BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立的有限公司）

Stock code 股份代號：1293

ANNUAL REPORT 年報 2011


JAGUAR
LAND-ROVER
RANGE ROVER

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. YANG Aihua *(Chairman)*
Mr. YANG Hansong *(President)*
Mr. YANG Zehua *(Vice President)*
Ms. HUA Xiuzhen
Mr. ZHAO Hongliang *(Vice President)*

Non-Executive Director

Mr. ZHANG Yang

Independent Non-Executive Directors

Mr. DIAO Jianshen
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

AUDIT COMMITTEE

Mr. DIAO Jianshen *(Chairman)*
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

REMUNERATION COMMITTEE

Mr. YANG Hansong
(Former Chairman until March 14, 2012)
Mr. DIAO Jianshen
(Current Chairman since March 14, 2012)
Mr. WANG Keyi

NOMINATION COMMITTEE

Mr. YANG Hansong
(Former Chairman until March 14, 2012)
Mr. WANG Keyi
(Current Chairman since March 14, 2012)
Mr. DIAO Jianshen

JOINT COMPANY SECRETARIES

Mr. CHEN Changdong
Ms. PAU Lai Mei

AUTHORIZED REPRESENTATIVES

Mr. YANG Hansong
Ms. PAU Lai Mei

STOCK CODE

1293

WEBSITE

www.klbaoxin.com

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

1715 Wuzhong Road,
Minhang District, Shanghai, PRC.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1803–4,
18/F, Bank of America Tower,
12 Harbour Road, Hong Kong.

REGISTERED OFFICE

P.O. Box 309, Ugland House,
Grand Cayman KY1-1104,
Cayman Islands.

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square,
Grand Cayman, KY1-1102, Cayman Islands.

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong.

COMPLIANCE ADVISER

CMB International Capital Limited
Units 1803–4,
18/F, Bank of America Tower,
12 Harcourt Road,
Central, Hong Kong.

LEGAL ADVISERS TO HONG KONG LAW

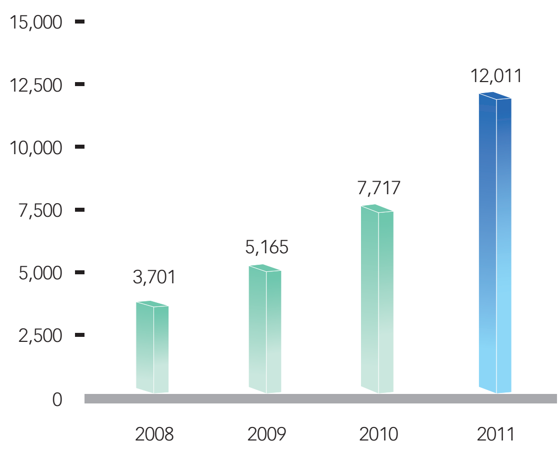
Cleary Gottlieb Steen & Hamilton (Hong Kong)
39/F, Bank of China Tower,
One Garden Road,
Central, Hong Kong.

AUDITORS

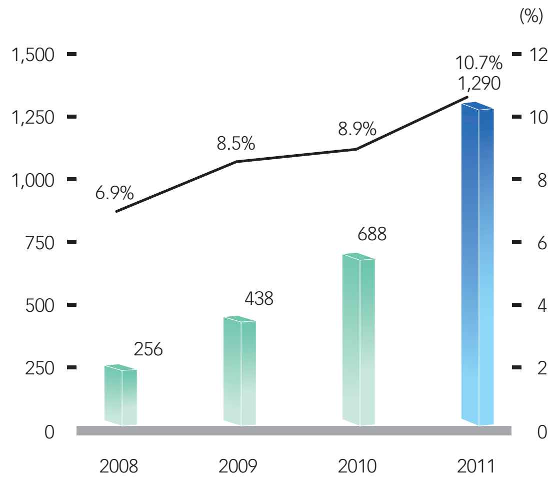
Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central, Hong Kong.

Financial Highlights

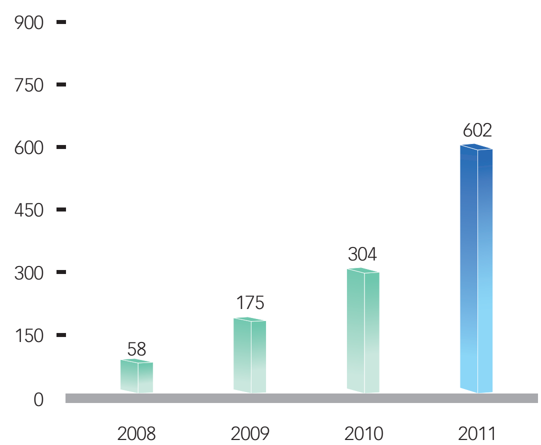
Revenue
(RMB million)



Gross Profit and gross profits margin
(RMB million)



Profit attributable to owners of the Parent
(RMB million)



Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") and the management of Baoxin Auto Group Limited (the "Company" or "our Company" and together with its subsidiaries, "Baoxin", "we", "us", "our", the "Group" or "our Group"), I am pleased to present the annual results report of the Group for the year 2011.

2011 was a landmark year in the history of the Group. As a leading luxury and ultra-luxury automobile dealership group in China, the Group successfully listed on the Main Board of The Hong Kong Stock Exchange Limited (the "Hong Kong Stock Exchange") on December 14, 2011, which marks a new stage of the Group's development. We believe that the successful listing does not only provide financial support for future expansion and development of the Group, but also enhances the Group's reputation and further strengthens our corporate governance structure. In the future, we will share the growth and achievements of the Group with our investors.

During the reporting period, we captured the market opportunities brought by the strong growth of sales of luxury and ultra-luxury automobiles in China, continued to expand our dealership network and improved overall internal management of the Group. As a result, our operations continue to improve and our business continue to expand with encouraging results. During the year ended December 31, 2011, the Group recorded a revenue of RMB 12,010.9 million, representing an increase of 55.7% as compared with that of RMB7,716.6 million in 2010, and a profit attributable to owners of the parent amounted to RMB601.9 million, representing an increase of 98.0% as compared with that of RMB303.9 million in 2010. Basic earnings per share was RMB0.27, representing an increase of 92.9% as compared with that of RMB0.14 in 2010.

EXPANDING NATIONWIDE MARKET COVERAGE

Since 2009, China has become the largest consumer market for automobile in the world for 3 consecutive years and has developed rapidly, resulting in a boom in large dealership groups that own brand dealership rights of multiple brands. We believe that the sensible distribution of dealership network would have a positive impact on the new car sales and after-sales services business. In recent years, we has strategically improved the Group's network by facilitating communications with manufacturers, conducting market studies, attending site visits and etc.. Our dealership retail stores are currently distributed in eastern China where the economy is the most developed, and where the demand and growth of luxury and ultra-luxury brands automobiles are the strongest. The strategic location has resulted in higher income level and stronger profitability of each dealership store of the Group. During 2011, the Group established 13 luxury and ultra-luxury brands dealership stores in economically populous and affluent regions, such as

Chairman's Statement

eastern China, Greater Bohai Rim, among which three stores are in trial operation. By the end of the year, the total number of dealership stores increased to 33. Up till now, our dealership network covers 14 affluent cities such as Shanghai, Tianjin, Hangzhou, Ningbo, Suzhou, Wuxi, Qingdao, Zibo, Dandong, Changshu, Jiaxing, Yangzhou, Ninghai, Taizhou, achieving the Group's ambition to secure foothold in eastern China and thereby expanding nationwide market network coverage.

FOCUSING ON MARKET NEEDS, REFINING BUSINESS STRATEGY

Keeping up with the market pulse and identifying consumers' needs are the key factors for success in consumer products industry. With the rapid growth of China's economy and the improvement of peoples' living standard, the PRC passenger vehicle market has moved from a starting up stage to that of rapid development. As a result, there were a large number of participants entering the market, leading to intense competition, especially in the mid- to high-end automobile market. Strong consumer demand and intense price war have driven the overall market to a highly competitive status. Our core management team have been participating in the front line of automobile sales for over decades and have gained extensive marketing experience. Back in the early years, we had already comprehended the market development and decided to focus our market strategy on luxury and ultra-luxury brands, and has been expanding such market since then. The sales volumes of luxury and ultra-luxury brands in the regions where our retail stores are located amounted to half of overall sales volumes of luxury and ultra-luxury brands nationwide. One significant highlight of our ability to comprehend market development is the Group's introduction of the brand, Land Rover & Jaguar, at the end of 2010. After the introduction, we swiftly expanded to 5 Land Rover & Jaguar authorized dealership stores during the year. Revenues and profits of Land Rover & Jaguar for this year contributed significantly to the Group's results. We ranked first nationwide in single-store sales volume of Land Rover and are well recognized by the manufacturers. Our management's vision in the development of the market has been affirmed by the immense demand of the consumers. We have shaped our brand portfolio to mainly comprised luxury and ultra-luxury brands, namely BMW, Audi, Land Rover & Jaguar. Currently, a majority of our dealership stores, 23 out of 33, are for luxury and ultra-luxury brands. As a result of the Group's decision to position ourselves in the luxury and ultra-luxury brands market, we achieved significant growth in revenues and net profits for the year, representing an increase of 55.7% and 100.1% respectively as compared with that of last year.

EXPANDING AFTER-SALES SERVICES, BROADENING REVENUE BASE

With the rapid development of the PRC automobile market and the surge in automobile ownership, after-sales services business offers numerous business opportunities. The after-sales services business not only increases streams of revenue, but also brings in intangible assets such as goodwill to the enterprise. The Group continues to uphold our "customer-oriented" servicing philosophy, to actively deliver professional team work, integrate resource allocation of every dealership stores and authorized repair centers, and nurture a large pool of high quality repairing consultants in training center. During the year, the Group also implemented Xingyue Plan ("星月計劃") to extend the reception time and Horse Racing Plan ("賽馬計劃") to shorten the waiting time for after-sales services and to enhance the value of after-sales services. We believe that our comprehensive after-sales services will not only attract but also retain more

Chairman's Statement

customers. During the year, the revenues of after-sales services have increased significantly and contributed significantly to the profits.

PROMOTING BUSINESS MODEL, STRENGTHENING STAFF TRAININGS

The rapid expansion of network must be backed by a mature business model and a team of skillful professionals. The Group nurtured a large number of sales and after-sales experts to form a high quality management system and a replicable business model for our 4S stores dealership over the past 10 years. Each new dealership stores that was established during this year has successfully adopt this business model and have ramped up to reach the level of a mature store within a shorter period than expected. This has lead to an increase in its relevant sales.

In addition, the Group nurtured talented professionals for our dealership stores in the Group's training centers. By providing training courses on product knowledge, technical skills, customer service, sales and management communications skills, we help improve our employees' professional ability, and provide first-class staffing to the Group in order to provide better services to customers and complement our rapid growth.

LOOKING FORWARD TO FUTURE DEVELOPMENTS, NEW CHALLENGES AHEAD

In light of the ever changing market, we have set our clear development goal to secure a foothold in China, strengthen our presence in eastern China, penetrate through central and western China and strengthen our market position as a leading luxury and ultra-luxury brand automobile dealership group in China. Listing on the Main Board of the Hong Kong Stock Exchange in 2011 marks a new starting point for our Group's development. With this new platform, by improving our corporate governance and management, nurturing our corporate culture and putting additional efforts in professional staff training, we will continue to explore our potentials and values, promote a positive atmosphere in the workforce and strengthen our core competitiveness. While we endeavor to protect our core brand businesses, we will also seize every business opportunity to introduce more luxury and ultra-luxury brands to polish our brand portfolio and maximize our brand value. Meanwhile, through effecting our dealership network plan in order to expand in developed regions in eastern China and focusing on fast growing major cities in central and western China as well as leveraging on merger and acquisition, we strive to realize our strategic plan. All in all, by capitalizing on our long-term stable relationships with the automobile manufacturers, keeping a good grip on the market trends and relying our position in the industry, together with our successful and replicable business model, and particularly our experienced management team and professional sales team, we believe that we will strengthen our core competitiveness and achieve rapid development of the Group's business.

We firmly believe that the trust and support from our business partners and shareholders will continue to be our driving force as well as the solid foundation to embrace the challenges that lie ahead of us and achieve our goals. We are determined and dedicated to strive and fulfill our promises in order to reward our shareholders with fruitful results in the near future.

Yours sincerely,
Yang Aihua
Chairman

Hong Kong, March 14, 2012

Management Discussion and Analysis

INDUSTRY OVERVIEW

The Chinese economy has continued to grow rapidly in recent years and the rapid economic growth has accelerated the urbanization process in China which has, in turn, increased the percentage of the Chinese population with growing disposable income. According to the data published by the National Bureau of Statistics of China, in 2011, China's GDP grew by 9.2% to RMB47.2 trillion from the previous year while the median per capita disposable income of urban households increased by 13.5% to RMB19,118. Riding on such factors, the PRC passenger vehicle industry experienced steady growth. According to the statistics from China Association of Automobile Manufacturers, the total sales volume of passenger vehicles in China increased by 5.19% in 2011. At the same time, the PRC imported vehicle market performed remarkably in 2011 with an annual import amount first exceeds one million to 1.0389 million units representing a growth of 27.7% over the previous year.

Despite the moderate growth in the general passenger vehicle market, the growth in the luxury and ultra-luxury brand automobile market has remained strong. Driven by increasing numbers of middle class and affluent upper middle class in China and growing demand in upgrading of middle class vehicles, luxury and ultra-luxury brands automobiles in China had benefited and had grown strongly and steadily in 2011. The total sales volume of luxury and ultra-luxury automobiles generally increased: major brands such as BMW, Audi and Land Rover & Jaguar recorded the annual sales of automobiles in China of 232,000 units, 313,000 units and 42,000 units for 2011, representing a growth of 37.6%, 37.0% and 61% as compared to the previous year.

Management Discussion and Analysis

Riding on the rises in per capita disposable income of urban households, the demand for luxury automobiles will continue to increase and the luxury brands will continue to optimize its own product line: luxury brands such as BMW and Audi commenced production of automobiles in the price range of approximately RMB 300,000 per unit in recent years thereby enlarging the target customers group. We believe the sales volume of luxury and ultra-luxury automobiles will continue to surge in the near future.

Within the Chinese passenger vehicle market, given the surging demand in luxury and ultra-luxury brand automobiles, together with the accompanying rising demand for after-sales services due to the increase in general accumulation of luxury and ultra-luxury brand automobiles in China, luxury 4S dealership groups are expected to benefit from the economic conditions.

BUSINESS OVERVIEW

Rapid expansion in dealership network

Our Group is a leading luxury 4S dealership group in China. Our strong brand portfolio includes a wide range of brands. During the year of 2011, the Group successfully introduced one of the ultra-luxury brands, Land Rover & Jaguar, to our brand portfolio and setup five Land Rover & Jaguar dealership stores. Our brand portfolio includes luxury and ultra-luxury brands such as BMW, MINI, Audi, Land Rover & Jaguar and Cadillac, which most of our dealership stores are dedicated to, as well as other popular mid-to-upper market brands, such as Buick, Toyota, Honda, Nissan, Volkswagen, Chevrolet and Hyundai.

