Finance costs	**(56,146)**	(31,465)
Consolidated profit before taxation	**390,023**	198,099

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Assets:		
Reportable segment assets	**3,772,086**	2,413,089
Non-trade receivables due from related parties	**–**	96,722
Investment properties	**–**	10,639
Intangible assets	**58,601**	363
Goodwill	**16,236**	–
Deferred tax assets	**4,530**	2,225
Unallocated head office assets	**3,020,927**	1,421
Elimination of inter-segment receivables	**(140,087)**	(15,710)
Consolidated total assets	**6,732,293**	2,508,749
Liabilities:		
Reportable segment liabilities	**(2,677,440)**	(1,740,855)
Non-trade payables due to related parties	**(7,180)**	(215,133)
Income tax payables	**(73,053)**	(60,506)
Deferred tax liabilities	**(17,920)**	(6,061)
Unallocated head office liabilities	**(23,796)**	(42,239)
Elimination of inter-segment payables	**140,087**	15,710
Consolidated total liabilities	**(2,659,302)**	(2,049,084)

(c) Geographic information

As the Group solely operates in the PRC, no geographical segment information has been presented.

Notes to the Consolidated Financial Statements

12 FIXED ASSETS

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
Cost:									
At 1 January 2009	232,020	11,553	38,654	66,687	30,450	2,308	381,672	13,220	394,892
Additions	2,114	10,914	11,504	21,446	4,775	45,245	95,998	–	95,998
Transfer	1,862	–	346	–	–	(2,208)	–	–	–
Disposals	–	–	(116)	(29,364)	(231)	–	(29,711)	–	(29,711)
At 31 December 2009 and 1 January 2010	235,996	22,467	50,388	58,769	34,994	45,345	447,959	13,220	461,179
Acquisition of a subsidiary through business combination (note 29)	6,100	–	267	1,213	624	–	8,204	–	8,204
Additions	13,252	3,878	25,757	69,157	10,343	82,062	204,449	–	204,449
Transfer	124,429	–	190	–	–	(124,619)	–	–	–
Disposals	(111,733)	–	(163)	(20,516)	(3,778)	–	(136,190)	(13,220)	(149,410)
At 31 December 2010	**268,044**	**26,345**	**76,439**	**108,623**	**42,183**	**2,788**	**524,422**	**-**	**524,422**
Accumulated depreciation:									
At 1 January 2009	25,406	2,851	11,221	27,594	16,956	–	84,028	2,163	86,191
Charge for the year	7,017	5,703	4,298	11,413	5,032	–	33,463	418	33,881
Written back on disposals	–	–	(43)	(9,933)	(199)	–	(10,175)	–	(10,175)
At 31 December 2009 and 1 January 2010	32,423	8,554	15,476	29,074	21,789	–	107,316	2,581	109,897
Charge for the year	14,345	5,915	5,887	11,132	5,143	–	42,422	315	42,737
Written back on disposals	(19,740)	–	(49)	(6,672)	(3,279)	–	(29,740)	(2,896)	(32,636)
At 31 December 2010	**27,028**	**14,469**	**21,314**	**33,534**	**23,653**	**-**	**119,998**	**-**	**119,998**
Net book value:									
At 31 December 2010	**241,016**	**11,876**	**55,125**	**75,089**	**18,530**	**2,788**	**404,424**	**-**	**404,424**
At 31 December 2009	203,573	13,913	34,912	29,695	13,205	45,345	340,643	10,639	351,282

(a) The Group's investment properties and other property, plant and equipment are located in the PRC.

(b) Other property, plant and equipment with carrying amount of RMB4,503,000 are pledged against bank loans (see note 22) as at 31 December 2010 (2009: RMB4,661,000).

12 FIXED ASSETS (CONTINUED)

(c) The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB56,657,057 as at 31 December 2010 (2009: RMB17,748,422). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2009 and 2010, respectively.

(d) The Group leased out other property, plant and equipment under operating leases. The lease typically runs for an initial period of 1-3 years. None of the leases include contingent rentals.

The Group's total minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**3,384**	1,368

13 LEASE PREPAYMENTS

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Cost:		
At 1 January	**164,369**	139,874
Additions	**29,965**	24,495
Disposal	**(66,626)**	–
At 31 December	**127,708**	164,369
Accumulated amortisation:		
At 1 January	**(14,104)**	(11,064)
Charge for the year	**(4,039)**	(3,040)
Written back on disposals	**8,299**	–
At 31 December	**(9,844)**	(14,104)
Net book value:		
At 31 December	**117,864**	150,265

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 23 to 50 years when granted.

Lease prepayments with carrying amount of RMB5,099,000 are pledged against bank loans (see note 22) as at 31 December 2010 (2009: RMB8,631,000).

14 INTANGIBLE ASSETS

	The Group		
	Car dealership RMB'000	Club debenture RMB'000	Total RMB'000
Cost:			
At 1 January 2009 and 31 December 2009	–	363	363
Acquisition of a subsidiary through business combination (note 29)	59,732	–	59,732
At 31 December 2010	**59,732**	**363**	**60,095**
Accumulated amortisation:			
At 1 January 2009 and 31 December 2009	–	–	–
Charge for the year	(1,494)	–	(1,494)
At 31 December 2010	**(1,494)**	**–**	**(1,494)**
Net book value:			
At 31 December 2010	**58,238**	**363**	**58,601**
At 31 December 2009	–	363	363

The Group's identifiable intangible assets include a car dealership in the PRC, arising from the relationship with an automobile manufacturer, with an estimated useful life of 20 years. The fair value of the car dealership as at the acquisition date was determined by using the multiple-period excess earning method.

15 GOODWILL

	The Group RMB'000
Cost/Net book value:	
At 1 January 2009 and 31 December 2009	–
Acquisition of a subsidiary through business combination (note 29)	16,236
At 31 December 2010	16,236

The goodwill arose from the business combination of Shantou Hongxiang Materials Co., Ltd. ("Shangtou Hongxiang"), on 28 June 2010 (see note 29).

16 INVESTMENT IN SUBSIDIARIES

	The Company As at 31 December	
	2010	2009
	RMB'000	RMB'000
Investment, at cost	**82,599**	–

As of 31 December 2010, the Company, either through legal ownership or implementation of the Contractual Arrangements, has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	**Place and date of incorporation/ establishment**	**Registered/issued and fully paid up capital**	**Percentage of equity attributable to the Company**		**Principal activities**
				Direct	**Indirect**	
Big Glory International Limited (浩榮國際有限公司)		British Virgin Islands ("BVI") 22 June 2006	US$100	100%	–	Investment holding
Rising Wave Development Limited (升濤發展有限公司)		Hong Kong 21 April 2006	HK$100	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國)有限公司)		Hong Kong 10 November 2008	HK$10,000	–	100%	Investment holding
Wuhan Shengze Jietong Logistics Co., Ltd. (武漢聖澤捷通物流有限公司)	(i)	The PRC 22 November 2002	RMB40,000,000	–	100%	Provision of auto-mobile related logistic services
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)	(ii)	The PRC 21 April 1999	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(iii)	The PRC 25 September 2002	RMB15,000,000	–	50%	Distribution of lubricants
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎傑汽車銷售服務有限公司)	(ii)	The PRC 12 December 2002	RMB55,000,000	–	100%	Automobile dealership
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎傑汽車貿易有限公司)	(ii)	The PRC 23 January 2003	RMB7,000,000	–	100%	Automobile dealership
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)	(ii)	The PRC 30 May 2003	RMB20,000,000	–	100%	Automobile dealership

16 INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)	(ii)	The PRC 20 October 2003	RMB10,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)	(ii)	The PRC 18 March 2004	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)	(ii)	The PRC 26 May 2004	RMB70,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)	(ii)	The PRC 18 June 2004	RMB19,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)	(ii)	The PRC 8 November 2004	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)	(ii)	The PRC 21 June 2005	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)	(ii)	The PRC 24 June 2005	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)	(ii)	The PRC 23 February 2006	RMB10,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)	(ii)	The PRC 13 June 2006	RMB8,000,000	–	100%	Automobile dealership
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)	(ii)	The PRC 6 September 2006	RMB6,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)	(ii)	The PRC 31 January 2007	RMB15,000,000	–	100%	Automobile dealership

16 INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)	(ii)	The PRC 2 June 2008	RMB29,000,000	–	100%	Automobile dealership
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)	(ii)	The PRC 27 June 2008	RMB30,000,000	–	100%	Automobile dealership
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧滙汽車銷售服務有限公司)	(ii)	The PRC 4 December 2008	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)	(ii)	The PRC 20 April 2009	RMB10,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)	(ii)	The PRC 6 July 2009	RMB10,000,000	–	75%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)	(ii)	The PRC 6 August 2009	RMB26,000,000	–	70%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)	(ii)	The PRC 16 October 2009	RMB90,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)	(ii)	The PRC 27 October 2009	RMB20,000,000	–	100%	Automobile dealership
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)	(ii)	The PRC 12 July 2000	RMB5,000,000	–	80%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)	(ii)	The PRC 2 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)	(ii)	The PRC 3 December 2010	RMB10,000,000	–	100%	Automobile dealership

16 INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Xiangfan Baoze Automobile Sales Services Co., Ltd. (襄樊寶澤汽車銷售服務有限公司)	(ii)	The PRC 1 November 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)	(ii)	The PRC 9 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ulanqab Dingsheng Automobile Sales Services Co., Ltd. (烏蘭察布市鼎盛汽車銷售服務有限公司)	(ii)	The PRC 29 October 2010	RMB5,000,000	–	100%	Automobile dealership
Chengdu Baoze Automobile Sales Services Co., Ltd. (成都寶澤汽車銷售服務有限公司)	(ii)	The PRC 17 November 2010	RMB10,000,000	–	100%	Automobile dealership

Notes:

(i) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Rising Wave Development Limited.

(ii) These are PRC Operating Entities ultimately controlled by the Controlling Shareholder through Contractual Arrangements.

(iii) This entity is considered a subsidiary of the Group because the Group has power to govern the financial and operating policies of this entity by virtue of an agreement signed with another equity holder which holds 50% interest in this entity, that results in the Group has the power to appoint the sole director of the entity.

(iv) Except for Big Glory International Limited, Rising Wave Development Limited and Tongda Group (China) Co., Ltd., the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

17 INTEREST IN AN ASSOCIATE AND A JOINTLY CONTROLLED ENTITY

Interest in an associate

In June 2009, the Group acquired a 20% equity interest in Guangzhou Fengshen Logistics Co., Ltd. (廣州風神物流有限公司) ("Guangzhou Fengshen"), a Sino-foreign joint venture principally engaged in automobile related logistics services, from an independent third party for a consideration of RMB34,107,000 and accounted for it as an associate.

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Share of net assets	**–**	37,716
Goodwill	**–**	961
	–	38,677

Interest in a jointly controlled entity

In June 2010, the Group acquired another 30% equity interest in Guangzhou Fengshen from an independent third party for a consideration of RMB41,000,000. As a result, Guangzhou Fengshen is 50% and 50% held by the Group and a third party, respectively, and it is under the joint control of the two equity holders. Therefore, the Group accounted for Guangzhou Fengshen as a jointly controlled entity and the original 20% equity interest in Guangzhou Fengshen is treated as if being disposed of, recognising a gain on remeasurement of RMB3,177,000 in the consolidated statement of comprehensive income for the year ended 31 December 2010, and re-acquired at fair value. As a result, the Group recorded a gain on bargain purchase amounted to RMB27,266,000. The directors are of the view that the gain is mainly because the seller wish to withdraw from the investment in Guangzhou Fengshen.