The dealership network of our Group has continued to expand rapidly throughout the year of 2011, especially in the luxury and ultra-luxury markets. In the year ended December 31, 2011, we formally launched 10 new dealership stores and three additional dealership stores which were in trial operations, making our total number of new established dealership stores to 13 stores (the "New Dealership Stores"), all of which were luxury and ultra-luxury dealership stores. Among the 13 New Dealership Stores, five were dedicated for Land Rover & Jaguar, seven were dedicated to BMW and one for Cadallic. As of December 31, 2011, we have a well-established network comprising 30 dealership stores which were formally launched and three additional dealership stores which were in trial operation period, making our total number of established dealership stores to 33. Of which, 23 out of 33, approximately 70%, of our dealership stores are dedicated to luxury and ultra-luxury brands. In addition to our dealership stores, our network also includes one authorised repair center and two automobile customization centers in Shanghai.

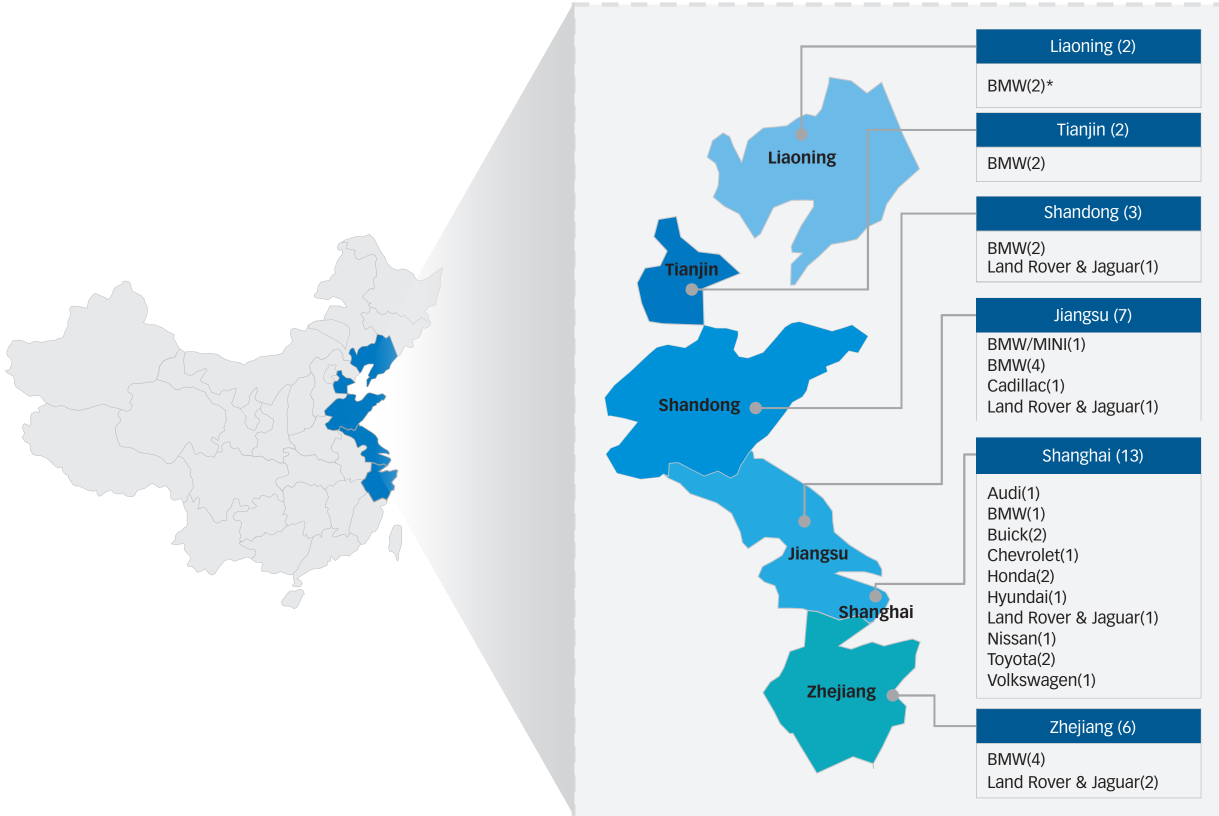
Number of Stores	**As of December 31, 2011**	As of December 31, 2010
Luxury and ultra-luxury brands	**23**[(1)]	10[(1)]
Audi	**1**	1
BMW	**16**[(1)]	9[(1)]
Cadillac	**1**	—
Land Rover & Jaguar	**5**	—
Mid-to-upper market brands	**10**	10
Total	**33**	20[(1)]

(1) Includes a jointly-controlled entity whose revenues and sales volume are not included in our combined data.

As at December 31, 2011, we had further received manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another 10 luxury and ultra-luxury brand dealership stores, showrooms and repair centers.

Management Discussion and Analysis

All of our dealership stores are strategically located, most of which are distributed in eastern China where the economy is most developed, and the demand and growth of luxury and ultra-luxury brands automobiles are the strongest. During the year of 2011, we expanded into five new cities, being Zibo, Dandong, Wuxi, Jiaxing and Yangzhou. Our dealership stores network currently covers 14 cities among six provinces (including municipals) in the Mainland China.



* *Refers to a jointly-controlled entity whose revenues and sales volume are not included in our consolidated data.*

Markets where the Company has presence Number in parenthesis indicates number of dealerships stores

Significant growth in sales of luxury and ultra-luxury brand automobiles

As a result of our focus on luxury and ultra-luxury brands as well as strategic location of our stores, we have recorded significant growth in our revenues and profits for the year ended December 31, 2011. Our revenue from sales of automobiles for the year ended December 31, 2011 was RMB11,254.9 million, representing a growth of approximately 57.0%. The sales of luxury and ultra-luxury automobile contributed to 80.2% of our total revenue for the year. In terms of sales volume, we sold 29,499 units of automobile in the year ended December 31, 2011, an increase of 7,185 units, or 32.2%, from 22,314 units of automobiles for the same period ended 2010. The sales volume of luxury and ultra-luxury automobile contributed to 60.8% of our total sales volume for the year. For the year ended December 31, 2011 we sold 17,935 units of luxury and ultra-luxury automobile, an increase of 6,679 units, or 59.3%, from 11,256 units for the same period ended 2010.

Management Discussion and Analysis

Enhanced after-sales services

The Group has always placed emphasis on its after-sales service business as an important and stable income source of its future development. In addition to regular repair and maintenance, we also provided customization services, as well as sales of automobile care products and other products. Our Group's after-sales business has remain superior and continues to enable us to form strong partnership with leading automobile manufacturers.

In order to provide the most efficient repair and maintenance services for our customers, our Group improved our repair technology level of our dealership stores by implementing schemes that targeted to extend reception time (星月計劃) and to shorten the waiting time for after-sales services (賽馬計劃) in 2011. We have also been diversifying our after-sales service model by establishing authorized repair centers and setting up certified collision damage assessment centers with Traffic Management Bureau.

As a result of implementation of the above strategies, we recorded a growth in revenue from our after-sales services. For the year ended December 31, 2011, the revenue from after-sales services reached RMB756.0 million, representing an increase of 37.8% as compared to that of 2010.

Successful and replicable business model

Over the past decade of development, the Group has gained extensive automobile dealership experiences and nurtured a large number of sales and after-sales experts to form a mature management system and a replicable and self-developed network expansion model. Leveraging on our excellent management and long-standing cooperation, we have established a stable long term relationship with leading automobile manufacturers and placing us in a strong position to attain additional authorizations from existing and new automobile manufacturers in the future for our organic expansion and potential acquisitions.

Training scheme for employees

Our Group recognize the value of our employees to our long term success. As of the date of this report, the Group has a dedicated training institute in Changshu, Jiangsu province which provides training courses for all levels of our employees in different fields, including technical skills, product knowledge, customer service, sales and communications skills and management skills as well as practical trainings. We believe the training programs will help nurture the suitable personnel and talents to meet the Group's rapid development and expansion.

FINANCIAL REVIEW

Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. The significant accounting judgements and estimates are set out in note 3 to the financial statements.

Management Discussion and Analysis

	Year ended December 31, 2011 RMB'000	2010 RMB'000
Revenue	**12,010,929**	7,716,564
Cost of sales and services provided	**(10,721,181)**	(7,028,566)
Gross profit	**1,289,748**	687,998
Other income and gains, net	**93,756**	37,482
Selling and distribution costs	**(256,629)**	(177,100)
Administrative expenses	**(166,977)**	(90,985)
Profit from operations	**959,898**	457,395
Finance costs	**(128,397)**	(48,378)
Share of profit of a jointly-controlled entity	**5,372**	2,907
Profit before tax	**836,873**	411,924
Tax	**221,041**	(104,266)
Profit for the year	**615,832**	307,658
Attributable to:		
Owners of the parent	**601,905**	303,940
Non-controlling interests	**13,927**	3,718
	615,832	307,658
Earnings per share attributable to ordinary equity holders of the parent		
Basic and diluted		
— For profit for the year (RMB)	**0.27**	0.14

Management Discussion and Analysis

Revenue

For the year ended December 31, 2011, our revenue was RMB12,010.9 million, representing a growth of approximately 55.7%. The increase was primarily due to an increase of RMB4,086.8 million, or 57.0%, in revenue from the automobile sales, particular from the sales of luxury and ultra-luxury automobiles, compared to that of 2010.

The following table sets forth a breakdown of our revenue for the period indicated.

	Year ended December 31,			
	2011		2010	
Revenue Source	**Revenue (RMB'000)**	**Contribution (%)**	Revenue (RMB'000)	Contribution (%)
Automobile sales	**11,254,946**	**93.7**	7,168,106	92.9
Luxury and ultra-luxury brands	**9,632,667**	**85.6**	5,583,995	77.9
mid-to-upper market brands	**1,622,279**	**14.4**	1,584,111	22.1
After-sales business	**755,983**	**6.3**	548,458	7.1
Total Revenue	**12,010,929**	**100**	7,716,564	100

Revenue from the sale of automobiles increased by 57.0% due to (1) the contribution to automobile sales from the New Dealership Stores, and (2) continued sales growth at our more mature stores.

Automobile sales generated a substantial portion of our revenue, accounting for 93.7% of our revenue for the year ended December 31, 2011. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands account for approximately 85.6% (2010: 77.9%) and 14.4% (2010: 22.1%), respectively, of our revenue from the sales of automobiles.

Revenue from our after-sales business increased by 37.8% from RMB548.5 million for the year ended December 31, 2010 to RMB756.0 million for the same period in 2011. Revenue from our after-sales business is driven primarily by the demand for maintenance and repair services and related sales of spare parts, which is in turn primarily affected by the cumulative number of automobiles sold by us in the past and the relative maturity of the stores in our network. Although revenue from our after-sales business increased over the year ended December, 2011, the relative contribution of our after-sales business to our revenue decreased slightly from 7.1% to 6.3%. This decrease was primarily due to the opening of our New Dealership Stores during the year. Our new stores typically require two years to fully ramp up their after-sales business performance due to the demand cycle for repair and maintenance services.

Cost of sales and services

For the year ended December 31, 2011, our cost of sales and services increased by 52.5%, from RMB7,028.6 million for the same period ended 2010 to RMB10,721.2 million. This increase is basically consistent with the growth in our sales throughout the year ended December 31, 2011.

Management Discussion and Analysis

The cost of sales and services attributable to our automobile sales business amounted to RMB10,331.6 million for the year ended December 31, 2011, an increase of RMB3,590.9 million, or 53.3%, from the same period in 2010. The cost of sales attributable to our after-sales business amount to RMB389.6 million for the year ended December 31, 2011, an increase of RMB101.7 million, or 35.3% from the same period in 2010.

Gross profit and gross profit margin

Gross profit for the year ended December 31, 2011 was RMB1,289.7 million, an increase of RMB601.7 million or 87.5% from the same period in 2010. Gross profit from automobile sales increased by 116.0% from RMB427.4 million for the year ended December 31, 2010 to RMB923.3 million for the same period in 2011, of the RMB495.9 million increase RMB494.9 million was from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 40.6% from RMB260.6 million for the year ended December 31, 2010 to RMB366.4 million for the same period in 2011. As of December 31, 2011, the contribution to gross profit from automobile sales and after-sales business accounted for 71.6% and 28.4% respectively of the total gross profit for the year.

Gross profit margin for the year ended December 31, 2011 was 10.7% (2010: 8.9%), of which the gross profit margin of automobile sales was 8.2% (2010: 6.0%) and of after-sales business was 48.5% (2010: 47.5%). The increase in gross profit margin in the year ended December 31, 2011 was primarily due to the increase of gross profit margin from sales of luxury and ultra-luxury automobiles (increased of 2.3% from 6.7% for the year ended December 31, 2010 to 9.0% for the same period in 2011).

Other income and gains, net

Other income and gains, net, increased by 150.1% from RMB37.5 million for the year ended December 31, 2010 to RMB93.8 million for the same period in 2011, primarily due to an increase in our commission income. Our commission income increased due to an increase in the amounts of automobile insurance policies sold through our dealership stores and higher commission rates that resulted from direct sales of automobile insurance policies to customers by certain of our dealership stores which have obtained the necessary qualification to conduct such sales.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended December 31, 2011 increased by 109.9% from RMB457.4 million to RMB959.9 million, from the same period in 2010.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended December 31, 2011 increased by 100.1% from RMB307.7 million to RMB615.8 million, from the same period in 2010.

Capital expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During the year ended December 31, 2011, our total capital expenditure was RMB486.0 million.

Management Discussion and Analysis

Net current assets and liabilities

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

	December 31,	
	2011	2010
	RMB'000	RMB'000
Current assets		
Inventories	**1,284,159**	737,953
Trade receivables	**125,504**	42,847
Prepayments, deposits and other receivables	**2,022,874**	897,726
Amount due from a jointly-controlled entity	**37,835**	33,900
Pledged bank deposits	**399,416**	276,149
Cash in transit	**13,383**	14,022
Cash and cash equivalents	**2,884,038**	384,476
Total current assets	**6,767,209**	2,387,073
Current liabilities		
Bank loans and other borrowings	**2,341,021**	807,339
Trade and bills payables	**1,174,914**	589,645
Other payables and accruals	**346,494**	164,375
Amounts due to related parties	**626,680**	5,385
Income tax payable	**199,131**	152,713
Total current liabilities	**4,688,240**	1,719,457
Net Current Assets	**2,078,969**	667,616

As at December 31, 2011, we had net current assets of RMB2,079.0 million, representing an increase of RMB1,411.4 million from our net current assets of RMB667.6 million as at December 31, 2010. This change was primarily due to an increase in our cash from the proceeds from the initial public offering (the "IPO").