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Share of net assets	**120,475**	–

At 31 December 2010, the particulars of Guangzhou Fengshen are as follows:

Name of the investee	Place of incorporation/ establishment	At	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by subsidiaries	Principal activities
Guangzhou Fengshen	The PRC	31 December 2009	RMB20,000,000	20%	20%	Provision of automobile related logistic services
		31 December 2010	RMB60,000,000	50%	50%	

17 INTEREST IN AN ASSOCIATE AND A JOINTLY CONTROLLED ENTITY (CONTINUED)

Summary financial information on Guangzhou Fengshen

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit RMB'000
31 December 2009					
100 per cent	325,970	137,390	188,580	478,880	36,385
Group's effective interest	65,194	27,478	37,716	61,992	4,570
31 December 2010					
100 per cent	**418,409**	**177,459**	**240,950**	**605,761**	**31,681**
Group's effective interest	**209,205**	**88,730**	**120,475**	**223,997**	**10,355**

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group At 31 December **2010** **RMB'000**	 2009 RMB'000
Motor vehicles	**675,918**	249,482
Automobile spare parts	**69,609**	43,002
Others	**3,206**	2,828
	748,733	295,312

No inventory provision was made as at 31 December 2010 and 31 December 2009, which were stated at cost.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group At 31 December **2010** **RMB'000**	 2009 RMB'000
Carrying amount of inventories sold	**7,160,227**	4,447,967

Inventories with carrying amount of RMB413,281,000 have been pledged as security for the bills payable (see note 23) as at 31 December 2010 (2009: RMB166,004,000).

Inventories with carrying amount of RMB45,311,000 have been pledged as security for loans and borrowings from other financial institutions (see note 22) as at 31 December 2010 (2009: RMB12,488,000).

19 TRADE AND OTHER RECEIVABLES

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000	The Company At 31 December 2010 RMB'000	The Company At 31 December 2009 RMB'000
Trade receivables	**131,247**	69,565	**–**	–
Bills receivable	**4,409**	4,318	**–**	–
	135,656	73,883	**–**	–
Prepayments	**480,129**	251,504	**–**	–
Other receivables and deposits	**252,657**	176,765	**581**	–
Receivables due from third parties	**868,442**	502,152	**581**	–
Receivables due from related parties (note 33(c))	**–**	96,722	**–**	–
Trade and other receivables	**868,442**	598,874	**581**	–

All of the trade and other receivables as at 31 December 2010 (31 December 2009: all except for RMB15,583,000) are expected to be recovered within one year.

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000
Current	**133,608**	73,800
Less than 1 month past due	**–**	–
1 to 3 months past due	**1,525**	–
3 to 12 months past due	**523**	83
Total amount past due	**2,048**	83
	135,656	73,883

Details on the Group's credit policy are set out in note 30(a).

20 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Bank loans (note 22)	**10,120**	–
Bills payable (note 23)	**950,808**	894,853
	960,928	894,853

The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

21 CASH AND CASH EQUIVALENTS

	The Group At 31 December		The Company At 31 December	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposit with banks within 3 months of maturity	**984,439**	124	**984,439**	–
Cash at banks and on hand	**2,447,621**	176,774	**2,035,769**	–
Cash and cash equivalents in consolidated cash flow statements	**3,432,060**	176,898	**3,020,208**	–

22 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Unsecured bank loans (i)	**418,400**	124,200
Unsecured loans from the Controlling Shareholder (ii)	**–**	38,596
	418,400	162,796
Secured bank loans (iii)	**270,277**	139,550
Secured borrowings from other financial institutions (iv)	**32,615**	46,171
	302,892	185,721
	721,292	348,517

22 LOANS AND BORROWINGS (CONTINUED)

At the respective balance sheet dates, loans and borrowings were secured by assets of the Group and related parties as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Loans and borrowings:		
– secured by assets of the Group (v)	**302,892**	95,721
– secured by assets of related parties (note 33(e))	**–**	90,000
	302,892	185,721

(i) Unsecured bank loans carried interest at annual rates ranging from 5.10% to 6.11% as at 31 December 2010 (2009: from 5.31% to 6.37%).

No unsecured bank loans were guaranteed by related parties at 31 December 2010 (2009: RMB124,200,000) (see note 33(e)).

(ii) Loans from the Controlling Shareholder are unsecured, interest-free and have no fixed term of repayment.

(iii) Secured bank loans carried interest at annual rates ranging from 5.10% to 6.10% as at 31 December 2010 (2009: from 5.31% to 5.84%).

(iv) Borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 5.81% to 6.97% as at 31 December 2010 (2009: from 5.35% to 6.37%).

(v) Secured loans and borrowings were secured by the following assets of the Group:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Inventories	**45,311**	12,488
Pledged bank deposits	**10,120**	–
Investment properties	**–**	10,639
Other property, plant and equipment	**4,503**	4,661
Lease prepayments	**5,099**	8,631
	65,033	36,419

23 TRADE AND OTHER PAYABLES

	The Group At 31 December		The Company At 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Trade payables	**39,956**	44,597	**–**	–
Bills payable	**1,515,172**	1,160,288	**–**	–
	1,555,128	1,204,885	**–**	–
Receipts in advance	**159,364**	100,935	**–**	–
Other payables and accruals	**121,521**	113,047	**22,721**	–
Payables due to third parties	**1,836,013**	1,418,867	**22,721**	–
Payables due to related parties (note 33(c))	**11,024**	215,133	**–**	–
Trade and other payables	**1,847,037**	1,634,000	**22,721**	–

All trade and other payables are expected to be settled within one year.