In relation to amounts due to our related parties, as of the despatch date of this annual report, all outstanding amounts have been settled, other than an aggregate amount of RMB 550 million due to Huakong (Tianjin) Industry Investment Fund (Limited Partnership) and Huakong (Tianjin) Innovation Fund (Limited Partnership) as the consideration to purchase an aggregate equity interest of 3% in Shanghai Baoxin Automobile Sales & Services Co., Ltd..

Liquidity and financial resources

As at December 31, 2011, we have cash and cash equivalents amount to RMB2,884.0 million, representing an increase of 650.1% from RMB384.5 million as at December 31, 2010.

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating expenses. We finance our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities.

Management Discussion and Analysis

Bank loans and other borrowings

As at December 31, 2011, the Group's available and unutilized banking facilities amount to approximately RMB2,555.0 million.

Our bank loans and other borrowings as at December 31, 2011 were RMB2,370.8 million, an increase of RMB1,563.5 million from RMB807.3 million as at December 31, 2010. The increase was due to our capital expenditures on new stores and increased working capital requirements due to our new stores and increased sales at our other stores.

The table below sets forth our short term and long term borrowings as of December 31, 2011.

	At December 31, 2011		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Current bank loans	**5.8-11.8**	**2012**	**2,221,421**
Current portion of long term bank loans	**6.7**	**2012**	**5,000**
Other borrowings	**7.6-9.2**	**2012**	**114,600**
			2,341,021
Non-Current			
Long term bank loans	**6.7-7.0**	**2013-2014**	**29,800**
			2,370,821

Our controlling shareholder, Mr. Yang Aihua, provided guarantees in the favour of certain banks to secure bank borrowings of the Group during the year ended December 31, 2011. Most of the guarantees provided by Mr. Yang Aihua have been released by December 31, 2011. The Group was engaged in ongoing-discussion with the relevant banks and as of the despatch date of this annual report, the remaining guarantees has been released.

Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loans and other borrowings and the net proceeds from the IPO, we believe that our liquidity requirements will be satisfied.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of the proceeds from the IPO, bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended December 31, 2011, our net cash used in operating activities, net cash used in investing activities, and net cash generated from financing activities was RMB332.8 million (2010: RMB121.2 million), RMB693.1 million (2010: RMB579.9 million), and RMB3,536.3 million (2010: RMB872.8 million), respectively.

Management Discussion and Analysis

Foreign exchange risk

Substantially all of our revenue, cost of revenue and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk during the year ended December 31, 2011. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have a financial impact on the Group.

Inventory analysis

Our inventories primarily consisted of new automobiles and spare parts and accessories. Each of our dealership stores individually manages their orders for new automobiles and after-sales products. We coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network.

Our inventories increased by 74.0% from RMB738.0 million as of December 31, 2010 to RMB1,284.2 million as of December 31, 2011, primarily due to increase in our inventory of new automobiles by 75.4% from RMB678.9 million as of December 31, 2010 to RMB1,191.1 million as of December 31, 2011. We increased the inventory that we maintained across our network in 2011 due to (1) increased demand and sales at our stores, (2) increased sales of luxury and ultra-luxury automobiles, and (3) the addition of 13 dealership stores which commenced operation during the year ended December 31, 2011.

Our average inventory turnover days in the year ended December 31, 2011 increased to 34.4 days from 30.1 days in 2010, primarily due to the New Dealership Stores as inventory turnover at these newly established stores took longer compared to our more mature stores.

Gearing ratio

Our gearing ratio for the year ended December 31, 2011 was 35.1% (2010: 44.7%).

Contingent liabilities

As at December 31, 2011, our Group had no significant contingent liabilities.

Pledge of the group's assets

Our Group had pledged our group assets as securities for bank loans and other borrowings and banking facilities which were used to finance daily business operation. As at December 31, 2011, the pledged group assets amounted to approximately RMB1,538.2 million (2010: RMB959.7 million).

Human resources

As at December 31, 2011, the Group had approximately 2,685 employees (2010: 2,035). Total staff costs for the year ended December 31, 2011, excluding directors' remuneration were approximately RMB106.6 million (2010: RMB75.2 million).

The Group values recruiting and training quality personnel. We implements remuneration policy, bonus and long-term incentive schemes with reference to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

Management Discussion and Analysis

OUTLOOK

In light of the continuing growth of China's affluent population and increasing demand for luxury and ultra-luxury passenger vehicles in the market, our Group will continue to strengthen our market position with the primary focus on the luxury and ultra-luxury markets.

In terms of dealership network, we plan to expand our dealership network over the next few years through new store openings and by pursuing opportunities to cooperate with other luxury or ultra-luxury brand automobile manufacturers to expand our brand portfolio. We also intended to increase the proportion of our stores dedicated to the luxury and ultra-luxury brands. We believe that our well-established relationships with leading automobile manufacturers and our experience in operating luxury and ultra-luxury brands, including BMW and Land Rover & Jaguar, position us well to obtain authorizations from other luxury and ultra-luxury brand manufacturers. Our Group will also actively apply for authorization of other luxury and ultra-luxury brands to optimize our brand portfolio.

Geographically, cities in Eastern China are undergoing significant economic development resulting in surging demand of passenger vehicles. We aim at strengthening our efforts in exploring and expanding into such area whilst continuing to also seek opportunities to expand into, and commence preparation for, certain major fast growing cities in Central and Western China.

Besides organic growth, we believe that, due to the highly fragmented nature of China's automobile dealership industry and automobile manufacturers' increasing preference to work only with the larger dealership groups, there will be attractive opportunities for industry consolidation. We will seek opportunities to acquire other dealership groups, through selective acquisitions, alliances, joint ventures and other strategic investments, if suitable opportunities arise. We believe that our market position and superior operational capabilities and expertise will enable us to optimize revenue of our acquisition targets.

With respect to our after-sales business, the relative contribution of our after-sales business to our revenue decreased slightly, due to the opening of New Dealership Stores during the year of 2011 as new stores typically require two years to fully ramp up their after-sales business performance due to the demand cycle for repair and maintenance services. Currently, the proportion of New Dealership Stores to total number of dealership stores is relatively high (13: 33). We expect that as our New Dealership Stores begin to mature, they will contribute more to our overall revenue and profitability as their after-sales business continue to ramp up in the next few years.

Overall, by expanding our dealership network and brand portfolio, further improving sales of our existing stores, and strengthening the training and management of our employees, together with the additional revenue from our New Dealership Stores, we expect continuous growth in our automobile sales. We also plan to increase our after-sales service capacity, by establishment of authorized repair centers, expanding the scope of our after-sales services, improving the productivity of our after-sales service personnel and expanding into new product and service offerings. In addition, we will continue to broaden our revenue sources and enhance our profitability by expanding our authorized used automobile business and insurance agent services, as well as other automobile related businesses, including our automobile styling and accessories businesses. We will continue to monitor the development of automotive financial business with the aim to provide comprehensive, convenient and high-quality automobile services for our customers and optimize our income structure and profitability.

Looking forward, we believe that our superior operational capabilities and customer-oriented services expertise will continue to enable us to strengthen our market position as a leading luxury 4S dealership group in China.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standard of corporate governance to safeguard shareholders' interest and to enhance corporate value and accountability. As the Company was not listed on the Hong Kong Stock Exchange until December 14, 2011 (the "Listing Date"), the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") was not applicable to the Company for the full year from January 1, 2011 to December 31, 2011, but only from the Listing Date to December 31, 2011 (the "Review Period"). During the Review Period, the Company has complied with the applicable code provisions of the CG Code, save for the deviations from code provisions A.1.1 and A.5.4 due to the short period of time since the Listing Date. Details of which are explained in the relevant paragraphs of this report.

THE BOARD

Role of Directors

The Board of Directors of the Company is accountable to the shareholders for leading the Company in a responsible and effective manner. Every Director is charged to act in the best interest of the Company and contribute to the Company with their expertise and knowledge. The Board decides on overall strategies and monitors the Group's performance on behalf of the shareholders.

The Board, led by its chairman (the "Chairman"), is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the president (the "President"), 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 duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

As of the despatch date of this annual report, the Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Board composition

The Company is managed through the Board which currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors. The biographical details of the Board members are set out on pages 27 to 29 of this annual report.

The Board has at least one-third of its membership comprising independent non-executive Directors. The list of all Directors, which also specifies the posts, e.g. of Chairman and President, and chairman and member of committee(s), held by each Director are set out under "Corporate Information" on page 2 of this annual report. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Corporate Governance Report

The executive Directors have extensive experience in the automobile industry while the non-executive Directors are well established in their professions. The Board consists of members with diversified background, professional expertise and experience to meet the business requirements of the Group, and as a team, provides the Group with core competencies such as industry knowledge, technical expertise, customer-oriented management experience and knowledge in finance, accounting, business and management.

Non-executive Director and independent non-executive Directors are selected according to the skills and experience required by the Board. They introduce an element of independence to the Board and contribute to the development of the Group's strategies and policies by providing their independent, constructive and informed opinions.

During the Review 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 as required under Rule 3.10 of the Listing Rules. The Board has received written confirmations of independence from Mr. Diao Jianshen, Mr. Wang Keyi and Mr. Chan Wan Tsun Adrian Alan, being the independent non-executive Directors, as required under Rule 3.13 of the Listing Rules, and considered that they have satisfied the independence criteria set out in Rule 3.13 of the Listing Rules.

Mr. Yang Aihua (executive Director and Chairman), Mr. Yang Hansong (executive Director and President) and Mr. Yang Zehua (executive Director and vice president) are brothers. Save as disclosed above, there are no family or other material relationships among members of the Board.

Responsibilities and delegation of management function

The Board, led by the Chairman, is responsible for approving and monitoring the Group's overall strategies and policies, approving annual budgets and business plans, evaluating the performance of the Group, and supervising the management. The Chairman also leads the Board to ensure that it acts in the best interests of the Company and its shareholders. To facilitate effective management, the Board has delegated certain functions to various Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these Board committees operates under clearly defined written terms of reference. Chairmen of the Board committees report to the Board on issues discussed and concluded after the respective committee meetings.

The Chairman ensures that the Board works effectively and objectively and all decisions are made in the interest of the Group and all key and appropriate issues are discussed by the Board members in a timely and effective manner. The Chairman has appointed one of the joint company secretaries, Mr. Chen Changdong to prepare agenda for each Board meeting and to ensure that all Directors are properly briefed on issues to be discussed at Board meetings and receive adequate and accurate information in a timely manner. The other joint company secretary, Ms. Pau Lai Mei is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

The Board delegates the day-to-day operational responsibilities to the senior management team under the leadership of the President. The President, working with the senior management, is responsible for the business operation of the Group, including implementation of the strategies adopted by the Board.

Corporate Governance Report

Chairman and President

The Chairman of the Board is Mr. Yang Aihua whereas Mr. Yang Hansong, the President of the Group, carries out the general responsibilities of a chief executive officer and in charge of the day-to-day management of the Group. The positions of the Chairman of the Board and the President are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business. There is no deviation from the code provision of Rule A.2.1 in Appendix 14 under the Listing Rules.

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, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company for a term of one year with effect from their respective date of appointment.

The appointments of all Directors are subject to the provisions of retirement and rotation of Directors under the articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Board meetings

The Directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

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

Where necessary, the senior management attend regular Board meetings and other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

Corporate Governance Report

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.

During the Review Period, the Board has not held any meetings. After listing on the Hong Kong Stock Exchange, the Company has adopted the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals to discuss overall strategy as well as operations and financial performance of the Group. Up to the date of this annual report, one Board meeting was held on March 14, 2012.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with defined terms of reference in line with the CG Code since the Company's shares have been listed on the Hong Kong Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice when appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the Review Period are set out below:

Remuneration Committee

During the Review Period and until March 14, 2012, the chairman of the Remuneration Committee was Mr. Yang Hansong, an executive Director and the President. Other members are Mr. Diao Jianshen and Mr. Wang Keyi, both being independent non-executive Directors of the Company. In order to comply with the new amendments to the Listing Rules, Mr. Diao Jianshen has replaced Mr. Yang Hansong as the chairman of the Remuneration Committee effective from March 14, 2012. Mr. Yang Hansong remains a member of the Remuneration Committee.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management, provides the packages needed to attract, retain and motivate them of the quality required to run the Company successfully. The emolument policy for non-executive Director, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration.

As the Company has just been listed on the Listing Date and there was no change in the policy and structure of the remuneration of the Directors and senior management of the Group, no meeting of the Remuneration Committee was held during the Review Period.

Subsequent to the end of the Review Period, a meeting of the Remuneration Committee was held on March 14, 2012. The Remuneration Committee has assessed the performance of the executive Directors and the senior management, reviewed the remuneration package of the executive Directors and the senior management, and made recommendation to the Board on their remuneration. From January 1, 2012 onwards, the Remuneration Committee will meet at least once per year.

Corporate Governance Report

Audit Committee

The chairman of the Audit Committee is Mr. Diao Jianshen and other members are Mr. Wang Keyi and Mr. Chan Wan Tsun Adrian Alan, all being independent non-executive Directors of the Company. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee is responsible for assisting the Board by providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, overseeing the audit process (including reviewing the relationship with, and terms of appointment of, the Company's external auditor) and performing other duties and responsibilities as assigned by the Board from time to time.

No meeting of the Audit Committee was held during the Review Period. Subsequent to the end of the Review Period, a meeting of the Audit Committee was held on March 14, 2012. From January 1, 2012 onwards, the Audit Committee will meet at least twice per year and will meet with the Company's external auditors regarding the review of the Company's financial report and accounts at least twice a year.

At the meeting held on March 14, 2012, the Audit Committee has reviewed the consolidated financial statements for the year ended December 31, 2011. The Audit Committee has also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls and financial reporting matters.

Nomination Committee

During the Review Period and until March 14, 2012, the chairman of the Nomination Committee was Mr. Yang Hansong, an executive Director and the President. Other members are Mr. Diao Jianshen and Mr. Wang Keyi, both being independent non-executive Directors of the Company. In order to comply with the new amendments to the Listing Rules, Mr. Wang Keyi has replaced Mr. Yang Hansong as the chairman of the Nomination Committee effective from March 14, 2012. Mr. Yang Hansong remains a member of the Nomination Committee.

The primary function of the Nomination Committee is to identify, screen and recommend to the Board appropriate candidates to serve as Directors of the Company, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company. When vacancies to the Board exist, the Nomination Committee will carry out the selection process based on certain criteria adopted by the Nomination Committee, including skills, industry experience, professional knowledge, personal integrity and time commitments to the Board's affair of the proposed candidates. Candidates who satisfy the criteria are nominated to the Board for consideration. The Nomination Committee reviews the structure, size and composition of the Board at least annually and makes recommendations to the Board to complement the Company's corporate strategy and to maintain a balanced composition of executive and non-executive Directors.

No meeting was held by the Nomination Committee during the Review Period. The Nomination Committee considers that it is not necessary to review the size and composition of the Board and identify any new Board member for the Review Period. From January 1, 2012 onwards, the Nomination Committee will meet at least once per year prior to the holding of an annual general meeting.

Corporate Governance Report

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. The Company has made specific enquiries with all Directors who have confirmed that they have complied with the required standards of dealings set out in the Model Code throughout the year ended December 31, 2011.

Since the Company has just been listed on the Listing Date, written guidelines for relevant employees in respect of their dealings in the Company's securities was not established during the Review Period. The Company has adopted written guidelines in respect of relevant employee's dealing in the Company's securities on the exact terms of the Model Code on March 14, 2012.

REMUNERATION POLICY

The remuneration structure for the executive Directors and senior management of the Group consists of two key elements, fixed salary and discretionary incentive bonus. Fixed salary and other allowances are determined by reference to the remuneration benchmark in the industry and the prevailing market conditions. The discretionary incentive bonus, which comprises cash bonus and share options granted under the Company's share option scheme, is performance-based and is payable and granted upon achievement of individual and corporate performance targets as determined by the Board from time to time.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended December 31, 2011.

Details of the remuneration of each of the Directors of the Company for the year ended December 31, 2011 are set out in note 9 to the financial statements.

AUDITORS' RESPONSIBILITY AND REMUNERATION

A responsibility statement of the external auditors of the Company in connection with the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" on pages 38 to 39 of this annual report.

Details of the fees paid or payable to the Group's external auditors for the year ended December 31, 2011 are as follows:

Services provided	Fees RMB'000
2011 Annual audit	4,000
Non-audit services	—
Total	4,000

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2011.

With the assistance of the finance department of the Group, the Directors have ensured that the financial statements of the Group are prepared in accordance with the statutory requirements and the applicable accounting standards. The Directors have also ensured that the financial statements of the Group are published in a timely manner in accordance with the applicable laws and regulations.

The management of the Company 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.

Where appropriate, a report will be submitted on any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for reviewing the effectiveness of the internal control system of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risks management functions. Such annual review also considers the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The internal control review function reports directly to the Chairman of the Audit Committee. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function for the year ended December 31, 2011. The Group will continue to enhance the system to cope with the changes in the business environment.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

Corporate Governance Report

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the various Board committees and, in their absence, other members of the respective committees are available to answer questions at shareholder meetings.

In addition, to promote effective communication, the Company maintains a website at www.klbaoxin.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, any vote of shareholders at a general meeting must be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each shareholder meeting.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. YANG Aihua (楊愛華), aged 50, is an executive Director and the Chairman of the Group. Mr. Yang has substantial experience in the automobile dealership industry. Mr. Yang founded the Group and has been Chairman of the Group since 1999. Prior to that, he was the chairman of Shanghai Baoxin Automobile Sales & Services Co., Ltd. from 2004 to 2007. From 1999 to 2004, he was chairman of Shanghai Kailong Automobile Trading Co., Ltd. Prior to joining the Company, he was a general manager at 上海華順汽車銷售有限公司 (Shanghai Huashun Automobile Sales Company Limited) from 1995 to 1999. From 1988 to 1995, Mr. Yang had assumed various positions in Shanghai Jinling Trading Company, a state-owned company. Mr. Yang obtained an EMBA degree from Dalian University of Technology in 2006. Mr. Yang was appointed as an executive Director of the Company on November 22, 2011. Mr. Yang Aihua is the brother of Mr. Yang Hansong and Mr. Yang Zehua.

Mr. YANG Hansong (楊漢松), aged 49, is an executive Director and the President of the Group. Mr. Yang has substantial experience in the automobile dealership industry. He has been appointed in 2008 as a Director and President of the Group. From 2004 to 2008, he was an executive director of Suzhou Baoxin Automobile Sales & Services Co., Ltd. and from 2002 to 2004 he was the general manager of Shanghai Taipingyang Jinsha Automobile Sales & Services Co., Ltd. From 1999 to 2002, he was appointed as vice chairman of Shanghai Kailong Automobile Trading Co., Ltd. Prior to joining the Group, he worked as a deputy general manager at 上海華順汽車銷售有限公司 (Shanghai Huashun Automobile Sales Company Limited) from 1995 to 1999. Mr. Yang Hansong graduated with a bachelor's degree in history at the Jiangxi Normal University in 1983. He obtained an EMBA degree from Dalian University of Technology in 2006. He is currently completing a PhD degree in management studies at Dalian University of Technology. Mr. Yang Hansong was appointed as an executive Director of the Company on November 22, 2011. Mr. Yang Hansong is the brother of Mr. Yang Aihua and Mr. Yang Zehua.

Mr. YANG Zehua (楊澤華), aged 39, is an executive Director and a vice president of the Group. Mr. Yang has substantial experience in the automobile dealership industry. He joined Shanghai Kailong Automobile Trading Co., Ltd. in 1999 as deputy general manager until 2002. Mr. Yang Zehua was appointed general manager of Shanghai Xinlong Automobile Sales & Services Co., Ltd. from 2002 to 2008. He became the general manager of Shanghai Baoxin Automobile Sales & Services Co., Ltd. from 2008 to 2009. Since 2010, he has served as a vice president of the Group. Prior to joining the Group, he worked as a sales manager at 上海華順汽車銷售有限公司 (Shanghai Huashun Automobile Sales Company Limited) from 1995 to 1999. He has obtained an EMBA degree from Dalian University of Technology in 2006. Mr. Yang Zehua was appointed as an executive Director of the Company on November 22, 2011. Mr. Yang Zehua is the brother of Mr. Yang Aihua and Mr. Yang Hansong.

Ms. HUA Xiuzhen (華秀珍), aged 59, is an executive Director and the chief supervisor of the treasury department. Ms. Hua has worked in the Group for over 12 years. She joined the Group in 1999 as finance manager of Shanghai Kailong Automobile Trading Co., Ltd. until 2004. She has been appointed as the chief supervisor of the treasury department in 2004. Prior to joining the Group, Ms. Hua worked in 國泰機電設備公司 (Guotai Engineering Equipment Company Limited) in its finance department from 1990 to 1999. Ms. Hua was appointed as an executive Director of the Company on November 22, 2011.

Directors and Senior Management

Mr. ZHAO Hongliang (趙宏良), aged 45, is an executive Director and a vice president of the Group. Mr. Zhao has substantial experience in the automobile dealership industry. He joined Shanghai Kailong Automobile Trading Co., Ltd. in 1999 as deputy general manager until 2001. Mr. Zhao was appointed general manager of Shanghai Kailong Automobile Services Co. Ltd. from 2002 to 2006. Mr. Zhao was general manager of Suzhou Baoxin Automobile Sales & Services Co., Ltd. from 2006 to 2008. Mr. Zhao was appointed vice president of the Group in 2008 and has since maintained that role. Prior to joining the Group, he was the deputy general manager of 上海華順汽車銷售有限公司 (Shanghai Huashun Automobile Sales Company Limited) from 1995 to 1998. He obtained an MBA degree from the University of Management and Technology (long distance teaching service) in 2005. Mr. Zhao was appointed as an executive Director of the Company on November 22, 2011.

Non-executive Director

Mr. ZHANG Yang (張揚), aged 35, is a non-executive Director of the Group. Mr. Zhang has been the chief executive officer of Huakong (Tianjin) Industry Investment Fund (Limited Partnership) since 2008. He has been the president of Tsinghua Holdings Capital Investment Management Company Limited since 2006. He has been assistant to the president of Tsinghua Holdings Company Limited since 2005. Mr. Zhang is an associate researcher at the 中國社會科學院金融研究所 (Institute of Banking and Finance of the Chinese Academy of Social Sciences). Mr. Zhang was a director of 遼寧路橋建設總公司 (Liaoning Bridge Construction Company Limited) from 2006 to 2008. He graduated with a bachelor's degree in economics from Nankai University in 1998. Mr. Zhang obtained his PhD degree in economics from the Chinese Academy of Social Sciences in 2006. Mr. Zhang was appointed as a non-executive Director of the Company on November 22, 2011.

Independent non-executive Directors

Mr. DIAO Jianshen (刁建申), aged 58, is an independent non-executive Director of the Group. Mr. Diao has been a vice president of the China Automobile Dealers Association since 2008. He was a director and executive deputy general manager of 華星新世界汽車服務有限公司 (Huaxing New World Auto Service Company Limited) from 2002 to 2008. From 1998 to 2002, he was a general manager of 中國汽車貿易華北公司 (China Automobile Trading (North China) Corporation). He graduated from 中共北京市委黨校 (CPC Beijing Municipal Party School) with a major in economic management in 1988 and from the Chinese Academy of Social Sciences with a major in business economics in 1998. Mr. Diao was appointed as an independent non-executive Director of the Company on November 22, 2011.

Mr. WANG Keyi (汪克夷), aged 67, is an independent non-executive Director of the Group. Since 1982, Mr. Wang has been a lecturer and professor at Dalian University of Technology. From 1992 to 1996, Mr. Wang was an assistant to the principal of Dalian University of Technology and was responsible for business management affairs. Mr. Wang has also acted as an independent director of 瓦房店軸承股份有限公司 (Wa Fang Dian Zhou Cheng Stock Company Limited) (Stock Code: 200706), a company whose shares are listed on the Shenzhen Stock Exchange, since 2009. He was also an independent director of 遼寧紅陽能源投資股份有限公司 (Liaoning Hongyang Energy Resource Invest Co. Ltd.) (Stock Code: 600758), a company whose shares are listed on the Shanghai Stock Exchange, from 2005 to 2011. Mr. Wang graduated with an undergraduate degree in automotive control from the Dalian University of Technology in 1966. He obtained a Master's degree in systems engineering from the Dalian University of Technology in 1982 and then a PhD degree in systems engineering from the same university in 1988. Mr. Wang was appointed as an independent non-executive Director of the Company on November 22, 2011.

Directors and Senior Management

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 33, is an independent non-executive Director of the Group. Mr. Chan has been the chief financial officer of Enviro Energy International Holdings Limited (Stock Code: 1102), a company whose shares are listed on the Hong Kong Stock Exchange, since 2009. He has over nine years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from 2005 to 2009, mainly responsible for the execution of financial advisory, initial public offering, merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited from 2002 to 2005, the corporate finance department of DBS Vickers Securities (formerly known as Vickers Ballas Holdings Limited) from 2000 to 2001, and as auditor for a top-tier international accounting firm. Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in 2000. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively. Mr. Chan was appointed as an independent non-executive Director of the Company on November 22, 2011.

SENIOR MANAGEMENT

Our senior management team, in addition to the Directors listed above, is as follows:

Ms. LIU Tao (劉濤), aged 44, is a vice president of the Group. Ms. Liu has substantial experience in the automobile dealership industry. She joined Shanghai Kailong Automobile Trading Co., Ltd. in 1999 as a general manager until 2004. Ms. Liu was appointed general manager of Shanghai Baoxin Automobile Sales & Services Co., Ltd. from 2004 to 2007. Since 2008, she has served as a vice president of the Group. Prior to joining the Group, Ms. Liu was the head of the quality management department of 吉林省吉林市糧食局江北國家糧食儲備庫 (Jiangbei Government Grains Reserve of the Jilin Grains Bureau) from 1988 to 1999. She graduated with a bachelor's degree in economics from Jilin University in 1992. Ms. Liu also holds an MBA degree in business management from the China Europe International Business School obtained in 2008.

Mr. ZHU Jieling (朱結嶺), aged 43, is a vice president of the Group. Mr. Zhu has substantial experience in automobile dealership industry. He joined the Group in 2000 as deputy general manager of Shanghai Kailong Automobile Trading Co., Ltd. until 2004 and has been appointed as a vice president of the Group since 2004. Prior to joining the Group, he worked as deputy head of 廣州天河進口汽車修理廠 (Guangzhou Tianhe Import Automobile Repair Factory) from 1995 to 1999. He was also a trainer at 廣州豐田汽車維修中心 (Guangzhou Toyota Automobile Repair Center) from 1989 to 1995. Mr. Zhu is currently pursuing an EMBA degree from Dalian University of Technology.

Mr. CHEN Changdong (陳長東), aged 50, is the chief financial officer of the Group. Mr. Chen has more than 25 years of experience in finance. He first joined the Group in 2002 as the financial manager of Shanghai Kailong Automobile Trading Co., Ltd. until 2004. From 2004, he has been appointed as the chief financial officer of the Group ever since. Prior to joining the Group in 2002, he worked at Alstom Shanghai Instrument Transformers Company Limited, a Sino-French joint venture, from 2001 to 2002. From 1981 to 2000, Mr. Chen worked at 上海電器集團股份有限公司 (Shanghai Electric Group Company Limited) (Stock Code: 02727), a company whose shares are listed on the Hong Kong Stock Exchange, where he assumed various positions. Mr. Chen was also head of the Group's finance bureau, the Group's deputy financial manager and chief accountant of a subsidiary of 上海電器集團股份有限公司 (Shanghai Electric Group Company Limited) (Stock Code: 2727), a company whose shares are listed on the Hong Kong Stock Exchange, from 1981 to 2001. Mr. Chen is an accountant recognised by the Ministry of Finance of the PRC and obtained a diploma from East China Normal University majoring in economic management in 1991.

Directors and Senior Management

Ms. ZHOU Qizhu (周其珠), aged 57, is the chief supervisor of our audit department of the Group. Ms. Zhou has substantial experience in audit and finance. She joined the Group in 2004 as chief supervisor of the audit department and has since maintained that role. Prior to joining the Group, she held various positions in 上海愛建股份有限公司 (Shanghai Aijian Corporation) (Stock Code: 600643), a company listed on the Shanghai Stock Exchange from 1993 to 2003. Ms. Zhou is an accountant, economist and a registered tax accountant in China. Ms. Zhou graduated from the Open University of China with a major in accounting in 2004.

Mr. SHI Changchun (時長春), aged 40, is the chief operating officer of the Group. Mr. Shi has more than 13 years of experience in the automobile service industry. He first joined the Group in 2011 as chief operating officer. Prior to joining the Group, he was a deputy general manager of 力天集團有限公司 (Liten Group Company Limited) from 2009 to 2010. Mr. Shi was the general manager of 上海世貿汽車貿易有限公司 (Shanghai Shimao Automobile Trade Co., Ltd.) from 2005 to 2009. From 2003 to 2004, he was a manager of the components department for 聯合開利（上海）空調有限公司 (United Carrier (Shanghai) Air Conditioning Co., Ltd.). From 2001 to 2003, Mr. Shi worked at 福伊特驅動技術（上海）有限公司 (Voith Turbo Power Transmission (Shanghai) Co., Ltd.) as a national sales manager. Prior to that, Mr. Shi worked at 華晨汽車銷售有限公司 (Brilliance Automobile Sales Company Limited) from 1999 to 2001 as an after-sales manager. From 1995 to 1999, he was a technician of motor brigade of the transportation department of 寶山鋼鐵股份有限公司 (Baoshan Iron & Steel Co., Ltd.). Mr. Shi graduated with an undergraduate degree in automotive engineering from Tsinghua University in 1995 and obtained a MBA degree from Fudan University in 2001.