Bills payable of RMB950,808,000 as at 31 December 2010 (2009: RMB894,853,000), were secured by pledged bank deposits (see note 20).

Bills payable of RMB564,364,000 as at 31 December 2010 (2009: RMB265,435,000), were secured by inventories (see note 18).

An ageing analysis of trade and bills payables is as follows:

	The Group At 31 December	
	2010 RMB'000	2009 RMB'000
Due within 3 months	**1,480,539**	1,015,887
Due after 3 months but within 6 months	**53,787**	188,998
Due after 6 months but within 12 months	**20,802**	–
	1,555,128	1,204,885

24 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed on 9 August 2010, the Company adopted a pre-IPO employee share option scheme (the "Option Scheme") whereby 93 employees of the Group were granted the rights to subscribe for share options of the Company. A total number of 23,435,900 share options were granted on 10 August 2010, 20 August 2010 and 10 November 2010 respectively, with an exercise price equivalent to RMB1.5, RMB2.0 and RMB2.5 for type 1, type 2 and type 3 correspondingly.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees on:			
10 August 2010 including:			
Type 1	17,540,700	50% on 1 January 2012, 25% on 1 January 2013, 25% on 1 January 2014	5.61 years 4.61 years 3.61 years
Type 2	2,062,400	50% on 1 April 2012, 25% on 1 April 2013, 25% on 1 April 2014	5.36 years 4.36 years 3.36 years
Type 3	1,452,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014	5.11 years 4.11 years 3.11 years
20 August 2010 including:			
Type 3	2,018,800	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014	5.14 years 4.14 years 3.14 years
10 November 2010 including:			
Type 3	362,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014	5.36 years 4.36 years 3.36 years
Total share options granted	23,435,900		

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) The number and weighted average exercise prices of share options are as follows:

	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the year	–	–
Exercised during the year	–	–
Forfeited during the year	–	–
Granted during the year	RMB1.7	23,435,900
Outstanding at the end of the year	RMB1.7	23,435,900
Exercisable at the end of the year		–

No share options were exercised during the year.

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 4.76 years. No options and rights were outstanding as at 31 December 2009 as the pre-IPO share options have not been granted during that year.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value of share options and assumptions:

Grant date	10 August 2010	20 August 2010	10 November 2010
Fair value at measurement date (RMB'000)	27,210	2,198	597
Share price (RMB)	2.2	2.2	4.2
Exercise price (RMB)	1.5/2.0/2.5	2.5	2.5
Expected volatility (expressed as weighted average volatility used in the modeling under binomial model)	54.1%	53.9%	52.7%
Option life (expressed as weighted average life used in the modeling under binomial model)	4.8 years	4.4 years	4.6 years
Expected dividends	2.0%	2.0%	2.0%
Risk-free interest rate	3.1%	3.1%	3.7%

The expected volatility and expected dividend yield rate are based on the average volatilities and dividend yield rates in the similar industry. Changes in the subjective input assumptions could materially affect the fair value estimate.

26 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group:

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Accrued expenses RMB'000	Total RMB'000
Deferred tax assets/ (liabilities)arising from:					
At 1 January 2009	–	(6,209)	6,497	–	288
Charged to profit or loss (note 6(a))	–	–	(4,124)	–	(4,124)
At 31 December 2009 and 1 January 2010	–	(6,209)	2,373	–	(3,836)
Acquisition of a subsidiary through business combination (note 29)	(15,162)	–	–	–	(15,162)
Credited/(charged) to profit or loss (note 6(a))	379	2,277	(972)	3,924	5,608
At 31 December 2010	**(14,783)**	**(3,932)**	**1,401**	**3,924**	**(13,390)**

	The Group At 31 December	
	2010 RMB'000	2009 RMB'000
Representing:		
Net deferred tax assets	**4,530**	2,225
Net deferred tax liabilities	**(17,920)**	(6,061)
	(13,390)	(3,836)

27 SHARE CAPITAL

The share capital of the Group as at 31 December 2009 represents the aggregate amount of the paid-in capital of all the entities comprising the Group at the balance sheet date, after elimination of investments in subsidiaries.

Pursuant to the Reorganisation, the Company became the holding company of the Group. The share capital of the Group as at 31 December 2010 represents the issued capital of the Company at the balance sheet date.

Movements in the authorised share capital of the Company during the year are as follows:

		Authorised		Issued and fully paid	
	Note	**Number of ordinary shares (thousand)** (note (a))	**Nominal value of ordinary shares HK$('000)** (note (a))	**Number of ordinary shares (thousand)** (note (a))	**Nominal value of ordinary shares HK$('000)** (note (b))
At 9 July 2010 (date of incorporation)	(i)	1,000	100	1,000	100
Increase in share capital on 17 November 2010	(ii)	19,999,000	1,999,900	99,000	9,900
Issues of ordinary shares in public offering	(iii)	–	–	500,000	50,000
Capitalisation issue	(iv)	–	–	1,400,000	140,000
At 31 December 2010		20,000,000	2,000,000	2,000,000	200,000
RMB equivalent ('000)			1,714,200		171,420

(a) Authorised share capital

The Company was incorporated in the Cayman Islands on 9 July 2010 with an authorised share capital of HK$100,000, divided into 1,000,000 shares of par value of HK$0.1 each.

Pursuant to a resolution dated 17 November 2010 passed by the Company's then sole shareholder, namely Joy Capital Holdings Limited ("Joy Capital"), the authorised number of ordinary shares was increased from 1,000,000 to 20,000,000,000 by the creation of 19,999,000,000 new shares of par value of HK$0.1 each.