JOINT COMPANY SECRETARIES

Mr. CHEN Changdong (陳長東), please refer to "Directors and Senior Management — Senior Management" for a description of his biography.

Ms. PAU Lai Mei (鮑麗薇), aged 52, is the joint company secretary of the Company and was appointed on November 23, 2011. Ms. Pau has been with the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services, since 2004. Her current position is director-corporate services. Ms. Pau is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also the company secretary of Goodbaby International Holdings Limited (Stock Code: 1086), a company whose shares are listed on the Hong Kong Stock Exchange. She has more than 25 years of working experience in the field of corporate secretarial services.

Report of the Directors

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2011 (the "financial statements").

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands. Its principal place of business in Hong Kong is situated at Units 1803–4, 18/F, Bank of America Tower, 12 Harcourt Road, Hong Kong and it has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on November 16, 2011 under the same address.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 39 to the financial statements.

CORPORATE REORGANIZATION

The Company was incorporated in the Cayman Islands 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 on September 6, 2010.

Pursuant to a group reorganization as set out in the Company's prospectus dated December 2, 2011 (the "Prospectus"), which was completed on August 4, 2011, the Company became the holding company of the then subsidiaries comprising the Group. Apart from the reorganization, the Company has not commenced any business or operation since its incorporation.

APPLICATION OF IPO PROCEEDS

The Company's shares were listed on the Hong Kong Stock Exchange on the Listing Date. The net proceeds from the Company's listing were approximately RMB2,167.7 million after deduction of related expenses. The net proceeds have not been utilized as at December 31, 2011 and will be utilized in the manner consistent with that mentioned in the Prospectus under the section headed "Future Plans and Use of Proceeds". The balance of the proceeds is placed with reputable banks as the Group's bank deposits.

FINANCIAL STATEMENTS

The profits of the Group for the year ended December 31, 2011 and the state of affairs of the Company and the Group as at that date are set out in the consolidated financial statements on pages 40 to 104 of this annual report.

A summary of the results for the year and of the assets and liabilities of the Group as at December 31, 2011 and for the last four financial years are set out on page 105 of this annual report.

RESERVES

As at December 31, 2011, distributable reserves of the Company amounted to RMB2,147,077,000 (2010: Nil). Details of movements in reserves of the Company during the year are set out in note 30 to the financial statements.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended December 31, 2011.

Report of the Directors

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Tuesday, June 12, 2012. Notice of the Annual General Meeting will be published and issued to shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from June 8, 2012 to June 12, 2012, both dates inclusive during which time no transfer of shares will be registered. To qualify for attending and voting at the annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on June 7, 2012 for registration of the relevant transfer.

PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHT

Details of movements in property, plant and equipment and land use right during the year are set out in notes 13 to 14 to the financial statements. According to the Prospectus, certain buildings, land use rights and construction in progress of the Group included in the above cost were valued at RMB274.1 million on October 31, 2011. Had the Group's properties been included in the Financial Statements at such valuation throughout the year ended December 31, 2011, an additional depreciation charge of RMB0.6 million would have been charged.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 29 to the financial statements.

CONTINUING CONNECTED TRANSACTION

Save and except the two lease agreements between the Group and Shanghai Kailong Automobiles Sales Co., Ltd, a company controlled by a Director of the Company, as disclosed in the Prospectus, which are both connected transactions falling under Listing Rule 14A.33, all related-party transactions set out in note 36 to the financial statements did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. The above two lease agreements are exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

CHARITABLE CONTRIBUTIONS

During the year ended December 31, 2011, the Group made charitable contributions totalling approximately RMB1 million.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the shares of the Company were listed on the Listing Date, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended December 31, 2011.

Report of the Directors

CHANGES IN ARTICLES OF ASSOCIATION

The Company's current articles of association were conditionally adopted on November 22, 2011, effective on the Company's listing. There have been no changes in the Company's articles of association during the Review Period.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Mr. YANG Aihua
Mr. YANG Hansong
Mr. YANG Zehua
Ms. HUA Xiuzhen
Mr. ZHAO Hongliang

Non-executive Director

Mr. ZHANG Yang

Independent Non-executive Directors

Mr. DIAO Jianshen
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

In accordance with articles 16.3 of the Company's articles of association, all Directors will retire at the forthcoming annual general meeting and, being eligible, offers themselves for re-election thereat.

None of the Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year ended December 31, 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

Report of the Directors

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

At December 31, 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares[1]	Approximate percentage of shareholding interest
Mr. Yang Aihua[2]	Beneficial owner	1,819,200,000(L) 56,898,000(S)	71.95%
Mr. Yang Hansong[3]	Beneficial owner	1,552,780,000(L) 56,898,000(S)	61.41%
Mr. Yang Zehua[4]	Beneficial owner	1,819,200,000(L) 56,898,000(S)	71.95%

Notes:

(1) The letter "L" denotes the person's long position in such shares and "S" denotes the person's short position in such shares.

(2) Mr. Yang Aihua is one of the beneficiaries of the Family Trust and the Yang Trust and is deemed to be interested in the shares held by Baoxin Investment Management Ltd. ("Baoxin Investment") and Auspicious Splendid Global Investments Limited ("Auspicious Splendid"). Among the shares held by Baoxin Investment, 56,898,000 shares will be subject of the Stock Borrowing Agreement and half of such share will be sold upon a full exercise of the Over-allotment Option.

(3) Mr. Yang Hansong is one of the beneficiaries of the Family Trust and is deemed to be interested in the shares held by Baoxin Investment. Among the shares held by Baoxin Investment, 56,898,000 shares will be subject of the Stock Borrowing Agreement and half of such share will be sold upon a full exercise of the Over-allotment Option.

(4) Mr. Yang Zehua is one of the beneficiaries of the Family Trust and the Yang Trust and is deemed to be interested in the shares held by Baoxin Investment and Auspicious Splendid. Among the shares held by Baoxin Investment, 56,898,000 shares will be subject of the Stock Borrowing Agreement and half of such share will be sold upon a full exercise of the Over-allotment Option.

Saved as disclosed above, as at December 31, 2011 none of the Directors and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Directors

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

As at the date of this annual report, no option has been granted or agreed to be granted under the Share Option Scheme.

A summary of the terms of the Share Option Scheme is set out in the Prospectus of the Company.

RETIREMENT BENEFIT SCHEME

As stipulated by the PRC state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2010: 10% to 20%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the previous Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

None of the retirement scheme has provision for the forfeiture of contributions made to the scheme. Contributions to these plans are expensed as incurred. The Group's contributions to retirement benefit scheme charged to the consolidated income statement for the year ended December 31, 2011 was RMB9.3 million (2010: RMB5.4 million).

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 10% (2010: 7% to 10%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Center. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at December 31, 2011, the Group had no significant obligation apart from the contributions as stated above.

Report of the Directors

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at December 31, 2011, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of Shares[1]	Approximate percentage of shareholding interest
Baoxin Investment Management Ltd[2]	Beneficial interest	1,552,780,000(L) 56,898,000(S)	61.41%
Sunny Sky Limited[2]	Interest in controlled corporation	1,552,780,000(L) 56,898,000(S)	61.41%
Credit Suisse Trust Limited[2]	Trustee	1,552,780,000(L) 56,898,000(S)	61.41%
Brock Nominees Limited	Interest in controlled corporation	1,552,780,000(L) 56,898,000(S)	61.41%
Tenby Nominees Limited	Interest in controlled corporation	1,552,780,000(L) 56,898,000(S)	61.41%
Auspicious Splendid Global Investments Limited	Beneficial interest	266,420,000(L)	10.54%
Ms. Yang Chu Yu[3]	Trustee	266,420,000(L)	10.54%
TH Capital[4]	Interest in controlled corporation	178,420,000(L)	7.05%

Notes:

(1) The letter "L" denotes the person's long position in such share and "S" denotes the person's short position in the such shares.

(2) Sunny Sky Limited is deemed to be interested in the shares as the legal owner of the entire issued share capital of Baoxin Investment. Sunny Sky Limited is controlled by Credit Suisse Trust Limited which is the trustee of the Family Trust. Among the shares held by Baoxin Investment, 56,898,000 shares will be subject of the Stock Borrowing Agreement and half of such share will be sold upon a full exercise of the Over-allotment Option.

(3) Ms. Yang Chu Yu is deemed to be interested in the shares as the legal owner of the entire issued share capital of Auspicious Splendid as the trustee pursuant to the trust deed in respect of the Yang Trust dated July 12, 2011.

(4) TH Capital is the general partner of Tsinghua Industry Investment Fund I, L.P., Tsinghua Industry Investment Fund II, L.P. and Innovation Capital, L.P. and is deemed to be interested in the shares held by them.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at December 31, 2011.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year under review, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, no major customer segment information is presented in accordance with HKFRS 8 *Operating Segments*.

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 92.7% (2010: 91.4%) and the largest supplier accounted for approximately 41.4% (2010: 46.9%) of the Group's total purchases for the year ended December 31, 2011.

At no time during the year ended December 31, 2011 have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

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, since the Listing Date, the Company has maintained the prescribed public float during the Review Period as required by the Listing Rules.

PRE-EMPTIVE RIGHTS

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

AUDITORS

Our external auditors, Ernst & Young, will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Yang Aihua
Chairman

Hong Kong, March 14, 2012

Independent Auditors' Report

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安 永

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To the shareholders of Baoxin Auto Group Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

We have audited the consolidated financial statements of Baoxin Auto Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 104, which comprise the consolidated and company statements of financial position as at December 31, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report

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 December 31, 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

March 14, 2012

Consolidated Income Statement

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5(a)	**12,010,929**	7,716,564
Cost of sales and services provided	6(b)	**(10,721,181)**	(7,028,566)
Gross profit		**1,289,748**	687,998
Other income and gains, net	5(b)	**93,756**	37,482
Selling and distribution costs		**(256,629)**	(177,100)
Administrative expenses		**(166,977)**	(90,985)
Profit from operations		**959,898**	457,395
Finance costs	7	**(128,397)**	(48,378)
Share of profit of a jointly-controlled entity	17(b)	**5,372**	2,907
Profit before tax	6	**836,873**	411,924
Tax	8(a)	**(221,041)**	(104,266)
Profit for the year		**615,832**	307,658
Attributable to:			
Owners of the parent	11	**601,905**	303,940
Non-controlling interests		**13,927**	3,718
		615,832	307,658
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted			
— For profit for the year (RMB)		**0.27**	0.14

Consolidated Statement of Comprehensive Income

Year ended December 31, 2011

	Note	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		**615,832**	307,658
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(10,737)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(10,737)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**605,095**	307,658
Attributable to:			
Owners of the parent	11	**591,168**	303,940
Non-controlling interests		**13,927**	3,718
		605,095	307,658

Consolidated Statement of Financial Position

December 31, 2011

	Notes	**December 31, 2011 RMB'000**	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**798,995**	520,707
Land use rights	14	**174,624**	327,938
Intangible assets	15	**2,219**	—
Prepayments	16	**16,042**	7,554
Interest in a jointly-controlled entity	17	**13,246**	7,874
Deferred tax assets	28(a)	**8,065**	6,549
Total non-current assets		**1,013,191**	870,622
CURRENT ASSETS			
Inventories	18	**1,284,159**	737,953
Trade receivables	19	**125,504**	42,847
Prepayments, deposits and other receivables	20	**2,022,874**	897,726
Amount due from a jointly-controlled entity	36(b)(i)	**37,835**	33,900
Pledged bank deposits	21	**399,416**	276,149
Cash in transit	22	**13,383**	14,022
Cash and cash equivalents	23	**2,884,038**	384,476
Total current assets		**6,767,209**	2,387,073
CURRENT LIABILITIES			
Bank loans and other borrowings	24	**2,341,021**	807,339
Trade and bills payables	25	**1,174,914**	589,645
Other payables and accruals	26	**346,494**	164,375
Amounts due to related parties	36(b)(ii)	**626,680**	5,385
Income tax payable		**199,131**	152,713
Total current liabilities		**4,688,240**	1,719,457
NET CURRENT ASSETS		**2,078,969**	667,616
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,092,160**	1,538,238
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	24	**29,800**	—
Deferred tax liabilities	28(b)	**8,535**	—
Total non-current liabilities		**38,335**	—
NET ASSETS		**3,053,825**	1,538,238

Consolidated Statement of Financial Position

December 31, 2011

	Notes	**December 31, 2011 RMB'000**	December 31, 2010 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**20,604**	—
Reserves	30	**2,997,149**	1,465,573
		3,017,753	1,465,573
Non-controlling interests		**36,072**	72,665
Total equity		**3,053,825**	1,538,238

Mr. Yang Hansong
Director

Mr. Zhao Hongliang
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2011

	Attributable to owners of the parent								
	Share capital RMB'000 Note 29	Share premium* RMB'000 Note 29	Statutory reserve* RMB'000 Note 30(i)	Merger reserve* RMB'000 Note 30(ii)	Exchange fluctuation reserve* RMB'000 Note 30(iii)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2010	**—**	**—**	**49,406**	**147,100**	**—**	**365,728**	**562,234**	**3,720**	**565,954**
Profit and total comprehensive income for the year	—	—	—	—	—	303,940	303,940	3,718	307,658
Acquisition of equity interests by the Group from the then equity holders	—	—	—	(146,000)	—	—	(146,000)	—	(146,000)
Contribution by the then equity holders	—	—	—	710,125	—	—	710,125	45,327	755,452
Non-controlling interests arising from establishing new subsidiaries	—	—	—	—	—	—	—	7,900	7,900
Dividends paid to the then equity holders	—	—	—	—	—	(4,401)	(4,401)	—	(4,401)
Disposal of an interest in a subsidiary to a non-controlling shareholder without loss of control	—	—	—	39,675	—	—	39,675	12,000	51,675
Transfer from retained profits	—	—	31,421	—	—	(31,421)	—	—	—
At December 31, 2010 and January 1, 2011	**—**	**—**	**80,827**	**750,900**	**—**	**633,846**	**1,465,573**	**72,665**	**1,538,238**
Profit for the year	—	—	—	—	—	601,905	601,905	13,927	615,832
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	—	—	(10,737)	—	(10,737)	—	(10,737)
Total comprehensive income for the year	—	—	—	—	(10,737)	601,905	591,168	13,927	605,095
Acquisition of equity interests by the Group from the then equity holders	—	—	—	(291,851)	—	—	(291,851)	—	(291,851)
Contribution by the then equity holders	—	—	—	40,000	—	—	40,000	—	40,000
Non-controlling interests arising from establishing new subsidiaries	—	—	—	—	—	—	—	4,700	4,700
Deemed distribution to equity holders of the Company pursuant to the Reorganisation (Note 31)	—	—	(274)	(7,794)	—	—	(8,068)	—	(8,068)
Dividends paid to the then equity holders	—	—	—	—	—	(434,922)	(434,922)	—	(434,922)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	(17,035)	(17,035)
Acquisition of non-controlling interests by the Group	—	—	—	(511,815)	—	—	(511,815)	(38,185)	(550,000)
Issue of shares	20,604	2,147,064	—	—	—	—	2,167,668	—	2,167,668
Transfer from retained profits	—	—	71,394	—	—	(71,394)	—	—	—
At December 31, 2011	**20,604**	**2,147,064**	**151,947**	**(20,560)**	**(10,737)**	**729,435**	**3,017,753**	**36,072**	**3,053,825**

* These reserve accounts comprise the consolidated reserves of RMB2,997,149,000 (2010: RMB1,465,573,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before tax		**836,873**	411,924
Adjustments for:			
Share of profit of a jointly-controlled entity		**(5,372)**	(2,907)
Depreciation of property, plant and equipment	13	**62,816**	42,654
Amortisation of land use rights	14	**3,088**	2,098
Amortisation of intangible assets	15	**238**	—
Interest income	5	**(5,809)**	(2,345)
Net gain on disposal of items of property, plant and equipment	5	**(2,304)**	(1,678)
Finance costs	7	**128,397**	48,378
		1,017,927	498,124
Increase in pledged bank deposits		**(123,267)**	(112,526)
Decrease in cash in transit		**331**	3,401
Increase in trade receivables		**(83,007)**	(1,111)
Increase in prepayments, deposits and other receivables		**(1,149,630)**	(419,782)
Increase in inventories		**(546,206)**	(317,788)
Increase in trade and bills payables		**585,462**	262,052
Increase/(decrease) in other payables and accruals		**133,563**	(11,493)
Cash used in operations		**(164,827)**	(99,123)
Tax paid		**(168,022)**	(22,124)
Net cash flows used in operating activities		**(332,849)**	(121,247)

Consolidated Statement of Cash Flows

Year ended December 31, 2011

	Note	2011 RMB'000	2010 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(312,181)**	(163,100)
Proceeds from disposal of items of property, plant and equipment		**27,973**	17,147
Purchase of land use rights		**(116,479)**	(257,398)
Purchase of intangible assets		**(2,457)**	—
Advance to a jointly-controlled entity		**(3,935)**	(32,900)
Acquisition of equity interests by the Group from the then equity holders		**(291,851)**	(146,000)
Interest received		**5,809**	2,345
Net cash flows used in investing activities		**(693,121)**	(579,906)
Financing activities			
Net proceeds from issue of new shares in connection with the IPO		**2,167,668**	—
Proceeds from bank loans and other borrowings		**3,247,967**	2,471,674
Repayment of bank loans and other borrowings		**(1,534,485)**	(2,212,323)
Deemed distribution to equity holders of the Company pursuant to the Reorganisation		**(10,891)**	—
Contributions from the then equity holders		**40,000**	755,452
Contributions from non-controlling shareholders		**4,700**	7,900
Proceeds from disposal of interest in a subsidiary to a non-controlling shareholder without loss of control		**—**	51,675
Dividends paid to the then equity holders		**(400,300)**	(4,401)
Advances from the Controlling Shareholder, net		**158,190**	—
Repayment of advances from the Controlling Shareholder, net		**—**	(143,429)
Interest paid		**(136,580)**	(53,712)
Net cash flows generated from financing activities		**3,536,269**	872,836
Net increase in cash and cash equivalents		**2,510,299**	171,683
Cash and cash equivalents at the beginning of year		**384,476**	212,793
Effect of foreign exchange rate changes, net		**(10,737)**	—
Cash and cash equivalents at the end of year	23	**2,884,038**	384,476

Statement of Financial Position

December 31, 2011

	Notes	**December 31, 2011 RMB'000**	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Interest in a subsidiary	39	**—**	—
Total non-current assets		**—**	—
CURRENT ASSETS			
Amount due from a subsidiary	39	**14,187**	—
Cash and cash equivalents	23	**2,174,195**	—
Total current assets		**2,188,382**	—
CURRENT LIABILITIES			
Other payables and accruals	26	**23,787**	—
Amount due to a subsidiary	39	**7,822**	—
Total current liabilities		**31,609**	—
NET CURRENT ASSETS		**2,156,773**	—
NET ASSETS		**2,156,773**	—
EQUITY			
Share capital	29	**20,604**	—
Reserves	30	**2,136,169**	—
Total equity		**2,156,773**	—

Mr. Yang Hansong
Director

Mr. Zhao Hongliang
Director

Notes to Financial Statements

December 31, 2011

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on December 14, 2011.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Baoxin Investment Management Ltd., which was incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PRESENTATION

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganisation" in the Prospectus dated December 2, 2011 for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on August 4, 2011. The shares of the Company were listed on the Stock Exchange on December 14, 2011.

The consolidated financial statements of the Group have been prepared and presented based on the principle of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA, as if the Reorganisation had been completed as at the beginning of the year ended December 31, 2010 because the Company's acquisition of the companies now comprising the Group should be regarded as a business combination under common control as the Company and the companies now comprising the Group were under common control of Mr. Yang Aihua (the "Controlling Shareholder") both before and after the completion of the Reorganisation. Except for the case of Shanghai Kailong Automobiles Sales Co., Ltd. ("Shanghai Kailong"), the Group's consolidated financial statements include the financial statements of the companies now comprising the Group, as if the group structure resulted from the Reorganisation had been in existence throughout the years, or since their respective dates of incorporation, whichever is a shorter period.

Shanghai Kailong was invested and fully controlled by the Controlling Shareholder since its incorporation. As set out in the section headed "Our History and Reorganisation" in the Prospectus, in June 2011, as a part of the Reorganisation, Shanghai Minhang Kailong Automobiles Sales Co., Ltd. ("Minhang Automobiles") was established to acquire the entire business of sale and service of motor vehicles together with certain operating assets and liabilities from Shanghai Kailong on June 30, 2011. After the business acquisition, Shanghai Kailong ceased its business of sale and service of motor vehicles. The accounts of Shanghai Kailong up to the business acquisition date, i.e., June 30, 2011, have been included in the Group's financial statements since it was wholly owned by the Controlling Shareholder.

Notes to Financial Statements

December 31, 2011

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the 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. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2011 and the accounts of Shanghai Kailong up to the business acquisition date on June 30, 2011, as described above. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. As explained above, the acquisition of subsidiaries under common control has been accounted for using merger accounting. The acquisition of all other subsidiaries was accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. No amount is recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

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

For acquisition of subsidiaries not under common control, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements

December 31, 2011

2.2 BASIS OF PREPARATION *(Continued)*

Basis of combination

As explained above, the Reorganisation is accounted for as a reorganisation under common control using the principles of merger accounting in accordance with Accounting Guidance 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The combined financial statement incorporated the financial statements of the Company and its subsidiaries for the year ended December 31, 2010.

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

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

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

3.1 Changes in accounting policy and disclosures

The Group has adopted at the beginning of the financial years presented, all the HKFRSs that have been issued and effective for the financial years presented.

3.2 Issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.2 Issued but not yet effective Hong Kong Financial Reporting Standards *(Continued)*

[1] Effective for annual periods beginning on or after July 1, 2011
[2] Effective for annual periods beginning on or after January 1, 2012
[3] Effective for annual periods beginning on or after July 1, 2012
[4] Effective for annual periods beginning on or after January 1, 2013
[5] Effective for annual periods beginning on or after January 1, 2014
[6] Effective for annual periods beginning on or after January 1, 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from January 1, 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.2 Issued but not yet effective Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions* by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from January 1, 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from January 1, 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from January 1, 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from January 1, 2013.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of its jointly-controlled entities is included in the consolidated income statements and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Impairment of non-financial assets

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

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

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual value of property, plant and equipment are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	—
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–5 years	5%
Motor vehicles	4–5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Construction in progress represents buildings, plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful life of software is 5 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land and buildings lease payment under finance lease, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to Financial Statements
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the consideration paid for such rights are recorded as land use rights, which are amortised over the lease terms of 40 to 50 years using the straight-line method.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments, or as derivatives designated as hedging loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, cash in transit, pledged bank deposits, trade and other receivables and amount due from a jointly-controlled entity.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group firstly assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or ‘’prolonged” requires judgement. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group’s financial liabilities include trade and bills payables, other payables and accruals, amounts due to related parties, and bank loans and other borrowings.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other option pricing models.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, in the period in which the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Vendor rebate

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accruals basis based on the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of significant accounting policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate 6.10% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the year.

Notes to Financial Statements

December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

3.3 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3.4 Significant accounting judgements and estimates

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

Judgements

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at December 31, 2011 were RMB8,065,000 (2010: RMB6,549,000). More details are given in Note 28.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Notes to Financial Statements

December 31, 2011

4. SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and all of the Group's non-current assets other than deferred tax assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer segment information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2011 **RMB'000**	2010 RMB'000
Revenue from the sale of motor vehicles	**11,254,946**	7,168,106
Others	**755,983**	548,458
	12,010,929	7,716,564

(b) Other income and gains, net:

	2011 **RMB'000**	2010 RMB'000
Commission income	**60,627**	21,533
Advertisement support received from motor vehicle manufacturers	**7,647**	3,184
Rental income	**1,525**	—
Government grants	**5,813**	6,904
Interest income	**5,809**	2,345
Net gain on disposal of items of property, plant and equipment	**2,304**	1,678
Others	**10,031**	1,838
Total	**93,756**	37,482

Notes to Financial Statements

December 31, 2011

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		2011 RMB'000	2010 RMB'000
(a)	**Employee benefit expense (including directors' remuneration (Note 9)):**		
	Wages and salaries	**80,782**	58,545
	Other welfare	**30,118**	19,574
		110,900	78,119
(b)	**Cost of sales and services:**		
	Cost of sales of motor vehicles	**10,331,571**	6,740,711
	Others	**389,610**	287,855
		10,721,181	7,028,566
(c)	**Other items:**		
	Depreciation of items of property, plant and equipment	**62,816**	42,654
	Amortisation of land use rights	**3,088**	2,098
	Amortisation of intangible assets	**238**	—
	Advertisement and business promotion expenses	**55,226**	37,469
	Auditors' remuneration	**4,000**	715
	Bank charges	**17,585**	6,913
	Lease expenses	**39,203**	24,107
	Logistics and petroleum expenses	**26,700**	18,837
	Office expenses	**10,257**	6,909

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7. FINANCE COSTS

	2011	2010
	RMB'000	RMB'000
Interest expense on bank borrowings wholly repayable within five years	**134,297**	51,684
Interest expense on other borrowings	**2,283**	2,028
Less: Interest capitalised	**(8,183)**	(5,334)
	128,397	48,378

8. TAX

(a) Tax in the consolidated income statements represents:

	2011	2010
	RMB'000	RMB'000
Current:		
Mainland China corporate income tax	**214,636**	105,033
Deferred tax (Note 28)	**6,405**	(767)
	221,041	104,266

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the BVI is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiary incorporated in Hong Kong is subject to an income tax at the rate of 16.5% during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate is 25%.

Notes to Financial Statements

December 31, 2011

8. TAX *(Continued)*

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	836,873	411,924
Tax at applicable tax rates (25%)	209,218	102,981
Tax effect of non-deductible expenses	13,166	2,012
Profit attributable to a jointly-controlled entity	(1,343)	(727)
Tax charge	221,041	104,266

The share of tax attributable to a jointly-controlled entity amounting to RMB1,791,000 (2010: Nil) is included in "Share of profit of a jointly-controlled entity" in the consolidated income statement.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended December 31, 2011				
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
Executive directors					
— Yang Aihua	—	1,440	—	62	1,502
— Yang Hansong	—	720	—	62	782
— Yang Zehua	—	660	—	62	722
— Zhao Hongliang	—	660	—	62	722
— Hua Xiuzhen	—	540	—	—	540
Non-executive director					
— Zhang Yang	—	—	—	—	—
Independent non-executive directors					
— Diao Jianshen	—	—	—	—	—
— Wang Keyi	—	—	—	—	—
— Chan Wan Tsun Adrian Alan	—	—	—	—	—
	—	4,020	—	248	4,268

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9. DIRECTORS' REMUNERATION *(Continued)*

	Year ended December 31, 2010				
	Directors' fees	**Salaries, allowances and other benefits**	**Discretionary bonuses**	**Contributions to defined contribution retirement schemes**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
— Yang Aihua	—	1,040	—	56	1,096
— Yang Hansong	—	440	—	56	496
— Yang Zehua	—	384	—	56	440
— Zhao Hongliang	—	424	—	56	480
— Hua Xiuzhen	—	424	—	—	424
Non-executive director					
— Zhang Yang	—	—	—	—	—
	—	2,712	—	224	2,936

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid to the non-executive directors of the Company during the year (2010: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included five directors (2010: three), details of whose remuneration are detailed in Note 9 above. Details of the remuneration of the remaining non-directors, highest paid employee for the year are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	—	848
Pension scheme contributions	—	48
	—	896

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	—	2

Notes to Financial Statements

December 31, 2011

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2011 includes a profit of RMB13,000 which has been dealt with the financial statements of the Company (Note 30).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares in issue during the year.

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**601,905**	303,940

	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year	**2,216,211,836**	2,200,000,000

The weighted average number of ordinary shares used to calculate the basic earnings per share in 2010 was 2,200,000,000, which were deemed to have been issued throughout the year.

The weighted average number of shares used to calculate the basic earnings per share for the year of 2011 includes the weighted average of 328,740,000 shares issued in connection with the Company's IPO as defined in the Prospectus and the aforesaid 2,200,000,000 ordinary shares.

Earnings per share	**2011** **RMB**	2010 RMB
Basic and diluted	**0.27**	0.14

No adjustment has been made to the basic earnings per share amounts presented in 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2011 and 2010.

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2010	383,724	31,474	24,671	22,148	55,716	23,909	541,642
Additions	47,518	3,087	16,680	5,312	37,527	59,432	169,556
Transfers	28,725	600	2,033	—	—	(31,358)	—
Disposals	—	—	(118)	(1,708)	(19,695)	—	(21,521)
At December 31, 2010	459,967	35,161	43,266	25,752	73,548	51,983	689,677
Accumulated depreciation:							
At January 1, 2010	80,951	9,595	12,104	11,394	18,324	—	132,368
Depreciation provided during the year	21,922	2,316	3,706	3,637	11,073	—	42,654
Disposals	—	—	(112)	(1,612)	(4,328)	—	(6,052)
At December 31, 2010	102,873	11,911	15,698	13,419	25,069	—	168,970
Net book value:							
At December 31, 2010	357,094	23,250	27,568	12,333	48,479	51,983	520,707
Cost:							
At January 1, 2011	459,967	35,161	43,266	25,752	73,548	51,983	689,677
Additions	76,803	37,746	2,296	8,563	52,129	189,486	367,023
Transfers	52,844	8,328	16,454	5,660	23,214	(106,500)	—
Disposals	(9,840)	(1,504)	(1,772)	(392)	(26,223)	—	(39,731)
Deemed distribution to equity holders of the Company (Note 31)	—	—	—	—	—	(250)	(250)
At December 31, 2011	579,774	79,731	60,244	39,583	122,668	134,719	1,016,719
Accumulated depreciation:							
At January 1, 2011	102,873	11,911	15,698	13,419	25,069	—	168,970
Depreciation provided during the year	25,881	7,788	4,212	5,430	19,505	—	62,816
Disposals	(3,632)	(928)	(687)	(345)	(8,470)	—	(14,062)
At December 31, 2011	125,122	18,771	19,223	18,504	36,104	—	217,724
Net book value:							
At December 31, 2011	454,652	60,960	41,021	21,079	86,564	134,719	798,995

As at December 31, 2011, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB431,000,000 was still in progress.