(b) Issued share capital

The following sets out the changes in the Company's issued share capital since the date of its incorporation:

(i) The Company was incorporated on 9 July 2010 with issued capital of 1,000,000 ordinary shares at HK$0.1 each. The issued capital was subsequently credited as fully paid.

(ii) On 17 November 2010, the Company allotted and issued, credited as fully paid, an aggregate of 99,000,000 shares to Joy Capital.

(iii) On 10 December 2010, the Company issued 500,000,000 new ordinary shares of HK$0.1 each by way of the Offering to Hong Kong and overseas investors. Consequently, RMB42,855,000 (equivalent to HK$50,000,000) were recorded in share capital.

(iv) Pursuant to a resolution dated 17 November 2010 passed by Joy Capital, the Company capitalised, out of the share premium as of 10 December 2010, HK$140,000,000 in paying up in full at par 1,400,000,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 17 November 2010.

28 RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Attributable to equity holders of the Company			
	Share premium RMB'000	Capital reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2010	**–**	**–**	**–**	**–**
Elimination on the completion of the Reorganisation (note 28(b)(iv))	–	74,028	–	74,028
Issue of ordinary shares by initial public offering, net of issuance costs (note 28(a)(i))	2,972,834	–	–	2,972,834
Capitalisation issue (note 28(a)(ii)	(119,994)	–	–	(119,994)
Equity settled share-based transactions (note 25)	–	5,944	(5,944)	–
Total comprehensive income for the year	–	–	(17,621)	(17,621)
Balance at 31 December 2010	**2,852,840**	**79,972**	**(23,565)**	**2,909,247**

(a) Share premium

(i) On 10 December 2010, the Company issued 500,000,000 new ordinary shares of HK$0.1 each at a price of HK$7.3 per share by way of the Offering to Hong Kong and overseas investors. Net proceeds from the Offering amounted to RMB3,015,689,000 (after offsetting issuance costs of RMB112,726,000), out of which RMB42,855,000 and RMB2,972,834,000 were recorded in share capital and share premium respectively.

(ii) Pursuant to a resolution dated 17 November 2010 passed by Joy Capital, the Company capitalised, out of the share premium as of 10 December 2010, HK$140,000,000 (equivalent to RMB119,994,000) in paying up in full at par 1,400,000,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 17 November 2010.

(b) Capital reserves

(i) On 28 June 2010, the Controlling Shareholder acquired 80% equity interest in Shantou Hongxiang at a consideration of RMB56,440,000, out of which RMB4,000,000 and RMB52,440,000 were recorded in share capital and capital reserve respectively.

(ii) On 29 September 2010, the Group settled all the loans from the Controlling Shareholder, with a carrying amount of RMB83,195,000, by capitalization (note 33(b)).

(iii) On 17 November 2010, the Company became the holding company of the Group, and the combined share capital of RMB348,429,000 were eliminated on consolidation.

(iv) On 17 November 2010, the Company issued additional 99,000,000 ordinary shares of HK$0.1 each to Joy Capital for acquiring its entire equity interest in Big Glory International Limited, with a carrying amount of RMB82,599,000 (note 16). The Company credited all 100,000,000 ordinary shares outstanding as of 17 November 2010 as fully paid, amounting to HK$10,000,000 (equivalent to RMB8,571,000). The remaining RMB74,028,000 was recorded in the capital reserve.

28 RESERVES (CONTINUED)

(c) PRC statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meeting.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(d) Exchange reserves

Foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations which are dealt with in accordance with the accounting policies as set out in note 2(u).

(e) Discretionary surplus reserves

The transfer to this reserve from the retained earnings of the companies comprising the Group which are incorporated in the PRC is subject to the approval by the respective boards of directors' meeting. Its usage is similar to that of statutory surplus reserve.

(f) Distributable reserves

The Company was incorporated on 9 July 2010. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, all reserves of the Company may be applied for payment of distributions or dividends to equity holders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

At 31 December 2010, distributable reserves of the Company amounted to RMB2,909,247,000 (31 December 2009: Nil).

(g) Capital risk management

The Group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans and borrowings, bills payable less cash and pledged bank deposits, and capital is defined as the total equity. As at 31 December 2010, the Group has cash in excess of interest-bearing loans. It is the management's intention to restrict the ratio at a range considered as reasonable by management.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

29 BUSINESS COMBINATION

On 28 June 2010, the Controlling Shareholder acquired 80% equity interest in Shantou Hongxiang, a PRC domestic company principally engaged in sales of motor vehicles, at a consideration of RMB56,440,000 and contributed to the Group by way of the Contractual Arrangements as further described in Note 1.

The above acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts RMB'000	**Fair value adjustments** RMB'000	**Recognised values on acquisition** RMB'000
Other property, plant and equipment (note 12)	7,288	916	8,204
Car dealership (note 14)	–	59,732	59,732
Inventories	49,075	–	49,075
Trade and other receivables	31,181	–	31,181
Cash and cash equivalents	2,662	–	2,662
Pledged bank deposits	53,916	–	53,916
Trade and other payables	(137,801)	–	(137,801)
income tax payables (note 6(c))	(1,552)	–	(1,552)
Deferred tax liabilities (note 26)	–	(15,162)	(15,162)
Net identified assets	4,769	45,486	50,255
Percentage attributable to the Group			80%
Net identified assets attributable to the Group			40,204
Goodwill arising from the acquisition (note 15)			16,236
Total consideration			56,440
Analysis of the net cash inflow of cash in respect of the acquisition:			
Cash consideration paid (Note)			–
Less: cash acquired			(2,662)
Net cash assumed in acquisition			(2,662)

Note: No consideration was paid by the Group because the acquisition of Shantou Hongxiang was made by the Controlling Shareholder and it was accounted for as a subsidiary of the Group through the Contractual Arrangements as further described in Note 1.

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The revenue and profit that Shantou Hongxiang contributed to the Group during the year ended 31 December 2010 are RMB252,471,000 and RMB7,581,000 respectively. If the acquisition had occurred on 1 January 2010, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2010 would have been RMB8,180,230,000 and RMB301,408,000, respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the above acquisition would have been the same if the acquisition had occurred on 1 January 2010.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets of the Group include cash and cash equivalent, pledged bank deposits, trade and other receivables. Financial liabilities of the Group include loans and borrowings, and trade and other payables.

The Group has exposure to the following risks from its use of financial instruments:

– credit risk

– liquidity risk

– interest rate risk

– foreign currency risk

– fair value

The Company's board of directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, which is normally settled within one month directly by major financial institutions. Normally, the Group does not obtain collateral from customers.

At the respective balance sheet dates, the Group has certain concentration of credit risk as prepayments to vendors and other receivables due from vendors constitute a large portion of trade and other receivables. The receivables from the five largest debtors at 31 December 2010 represented 81% of the total trade and other receivables (2009: 51%), while 34% of the total trade and other receivables were due from the largest single debtor (2009: 14%).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. Except for the financial guarantees given by the Group as at 31 December 2009 as set out in note 33(d), the Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk.

The maximum exposure to credit risk in respect of the guarantees at 31 December 2009 is disclosed in note 33(d).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The Group had net current assets of RMB3,368,781,000 as at 31 December 2010 (2009: net current liabilities of RMB77,086,000). The Group had net cash used in operating activities amounting to RMB123,607,000 for the year ended 31 December 2010 (2009: net cash generated from operating activities amounting to RMB273,194,000). Based on the detailed review of the working capital forecast of the Group for the year ending 31 December 2011, of the anticipated ability of the Group to obtain continued bank financing to finance its continuing operation, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

The following are the contractual maturities of the Group's financial liabilities at 31 December 2010, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	The Group At 31 December 2010 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Loans and borrowings	**763,211**	**–**	**763,211**	**721,292**
Trade and other payables	**1,847,037**	**–**	**1,847,037**	**1,847,037**
	2,610,248	**–**	**2,610,248**	**2,568,329**

	The Group At 31 December 2009 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	358,002	–	358,002	348,517
Trade and other payables	1,634,000	–	1,634,000	1,634,000
	1,992,002	–	1,992,002	1,982,517

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with fixed interest rates ranging from 0.36% to 0.87% per annum as at 31 December 2010 (2009: 0.36%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the Group, with fixed interest rates ranging from 1.71% to 2.75% per annum as at 31 December 2010 (2009: 1.71%).

The Group's interest-bearing borrowings and interest rates as at 31 December 2010 are set as follows:

		The Group At 31 December	
	Interest Rate	**2010 RMB'000**	2009 RMB'000
Fixed rate borrowings	4.80% to 8.75%	**107,478**	158,408
Variable rate borrowings	4.86% to 8.54%	**613,814**	151,513
		721,292	309,921

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A general increase/decrease of 100 basis points in interest rates prevailing at 31 December 2010, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB3,671,000 (2009: RMB1,273,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2009.

(d) Foreign currency risk

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands.

(e) Fair values

At 31 December 2010, all financial assets and liabilities were carried at amounts not materially different from their fair values.

At 31 December 2009, all financial assets and liabilities were carried at amounts not materially different from their fair values, except for the amounts due from/to related parties and loans from the Controlling Shareholder which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

31 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of other plant, property and equipment outstanding at 31 December 2010 not provided for in the consolidated financial statements were as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Contracted for	**12,506**	3,389
Authorised but not contracted for	**–**	–
	12,506	3,389

The Company has no capital commitments outstanding at 31 December 2010.

(b) Operating lease commitments

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group At 31 December	
	2010	2009
	RMB'000	RMB'000
Within one year	**34,697**	10,415
After 1 year but within 5 years	**78,659**	35,733
After 5 years	**83,763**	79,457
	197,119	125,605

The Group leases a number of warehouses, lease prepayment and office premises under operating leases. The leases typically run for an initial period between 1 and 20 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

32 CONTINGENT LIABILITIES

At 31 December 2010, the Group and the Company did not have any significant contingent liabilities.

At 31 December 2009, subsidiaries comprising the Group issued financial guarantees to related parties and have assets being pledged to financial institutions as security for bank loans borrowed by related parties as disclosed in note 33(d). These guarantees and assets pledged to banks have been released before the listing of the Company's shares on the Stock Exchange.

Notes to the Consolidated Financial Statements

33 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2010, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Wang Muqing 王木清	Controlling Shareholder
Xu Ling 徐淩	Daughter-in-law of the Controlling Shareholder
Hubei Shengze Industry Co., Ltd. (“Hubei Shengze”) 湖北聖澤實業有限公司	Controlled by the Controlling Shareholder
Beijing Jiaruiya Automobile Sales and Service Co., Ltd. (“Beijing Jiaruiya”) 北京嘉瑞雅汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Hubei Ruishi Automobile Sales and Service Co., Ltd. (“Hubei Ruishi”) 湖北瑞獅汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Shanghai Lushi Automobile Sales and Service Co., Ltd. (“Shanghai Lushi”) 上海陸獅汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Shanghai Shenxie Shenqi Automobile Sales and Service Co., Ltd. (“Shanghai Shenxie Shenqi”) 上海紳協紳起汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Inner Mongolia Huadun Automobile Trading Co., Ltd. (“Inner Mongolia Huadun”) 內蒙古華頓汽車貿易有限公司	Controlled by the Controlling Shareholder
Suizhou Bocheng Automobile Sales and Service Co., Ltd. (“Suizhou Bocheng”) 隨州博誠汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Shanghai Shenhui Automobile Sales and Service Co., Ltd. (“Shanghai Shenhui”) 上海紳暉汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Shanghai Zhenyang Property Co., Ltd. (“Shanghai Zhenyang”) 上海真陽房產有限公司	Controlled by the Controlling Shareholder
Wuhan Xinboheng Trading Co., Ltd. (“Wuhan Xinboheng”) 武漢欣博恒貿易有限公司	Controlled by the Controlling Shareholder
Liaoning Meixing Automobile Sales and Service Co., Ltd. (“Liaoning Meixing”) 遼寧美星汽車銷售技術服務有限公司	Controlled by the Controlling Shareholder
Hebei Shengze Automobile Sales and Service Co., Ltd. (“Hebei Shengze”) 河北聖澤汽車銷售服務有限公司	Controlled by the Controlling Shareholder