Certain of the Group's buildings with an aggregate net book value of approximately RMB23,206,000 (2010: RMB22,845,000) as at December 31, 2011 were pledged as security for the Group's bank borrowings (Note 24(a)).

Notes to Financial Statements

December 31, 2011

14. LAND USE RIGHTS

	2011 RMB'000	2010 RMB'000
Cost:		
At the beginning of the year	**338,924**	81,526
Additions	**116,479**	257,398
Deemed distribution to equity holders of the Company (Note 31)	**(276,358)**	—
At the end of the year	**179,045**	338,924
Accumulated amortisation:		
At the beginning of the year	**10,986**	8,888
Charge for the year	**3,088**	2,098
Amortisation capitalised	**2,177**	—
Deemed distribution to equity holders of the Company (Note 31)	**(11,830)**	—
At the end of the year	**4,421**	10,986
Net book value:		
At the end of the year	**174,624**	327,938

The lease prepayments of the Group represent the costs of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 36 to 44 years.

Certain of the Group's land use rights with an aggregate net book value of approximately RMB58,626,000 (2010: RMB36,132,000) as at December 31, 2011 were pledged as security for the Group's bank loans and other borrowings (Note 24 (a)).

15. INTANGIBLE ASSETS

	Software RMB'000
Cost:	
At January 1, 2011	—
Additions	2,457
At December 31, 2011	2,457
Accumulated amortisation:	
At January 1, 2011	—
Charge for the year	238
At December 31, 2011	238
Net book value:	
At December 31, 2011	2,219

Notes to Financial Statements

December 31, 2011

16. PREPAYMENTS

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Prepaid lease for buildings and land use rights	**16,042**	7,554

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Share of net assets	**13,246**	7,874

瀋陽信寶行汽車銷售服務有限公司 (Shenyang Xinbaohang Automobile Sales & Services Co., Ltd., "Shenyang Xinbaohang") is a jointly-controlled entity of the Group and is considered to be a related party of the Group.

(a) Particulars of a jointly-controlled entity

Jointly-controlled entity	Place and date of incorporation/ registration	Registered and paid-in capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenyang Xinbaohang	Shenyang, the PRC, 2009	RMB10,000,000	50%	50%	50%	Sale and service of motor vehicles

(b) The following table illustrates the summarised financial information of the Group's jointly-controlled entity shared by the Group:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**22,515**	22,128
Current assets	**140,297**	87,846
Current liabilities	**(149,566)**	(102,100)
Net assets	**13,246**	7,874

Notes to Financial Statements

December 31, 2011

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

(b) The following table illustrates the summarised financial information of the Group's jointly-controlled entity shared by the Group: *(Continued)*

Share of the jointly-controlled entity's results:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Revenue	**316,691**	259,103
Expenses	**(309,528)**	(256,196)
Tax	**(1,791)**	—
Profit for the year	**5,372**	2,907

18. INVENTORIES

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Motor vehicles	**1,191,087**	678,858
Spare parts and accessories	**93,072**	59,095
	1,284,159	737,953

Certain of the Group's inventories with an aggregate carrying amount of RMB390,007,000 (2010: RMB225,620,000) as at December 31, 2011 were pledged as security for the Group's bank loans and other borrowings (Note 24(a)).

Certain of the Group's inventories with an aggregate carrying amount of RMB666,898,000 (2010: RMB398,929,000) as at December 31, 2011 were pledged as security for the Group's bills payable.

19. TRADE RECEIVABLES

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Trade receivables	**125,504**	42,847

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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19. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at each reporting date (based on the invoice date, net of impairment) is as follows:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Within 3 months	**120,231**	38,349
More than 3 months but less than 1 year	**4,201**	2,585
Over 1 year	**1,072**	1,913
	125,504	42,847

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Neither past due nor impaired	**124,432**	40,934
Over one year past due	**1,072**	1,913
	125,504	42,847

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Prepayments to suppliers	**1,625,636**	621,251
Prepayments for purchase of items of plant, property and equipment	**9,520**	4,422
Deposit paid for potential acquisition of land use rights	**—**	18,698
Rebate receivables	**303,781**	180,853
VAT recoverable (i)	**29,044**	20,881
Staff loans	**32,754**	30,776
Others	**22,139**	20,845
	2,022,874	897,726

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. PLEDGED BANK DEPOSITS

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Deposits pledged with banks as collateral against bills facilities granted by the banks	**399,416**	276,149

Pledged bank deposits, which are all denominated in RMB at the end of the reporting period, earn interest at interest rates stipulated by respective finance institutions.

Notes to Financial Statements

December 31, 2011

22. CASH IN TRANSIT

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Cash in transit	**13,383**	14,022

Cash in transit represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	December 31, 2011 RMB'000	December 31, 2010 RMB'000	**December 31, 2011 RMB'000**	December 31, 2010 RMB'000
Cash and bank balances	**808,646**	379,206	**98,803**	—
Short term deposits	**2,075,392**	5,270	**2,075,392**	—
Cash and cash equivalents	**2,884,038**	384,476	**2,174,195**	—

At the end of the reporting period, cash and bank balances and short term deposits denominated in Hong Kong dollar ("HK$") amounted to RMB2,174,294,000 (2010: Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods ranging from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and term deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

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24. BANK LOANS AND OTHER BORROWINGS

	At December 31, 2011			At December 31, 2010		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Current bank loans	**5.8-11.8**	**2012**	**2,221,421**	5.7-6.8	2011	756,442
Current portion of long term bank loans	**6.7**	**2012**	**5,000**	—	—	—
Other borrowings	**7.6-9.2**	**2012**	**114,600**	6.4-8.1	2011	50,897
			2,341,021			807,339
Non-Current						
Long term bank loans	**6.7-7.0**	**2013-2014**	**29,800**	—	—	—
			2,370,821			807,339

Bank loans and other borrowings representing:

	Notes	**December 31, 2011 RMB'000**	December 31, 2010 RMB'000
— Secured	(a)	**1,041,016**	262,772
— Guaranteed	(b)	**32,750**	129,040
— Unsecured		**1,297,055**	415,527
		2,370,821	807,339

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB58,626,000 (2010: RMB36,132,000) as at December 31, 2011;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB23,206,000 (2010: RMB22,845,000) as at December 31, 2011; and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB390,007,000 (2010: RMB225,620,000) as at December 31, 2011.

(b) Certain of the Group's bank loans which amounted to RMB32,750,000 (2010: RMB129,040,000) were guaranteed by the Controlling Shareholder as at December 31, 2011.

Notes to Financial Statements

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25. TRADE AND BILLS PAYABLES

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Trade payables	32,961	14,325
Bills payable	1,141,953	575,320
Trade and bills payables	1,174,914	589,645

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Within 3 months	1,167,616	570,884
3 to 6 months	4,534	16,410
6 to 12 months	—	2,129
Over 12 months	2,764	222
	1,174,914	589,645

The trade and bills payables are non-interest-bearing.

26. OTHER PAYABLES AND ACCRUALS

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Group		
Advances from customers	163,030	108,115
Taxes payable (other than income tax)	74,456	29,783
Payables for purchase of items of property, plant and equipment	55,124	5,544
Payables for listing expenses	23,787	—
Lease payables	8,720	8,738
Staff payroll and welfare payables	6,484	5,554
Others	14,893	6,641
	346,494	164,375
Company		
Payables for listing expenses	23,787	—

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27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2010: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 10% (2010: 7% to 10%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at December 31, 2011, the Group had no significant obligation apart from the contributions stated above.

28. DEFERRED TAX

(a) Deferred tax assets

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the years are as follows:

	Losses available for offsetting against future taxable profits RMB'000	Accrued payroll RMB'000	Deferred rental expenses RMB'000	Others RMB'000	Total RMB'000
At January 1, 2010	3,467	1,228	1,087	—	5,782
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	(140)	605	302	—	767
At December 31, 2010 and January 1, 2011	3,327	1,833	1,389	—	6,549
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	878	(375)	132	1,495	2,130
Deemed distribution to equity holders of the Company pursuant to the Reorganisation (Note 31)	(614)	—	—	—	(614)
At December 31, 2011	3,591	1,458	1,521	1,495	8,065

Notes to Financial Statements

December 31, 2011

28. DEFERRED TAX *(Continued)*

(b) Deferred tax liabilities

	Capitalisation of costs in relation to construction in progress RMB'000
At January 1, 2010 and 2011	—
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	8,535
At December 31, 2011	8,535

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the 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 rate of 5%. On February 22, 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at December 31, 2007 are exempted from the withholding tax.

The Company's subsidiaries in the PRC are directly or indirectly held by the Company's intermediate holding company, Kailong Investments Management Limited, a Hong Kong tax resident. In the opinion of the directors, it is not probable that the Company's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with an aggregated amount of temporary differences of approximately RMB729,637,000 (2010: RMB477,585,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at December 31, 2011.

29. SHARE CAPITAL

Shares	2011
Authorised:	
Ordinary shares	5,000,000,000 shares of HK$0.01 each
Issued and fully paid:	
Ordinary shares	2,528,740,000 shares of HK$0.01 each
Equivalent to RMB'000	20,604

Notes to Financial Statements

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29. SHARE CAPITAL *(Continued)*

A summary of the transaction in the Company's issued share capital is as follows:

On the date of incorporation, 1 ordinary share of US$0.1 was allotted and issued by the Company to its then shareholder. On September 28, 2010, 499,999 ordinary shares of US$49,999.9 was allotted and issued to its then shareholders. On July 12, 2011, 500,000 ordinary shares of US$50,000 were allotted and issued to its then shareholders. On November 25, 2011, the 1,000,000 shares of a par value of US$0.1 each, were repurchased and cancelled by the Company.

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000
Allotment and issue of shares on November 25, 2011 (note (a))	100,000,000	1,000	(1,000)	815	(815)
Capitalisation issue on December 14, 2011 (note (b))	2,100,000,000	21,000	(21,000)	17,111	(17,111)
Issue of new shares on December 14, 2011 (note (c))	328,740,000	3,287	2,791,003	2,678	2,274,109
Share issue expenses	—	—	(133,921)	—	(109,119)
As at December 31, 2011	2,528,740,000	25,287	2,635,082	20,604	2,147,064

Notes:

(a) Pursuant to the resolution of board of directors of the Company on November 23, 2011, 100,000,000 ordinary shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par, by way of capitalisation of the sum of HK$1,000,000 (equivalent to approximately RMB814,800) standing to the credit of the share premium account.

(b) Pursuant to the resolution of board of directors of the Company on November 23, 2011, 2,100,000,000 ordinary shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par, by way of capitalisation of the sum of HK$21,000,000 (equivalent to approximately RMB17,110,800) standing to the credit of the share premium account.

(c) On December 14, 2011, in connection with the Company's IPO as defined in the Prospectus, 328,740,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$8.5 per share with gross proceeds of HK$2,794,290,000 (equivalent to approximately RMB2,276,787,000).

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30. RESERVES

Group

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the year represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were consolidated from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholder. The deductions during the year represent the decrease in the Group's net assets resulted from distribution to equity holders of the Company, acquisition of equity interests in subsidiaries from the Controlling Shareholder for business combination under common control and the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Company

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Retained profit RMB'000	Total RMB'000
As at January 1, 2011				
Allotment and issue of shares and capitalisation issue	(17,926)	—	—	(17,926)
Issue of shares for initial public offering	2,164,990	—	—	2,164,990
Total comprehensive income for the year	—	(10,908)	13	(10,895)
As at December 31, 2011	2,147,064	(10,908)	13	2,136,169

31. EFFECT ON DEEMED DISTRIBUTION TO THE EQUITY HOLDER OF THE COMPANY ON 30 JUNE 2011

As mentioned in Note 2.1, Shanghai Kailong transferred its entire business of sale and service of motor vehicles together with certain operating assets and liabilities to Minhang Automobiles on June 30, 2011. The accounts of Shanghai Kailong have been included in the financial statements of the Group up to the business acquisition date of June 30, 2011.

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31. EFFECT ON DEEMED DISTRIBUTION TO THE EQUITY HOLDER OF THE COMPANY ON 30 JUNE 2011 *(Continued)*

On June 30, 2011, except those operating assets and liabilities which have been transferred to Minhang Automobiles, other assets and liabilities of Shanghai Kailong summarised as below were accounted for as distribution to equity holders of the Company. An analysis of the assets and liabilities and the cash outflow of the distribution is as follows:

	June 30, 2011 RMB'000
NON-CURRENT ASSETS	
Property, plant and equipment	**250**
Land use rights	**264,528**
Deferred tax assets	**614**
Total non-current assets	**265,392**
CURRENT ASSETS	
Trade receivables	**350**
Deposits and other receivables	**21,092**
Amount due from the Controlling Shareholder	**6,313**
Cash in transit	**308**
Cash and cash equivalents	**10,891**
Total current assets	**38,954**
CURRENT LIABILITIES	
Trade and bills payables	**193**
Other payables and accruals	**2,860**
Amount due to the Controlling Shareholder	**143,303**
Income tax payable	**196**
Total current liabilities	**146,552**
NON-CURRENT LIABILITIES	
Bank loans and other borrowings	**150,000**
Total non-current liabilities	**150,000**
NET ASSETS	**7,794**

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32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	Loans and receivables	
	At December 31, 2011 RMB'000	At December 31, 2010 RMB'000
Trade receivables	**125,504**	42,847
Financial assets included in prepayments, deposits and other receivables	**358,674**	232,474
Amount due from a jointly-controlled entity	**37,835**	33,900
Pledged bank deposits	**399,416**	276,149
Cash in transit	**13,383**	14,022
Cash and cash equivalents	**2,884,038**	384,476
	3,818,850	983,868

Financial liabilities

	Financial liabilities at amortised cost	
	At December 31, 2011 RMB'000	At December 31, 2010 RMB'000
Trade and bills payables	**1,174,914**	589,645
Financial liabilities included in other payables and accruals	**100,688**	20,923
Amounts due to related parties	**626,680**	5,385
Bank loans and other borrowings	**2,370,821**	807,339
	4,273,103	1,423,292

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December 31, 2011

32. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company

Financial assets

	Loans and receivables	
	At December 31, 2011 RMB'000	At December 31, 2010 RMB'000
Cash and cash equivalents	**2,174,195**	—
Amount due from a subsidiary	**14,187**	—
	2,188,382	—

Financial liabilities

	Financial liabilities at amortised cost	
	At December 31, 2011 RMB'000	At December 31, 2010 RMB'000
Financial liabilities included in other payables and accruals	**23,787**	—
Amount due to a subsidiary	**7,822**	—
	31,609	—

33. CONTINGENT LIABILITIES

As at December 31, 2011, neither the Group nor the Company had any significant contingent liabilities.