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

Name of party	Relationship
Shanxi Dingjie Automobile Sales and Service Co., Ltd. ("Shanxi Dingjie") 山西鼎傑汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Xinjiang Meilin Trading Co., Ltd. ("Xinjiang Meilin") 新疆美林貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Zhongcheng Automobile Sales and Service Co., Ltd. ("Wuhan Zhongcheng") 武漢眾成汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Shanghai Shenrui Automobile Sales and Service Co., Ltd. ("Shanghai Shenrui") 上海紳瑞汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Jingdezhen Jishun Transportation Co., Ltd. ("Jingdezhen Jishun") 景德鎮吉順汽車運輸有限公司	Controlled by the Controlling Shareholder
Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze Technology") 北京寶澤汽車科技發展有限公司	Controlled by the Controlling Shareholder
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by the Controlling Shareholder
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze Ruibao") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by the Controlling Shareholder
Shanghai Shengze Dingjie Automobile Trading Co., Ltd. ("Shanghai Shengze Dingjie") 上海聖澤鼎傑汽車貿易有限公司	Controlled by the Controlling Shareholder
Baotou Zhongrui Automobile Sales and Service Co., Ltd. ("Baotou Zhongrui") 包頭眾鋭汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Jieyun") 武漢聖澤捷運貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong") 武漢聖澤捷眾物流有限公司	Controlled by the Controlling Shareholder
Shanghai Dingze Auto-trading Co., Ltd. ("Shanghai Dingze Auto-trading") 上海鼎澤汽車貿易有限公司	Controlled by the Controlling Shareholder

Notes: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Recurring transactions

	The Group For the year ended 31 December 2010 RMB'000	2009 RMB'000
Rental expense:		
Hubei Shengze	**3,684**	3,727
Beijing Baoze Technology	**3,801**	–
Inner Mongolia Shengze Dingjie	**273**	–
Changsha Shengze Ruibao	**525**	–
Wuhan Jieyun	**2,100**	–
Wuhan Jiezhong	**500**	–
	10,883	3,727

The Company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

(b) Non-recurring transactions

	The Group For the year ended 31 December 2010 RMB'000	2009 RMB'000
Rendering of motor-related services:		
Shanghai Lushi	**98**	82
Shanghai Shenxie Shenqi	**266**	155
Suizhou Bocheng	**–**	363
Wuhan Zhongcheng	**198**	401
Shanghai Shenrui	**172**	–
	734	1,001
Receipt of motor-related services:		
Shanghai Shenxie Shenqi	**3**	17
Wuhan Zhongcheng	**8,032**	18,405
	8,035	18,422
Sales of motor vehicles:		
Beijing Jiaruiya	**193**	–
Shanghai Shenxie Shenqi	**90**	2,690
Suizhou Bocheng	**–**	2,639
Wuhan Zhongcheng	**2,872**	23,324
	3,155	28,653

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Non-recurring transactions (continued)

	The Group For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Purchases of motor vehicles:		
Shanghai Shenxie Shenqi	**3,061**	14,488
Wuhan Zhongcheng	**–**	742
	3,061	15,230
Advance from related parties:		
Hubei Shengze	**44,903**	–
Beijing Jiaruiya	**343**	–
Liaoning Meixing	**–**	1,800
Wuhan Zhongcheng	**–**	7,550
Shanghai Shenrui	**588**	–
Jingdezhen Jishun	**3,427**	3,732
Inner Mongolia Shengze Dingjie	**2,995**	–
Baotou Zhongrui	**7,180**	–
Beijing Baoze Technology	**43**	–
	59,479	13,082
Repayment of advance from related parties:		
Xu Ling	**2,000**	–
Hubei Shengze	**22,595**	–
Hubei Ruishi	**16**	–
Inner Mongolia Huadun	**–**	1,500
Suizhou Bocheng	**–**	233
Wuhan Xinboheng	**8,000**	–
Hebei Shengze	**–**	4,967
Shanxi Dingjie	**–**	6,828
Xinjiang Meilin	**–**	720
Wuhan Zhongcheng	**11,127**	–
Jingdezhen Jishun	**7,159**	–
Inner Mongolia Shengze Dingjie	**2,995**	–
	53,892	14,248
Advance to related parties:		
Shanghai Shenxie Shenqi	**–**	36,080
Shanghai Shenrui	**–**	16,571
Beijing Baoze Technology	**368**	–
Changsha Shengze Ruibao	**3**	–
Shanghai Shengze Dingjie	**93**	–
	464	52,651

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Non-recurring transactions (continued)

	The Group For the year ended 31 December 2010 RMB'000	2009 RMB'000
Repayment of advance to related parties:		
Hubei Shengze	**–**	19,223
Beijing Jiaruiya	**12**	–
Hubei Ruishi	**16**	–
Shanghai Lushi	**16,296**	5,977
Shanghai Shenxie Shenqi	**16,923**	–
Inner Mongolia Huadun	**653**	–
Shanghai Shenhui	**–**	1,013
Shanghai Zhenyang	**–**	509
Wuhan Zhongcheng	**285**	–
Shanghai Shenrui	**17,568**	–
Beijing Baoze Technology	**368**	–
Changsha Shengze Ruibao	**3**	–
Shanghai Shengze Dingjie	**93**	–
	52,217	26,722
Disposal of fixed assets and lease prepayments to related parties:		
Inner Mongolia Shengze Dingjie	**21,169**	–
Changsha Shengze Ruibao	**35,902**	–
Shanghai Dingze Auto-trading	**10,325**	–
Wuhan Jiezhong	**14,450**	–
Wuhan Jieyun	**78,798**	–
	160,644	–
Loans from the Controlling Shareholder	**44,599**	2,981
Capitalisation of shareholder's loans	**83,195**	–

The advances from/to related parties and the loans from the Controlling Shareholder of the Group are unsecured, interest-free and have no fixed term of repayment, which were discontinued before the listing of the Company's shares on the Stock Exchange.

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

As at the respective balance sheet dates, the Group had the following balances with related parties:

	The Group At 31 December 2010 RMB'000	2009 RMB'000
Other receivables due from:		
Hubei Shengze	**–**	41,712
Beijing Jiaruiya	**–**	129
Shanghai Lushi	**–**	16,181
Shanghai Shenxie Shenqi	**–**	20,092
Inner Mongolia Huadun	**–**	653
Shanghai Shenrui	**–**	17,955
	–	96,722
Other payables due to:		
Xu Ling	**–**	2,000
Wuhan Xinboheng	**–**	8,000
Liaoning Meixing	**–**	9,128
Hebei Shengze	**–**	63,764
Shanxi Dingjie	**–**	123,472
Wuhan Zhongcheng	**–**	5,037
Jingdezhen Jishun	**–**	3,732
Beijing Baoze Technology	**3,844**	–
Baotou Zhongrui	**7,180**	–
	11,024	215,133
Loans and borrowings:		
Loans from the Controlling Shareholder	**–**	38,596

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Guarantees issued by the Group

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000
Guarantees issued by the Group in respect of bank loans borrowed by a related party:		
– Hubei Shengze	–	55,000

In addition, the carrying value of assets of the Group pledged to financial institutions as security for bank loans borrowed by related parties as at 31 December 2009 are analysed as follows:

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000
Other property, plant and equipment	–	129,944
Lease prepayments	–	106,818
	–	236,762

(e) Guarantees issued by related parties

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000
Guarantees issued by related parties in respect of bank loans borrowed by the Group:		
– Hubei Shengze	–	84,200
– Beijing Jiaruiya	–	40,000
	–	124,200

In addition, the carrying value of assets of related parties pledged to banks as security for bank loans borrowed by the Group as at 31 December 2009 are analysed as follows:

	The Group At 31 December 2010 RMB'000	The Group At 31 December 2009 RMB'000
Lease prepayments	–	164,775
	–	164,775

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 7 and note 8.

34 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Depreciation

Investment properties and other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debt would affect the consolidated statement of comprehensive income in future years.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(d) Provision for inventories

The Group reviews the carrying amounts of the inventories at the respective balance sheet dates to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the group.

		Effective for accounting period beginning on or after
Improvements to HKFRSs (2010)		1 July 2010 or 1 January 2011
Revised HKAS 24	Related party disclosures	1 January 2011
Consequential amendment to HKFRS 8	Operating segments	1 January 2011
Amendments to HKAS 12	Income taxes	1 January 2012
HKFRS 9	Financial Instruments	1 January 2013

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2010 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

Board of Directors

Executive directors

Mr. Wang Kunpeng *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Cao Limin *(Senior Vice President)*
Mr. Liu Dongli *(Chief Investment Officer)*
Mr. Chen Tao

Non-executive director

Mr. Wang Muqing

Independent non-executive directors

Dr. Wong Tin Yau, Kelvin
Mr. Tan Xiangyong
Mr. Zhang Yansheng

Registered Office

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Grand Cayman, KY1-1111
Cayman Islands

Headquarters

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No. 59 West Third-Ring South Road
Beijing
PRC

Place of Business in Hong Kong

40/F, Jardine House
1 Connaught Place
Central, Hong Kong

Website address

www.zhengtongauto.com

Company Secretary

Liang, Current Tien Tzu *(HKICPA, CICA)*

Authorized Representatives

Liu Dongli
Liang, Current Tien Tzu

Members of the Operation and Management Committee

Wang Kunpeng *(Chairman)*
Li Zhubo
Cao Limin
Liu Dongli
Mok Kwok Choi Peter
Wang Guoqing

Members of the Audit Committee

Wong Tin Yau, Kelvin *(Chairman)*
Tan Xiangyong
Zhang Yansheng

Members of the Nomination Committee

Zhang Yansheng *(Chairman)*
Liu Dongli
Tan Xiangyong

Members of the Remuneration Committee

Tan Xiangyong *(Chairman)*
Wang Kunpeng
Wong Tin Yau, Kelvin

Hong Kong Share Registrar

Computershare Hong Kong
Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Compliance Advisor

CCB International Capital Limited

Principal Bankers

China Construction Bank Corporation
Hubei Branch
Shenzhen Development Bank
Shanghai Waitan Branch
Bank of China, Wuhan Economic
Development Zone Branch
China Merchants Bank, Liberation Park Branch
Industrial Bank, Hankou Branch
Bank of Communications, Pacific Branch

Auditors

KPMG
Certified Public Accountants

Hong Kong Legal Counsel

Chiu & Partners
Solicitors

正通

CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED

中國正通汽車服務控股有限公司

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