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34. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Contracted, but not provided for land use rights and buildings	**40,724**	3,010
Authorised, but not contracted for land use rights and buildings	**582,791**	25,124
	623,515	28,134

(b) Operating lease commitments

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At December 31, 2011			At December 31, 2010		
	Properties RMB'000	**Land RMB'000**	**Vehicles RMB'000**	Properties RMB'000	Land RMB'000	Vehicles RMB'000
Within 1 year	**16,855**	**25,313**	**2,509**	6,861	9,650	—
After 1 year but within 5 years	**54,713**	**90,611**	**—**	18,990	34,531	—
After 5 years	**80,423**	**156,768**	**—**	24,574	79,676	—
	151,991	**272,692**	**2,509**	50,425	123,857	—

The Group is the lessee in respect of a number of properties, land and vehicles held under operating leases. The leases typically run for an initial period of three to thirty years, with an option to renew the leases when all the terms are renegotiated.

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in Note 13, Note 14, Note 18 and Note 21 to the consolidated financial statements.

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36. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Yang Aihua is the Controlling Shareholder of the Group and is also considered to be a related party of the Group.

Shanghai Bentai Investment Management Co., Ltd. ("Bentai Investment"), Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund are the then equity holders of the Group and are also considered to be related parties of the Group.

(a) Transactions with related parties

(i) The Group's bank loans which amounted to RMB32,750,000 (2010: RMB129,040,000) were guaranteed by the Controlling Shareholder for free as at December 31, 2011.

(ii) On June 28, 2011, Suzhou Baoxin Automobile Sales & Services Co., Ltd. ("Suzhou Baoxin") entered into an equity transfer agreement with Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund, pursuant to which Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund agreed to sell and Suzhou Baoxin agreed to purchase the 3% of the equity interest in Shanghai Baoxin Automobile Sales & Services Co., Ltd. at a consideration of RMB550,000,000 provided that any one of the following three conditions is fulfilled: (i) the Global Offering has been completed; (ii) the shareholders (apart from the Tsinghua Industry Investment Fund I, L.P., Tsinghua Industry Investment Fund II, L.P. and Innovation Capital, L.P.) of the Company have disposed of an aggregate of 40% or more of their shares in the Company; or (iii) Mr. Yang Aihua has ceased to be a controlling shareholder.

Pursuant to above terms of the equity transfer agreement, the 3% non-controlling interest was derecognised as if it were acquired on June 28, 2011. The consideration of RMB550,000,000 was then recorded as amounts due to Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund by RMB330,000,000 and RMB220,000,000, respectively.

(iii) Shanghai Zhongchuang Automobile Sales Co., Ltd. and Shanghai Minhang Kailong Automobile Sales Co., Ltd. entered into lease agreements with Shanghai Kailong, as landlord, pursuant to which each of these subsidiaries leases from Shanghai Kailong the premises currently used by them. The rental expenses of Shanghai Zhongchuang Automobile Sales Co., Ltd. and Shanghai Minhang Kailong Automobile Sales Co., Ltd. were RMB400,000 and RMB300,000, respectively, in 2011 (2010: Nil).

Notes to Financial Statements

December 31, 2011

36. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balances with related parties

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

(i) Amount due from a jointly-controlled entity:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Non-trade related:		
A jointly-controlled entity		
— Shenyang Xinbaohang	**37,835**	33,900

(ii) Amounts due to related parties:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Non-trade related:		
The Controlling Shareholder		
— Mr. Yang Aihua	**26,857**	5,385
The then equity holders		
— Huakong (Tianjin) Innovation Fund	**359,892**	—
— Huakong (Tianjin) Industry Investment Fund	**239,928**	—
— Bentai Investment	**3**	—
	626,680	5,385

Except for the amounts due to Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund of RMB330,000,000 and RMB220,000,000, respectively, which would be settled after 5 to 6 months of completion of the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, other balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

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36. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Compensation of key management personnel of the Group:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Short term employee benefits	**6,120**	1,696
Post-employee benefits	**393**	62
Total compensation paid to key management personnel	**6,513**	1,758

Further details of directors' emoluments are included in Note 9 to the consolidated financial statements.

37. FAIR VALUE

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (Note 21) and cash and cash equivalents (Note 23).

The Group's interest rate risk arises from its bank loans and other borrowings, details of which are set out in Note 24. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, cash and cash equivalents, trade and other receivables and amount due from a jointly-controlled entity included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at December 31, 2011, all pledged bank deposits and cash and cash equivalents were deposited with high quality financial institutions without significant credit risk.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

As at December 31, 2011

	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bank loans and other borrowings	**—**	**696,176**	**1,739,467**	**31,634**	**—**	**2,467,277**
Trade and bills payables	**3,694**	**1,144,818**	**26,402**	**—**	**—**	**1,174,914**
Other payables and accruals	**100,688**	**—**	**—**	**—**	**—**	**100,688**
Amounts due to related parties	**626,680**	**—**	**—**	**—**	**—**	**626,680**
	731,062	**1,840,994**	**1,765,869**	**31,634**	**—**	**4,369,559**

As at December 31, 2010

	On demand RMB'000	**Less than 3 months** RMB'000	**3 to 12 months** RMB'000	**1 to 5 years** RMB'000	**Over 5 years** RMB'000	**Total** RMB'000
Bank loans and other borrowings	—	468,032	351,741	—	—	819,773
Trade and bills payables	18,761	570,884	—	—	—	589,645
Other payables and accruals	20,923	—	—	—	—	20,923
Amounts due to related parties	5,385	—	—	—	—	5,385
	45,069	1,038,916	351,741	—	—	1,435,726

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

As at December 31, 2011

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables and accruals	**23,787**	**—**	**—**	**—**	**—**	**23,787**
Amount due to a subsidiary	**7,822**	**—**	**—**	**—**	**—**	**7,822**
	31,609	**—**	**—**	**—**	**—**	**31,609**

As at December 31, 2010, the Company did not have any financial liabilities.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals and amounts due to related parties less cash and cash equivalents. The gearing ratios as at the end of the reporting periods are as follows:

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Bank loans and other borrowings	**2,370,821**	807,339
Trade and bills payables	**1,174,914**	589,645
Other payables and accruals	**346,494**	164,375
Amounts due to related parties	**626,680**	5,385
Less: Cash and cash equivalents	**(2,884,038)**	(384,476)
Net debt	**1,634,871**	1,182,268
Equity attributable to owners of the parent	**3,017,753**	1,465,573
Gearing ratio	**35.1%**	44.7%

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39. INVESTMENTS IN SUBSIDIARIES

Company

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Unlisted shares, at cost	—	—

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB14,187,000 (2010: Nil) and RMB7,822,000 (2010: Nil), respectively, are unsecured and interest-free, and have no fixed repayment terms. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Xiangsong Auto Company Limited	Tortola, British Virgin Islands, 2011	Registered capital of Nil	100%	—	Investment holding
開隆投資管理有限公司 (Kailong Investments Management Limited)	Hong Kong, the PRC 2010	Registered and paid-in capital of HK$1	—	100%	Investment holding
上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB214,650,000	—	100%	Sale and service of motor vehicles
上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.)	Shanghai, the PRC 1999	Registered and paid-in capital of RMB87,000,000	—	100%	Sale and service of motor vehicles
上海開隆汽車貿易虹橋有限公司 (Shanghai Kailong Automobile Trading Hongqiao Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB6,000,000	—	100%	Sale of spare parts and accessories
上海太平洋虹橋汽車貿易有限公司 (Shanghai Pacific Hongqiao Automobile Trading Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海開隆汽車服務有限公司 (Shanghai Kailong Automobile Services Co., Ltd.)	Shanghai, the PRC 2000	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles

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December 31, 2011

39. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries: *(Continued)*

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
上海開隆豐田汽車銷售服務有限公司 (Shanghai Kailong Toyota Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2002	Registered and paid-in capital of RMB80,000,000	—	85%	Sale and service of motor vehicles
上海開隆汽車裝潢服務有限公司 (Shanghai Kailong Automobile Decoration Services Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB500,000	—	100%	Sale of spare parts and accessories
上海徐匯寶信汽車服務有限公司 (Shanghai Xuhui Baoxin Automobile Services Co., Ltd.)	Shanghai, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale of spare parts and accessories
蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
青島信寶行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
寧波寶信汽車銷售服務有限公司 (Ningbo Baoxin Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
寧海寶信汽車銷售服務有限公司 (Ninghai Baoxin Automobile Sales & Services Co., Ltd.)	Ninghai, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
泰州信寶行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Taizhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
北京信寶行置業有限公司 (Beijing Xinbaohang Real Estate Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	51%	Dormant

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39. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries: *(Continued)*

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.)	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.)	Hangzhou, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	90%	Sale and service of motor vehicles
常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2006	Registered and paid-in capital of RMB30,000,000	—	100%	Sale and service of motor vehicles
上海太平洋金沙汽車銷售服務有限公司 (Shanghai Pacific Jinsha Automobile Sales & Services Co., Ltd.	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	90%	Sale and service of motor vehicles
上海太平洋申隆汽車銷售服務有限公司 (Shanghai Pacific Shenlong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2005	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
上海徐匯開隆汽車銷售服務有限公司 (Shanghai Xuhui Kailong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2006	Registered and paid-in capital of RMB12,000,000	—	85%	Sale and service of motor vehicles
上海信隆汽車銷售服務有限公司 (Shanghai Xinlong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
上海亞歐汽車銷售服務有限公司 (Shanghai Ya'ou Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
上海中創汽車銷售有限公司 (Shanghai Zhongchuang Automobile Sales Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles

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December 31, 2011

39. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries: *(Continued)*

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
揚州名凱汽車銷售服務有限公司 (Yangzhou Mingkai Automobile Sales & Services Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海閔行開隆汽車裝璜服務有限公司 (Shanghai Minhang Kailong Automobile Decoration Services Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB500,000	—	85%	Sale of spare parts and accessories
上海徐匯開隆二手機動車經營有限公司 (Shanghai Xuhui Kailong Second-hand Motor Vehicle Trading Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB100,000	—	100%	Dormant
江蘇滬隆投資實業有限公司 (Jiangsu Hulong Investment Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	—	100%	Dormant
杭州寶信置業有限公司 (Hangzhou Baoxin Real Estate Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	90%	Dormant
蘇州信寶行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
富陽寶信汽車銷售服務有限公司 (Fuyang Baoxin Automobile Sales & Services Co., Ltd.)	Fuyang, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	90%	Dormant
青島寶隆汽車銷售服務有限公司 (Qingdao Baolong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2011	Registered and paid-in capital of RMB5,000,000	—	100%	Dormant
上海真北寶信汽車銷售服務有限公司 (Shanghai Zhenbei Baoxin Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
丹東信寶行汽車銷售服務有限公司 (Dandong Xinbaohang Automobile Sales & Services Co., Ltd.)	Dandong, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant

Notes to Financial Statements

December 31, 2011

39. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries: *(Continued)*

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
嘉興天華汽車銷售服務有限公司 (Jiaxing Tianhua Automobile Sales & Services Co., Ltd.)	Jiaxing, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
無錫天華汽車銷售服務有限公司 (Wuxi Tianhua Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2011	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
寧波天華汽車銷售服務有限公司 (Ningbo Tianhua Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2011	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
上海閔行開隆汽車銷售有限公司 (Shanghai Minhang Kailong Automobile Sales Co., Ltd.)	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
寧波寶鼎行汽車銷售服務有限公司 (Ningbo Baodinghang Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2011	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
上海五角場開隆汽車貿易有限公司 (Shanghai Wujiaochang Kailong Automobile Trading Co., Ltd.)	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles
瀋陽寶信行汽車有限公司 (Shenyang Baoxinhang Automobile Co., Ltd.)	Shenyang, the PRC 2011	Registered and paid-in capital of RMB3,000,000	—	100%	Sale and service of motor vehicles
天津衛寶行汽車銷售服務有限公司 (Tianjin Weibaohang Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
淄博寶信汽車銷售服務有限公司 (Zibo Baoxin Automobile Sales & Services Co., Ltd.)	Zibo, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	75%	Sale and service of motor vehicles
揚州寶隆汽車銷售服務有限公司 (Yangzhou Baolong Automobile Co., Ltd.)	Yangzhou, the PRC 2011	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles

Notes to Financial Statements

December 31, 2011

39. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries: *(Continued)*

Company name	Place of operation / date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
天津申隆汽車銷售服務有限公司 (Tianjin Shenlong Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB2,000,000	—	90%	Sale and service of motor vehicles

As mentioned in Notes 2.1, The results of Shanghai Kailong up to the business acquisition date, i.e., June 30, 2011, have been included in the Group's financial statements since it was 100% owned by the Controlling Shareholder.

40. EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2011.

41. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on March 14, 2012.

Four-Year Financial Summary

	Year ended December 31,			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**12,010,929**	7,716,564	5,164,730	3,701,261
Cost of sales and services provided	**(10,721,181)**	(7,028,566)	(4,726,644)	(3,445,172)
Gross profit	**1,289,748**	687,998	438,086	256,089
Other income and gains, net	**93,756**	37,482	26,965	12,903
Selling and distribution costs	**(256,629)**	(177,100)	(133,756)	(97,892)
Administrative expenses	**(166,977)**	(90,985)	(68,596)	(53,469)
Profit from operations	**959,898**	457,395	262,699	117,631
Finance costs	**(128,397)**	(48,378)	(26,033)	(39,671)
Share of profit/(loss) of a jointly-controlled entity	**5,372**	2,907	(33)	—
Profit before tax	**836,873**	411,924	236,633	77,960
Tax	**(221,041)**	(104,266)	(60,788)	(20,504)
Profit for the year	**615,832**	307,658	175,845	57,456
Attributable to:				
Owners of the parent	**601,905**	303,940	174,756	57,673
Non-controlling interests	**13,927**	3,718	1,089	(217)
	615,832	307,658	175,845	57,456
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS				
TOTAL ASSETS	**7,780,400**	3,257,695	1,830,477	1,172,813
TOTAL LIABILITIES	**(4,726,575)**	(1,719,457)	(1,264,523)	(726,256)
NON-CONTROLLING INTEREST	**(36,072)**	(72,665)	(3,720)	(2,631)
	(3,017,753)	(1,465,573)	(562,234)	(443,926)

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寶信汽車集團有限公司