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BAOXIN AUTO GROUP LIMITED
寶 信 汽 車 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1293)

PROPOSED NOTES ISSUE OF SENIOR NOTES BY THE COMPANY AND EXTRACT OF CORPORATE AND FINANCIAL INFORMATION

This announcement is made by Baoxin Auto Group Limited (the "Company") pursuant to Rule 13.09 of the Listing Rules.

The Company proposes to conduct an international offering of the Notes to institutional investors. The Notes are expected to be issued by the Company and guaranteed by certain subsidiaries of the Company incorporated outside of the PRC, and secured by a first-priority pledge of the shares of such offshore subsidiaries. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, which may not previously have been made public, including, but not limited to, risk factors, management's discussion and analysis of financial condition and results of operations, related party transactions and indebtedness information. An extract of such information is attached hereto and will be available on the Company's website at http://www.klbaoxin.com at approximately the same time that such information is released to the institutional investors. The completion of the Proposed Notes Issue is subject to market conditions and investor interest. Morgan Stanley and UBS, as the joint lead managers and joint bookrunners, are managing the Proposed Notes Issue.

If the Notes are issued, the Company intends to use at least US$100 million of the net proceeds for the repayment of its short-term bank loans and to use the remaining portion for the expansion of its network of dealership stores and repair centres through organic growth and selective acquisitions and for general corporate and working capital purposes. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions. The Company may adjust the foregoing plans in response to changing market conditions and thus, reallocate the use of proceeds.

The Company intends to submit an application to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been, or will be, sought in Hong Kong.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and Shareholders are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the purchase agreement in respect of the Proposed Notes Issue be signed.

PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of the Notes to institutional investors. The Notes are expected to be issued by the Company and guaranteed by certain subsidiaries of the Company incorporated outside of the PRC, and secured by a first-priority pledge of the shares of such offshore subsidiaries. In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, which may not previously have been made public, including, but not limited to, risk factors, management's discussion and analysis of financial condition and results of operations, related party transactions and indebtedness information. An extract of such information is attached hereto and will be available on the Company's website at http://www.klbaoxin.com at approximately the same time that such information is released to the institutional investors. The completion of the Proposed Notes Issue is subject to market conditions and investor interest. Morgan Stanley and UBS, as the joint lead managers and joint bookrunners, are managing the Proposed Notes Issue.

The Notes and the related guarantee by the relevant subsidiaries of the Company have not been, and will not be, registered under the U.S. Securities Act. The Notes will only be offered (1) to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and (2) outside the United

States in offshore transaction in compliance with Regulation S under the U.S. Securities Act. None of the Notes will be offered to the public in Hong Kong nor will be placed to any connected persons of the Company.

Proposed use of net proceeds

If the Notes are issued, the Company intends to use at least US$100 million of the net proceeds for the repayment of its short-term bank loans and to use the remaining portion for the expansion of its network of dealership stores and repair centres through organic growth and selective acquisitions and for general corporate and working capital purposes. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions. The Company may adjust the foregoing plans in response to changing market conditions and thus, reallocate the use of proceeds.

Listing

The Company intends to submit an application to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Admission of the Notes to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been, or will be, sought in Hong Kong.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and Shareholders are urged to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the purchase agreement in respect of the Proposed Notes Issue be signed.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the following meanings:

"Board"	the board of Directors
"Company"	Baoxin Auto Group Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries from time to time

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Morgan Stanley"	Morgan Stanley & Co. International plc, one of the joint lead managers and the joint bookrunners in respect of the offer and sale of the Notes
"Notes"	the US dollar denominated guaranteed senior notes expected to be issued by the Company
"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan area
"Proposed Notes Issue"	the proposed issue of Notes
"Purchase Agreement"	the agreement proposed to be entered into between, among others, the Company, Morgan Stanley and UBS in relation to the Proposed Notes Issue
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Share(s)"	ordinary share(s) with par value of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"UBS"	UBS AG, Hong Kong Branch, one of the joint lead managers and the joint bookrunners in respect of the offer and sale of the Notes
"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended

By order of the Board
Baoxin Auto Group Limited
YANG Aihua
Chairman

Hong Kong, May 2, 2012

As of the date of this announcement, the executive Directors are Mr. YANG Aihua, Mr. YANG Hansong, Mr. YANG Zehua, Ms. HUA Xiuzhen and Mr. ZHAO Hongliang, the non-executive Director is Mr. ZHANG Yang, and the independent non-executive Directors are Mr. DIAO Jianshen, Mr. WANG Keyi and Mr. CHAN Wan Tsun Adrian Alan.

Extract of Corporate and Financial Information
of Baoxin Auto Group Limited
(As of May 2, 2012)

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you.

Our Business

Overview

According to Euromonitor, we are a leading luxury 4S dealership group in China in terms of sales volume and number of dealership stores for BMW with a rapidly growing ultra-luxury dealership business. As of December 31, 2011, we had a well-established network of 33 dealership stores, comprising 30 formally launched dealership stores and three additional dealership stores which were in trial operations. Twenty-three of these stores were luxury and ultra-luxury brand stores. We have received manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. All of our dealership stores are strategically located in populous and affluent regions in China with rapidly growing local economies. Our strong brand portfolio includes luxury brands such as BMW, MINI, Audi, and Cadillac, ultra-luxury brands such as the Land Rover and Jaguar brands of Jaguar Land Rover PLC ("Land Rover & Jaguar"), and other popular mid-to-upper market brands, such as Buick, Toyota, Honda, Nissan, Volkswagen, Chevrolet and Hyundai. Sales of luxury and ultra-luxury brand automobiles in our stores have contributed to an increasing percentage of our revenue and gross profit from automobile sales over the past three years, accounting for 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.9%, 87.8% and 94.2% of our gross profit from automobile sales, in 2009, 2010 and 2011, respectively. We believe that our focus on luxury and ultra-luxury brands has enabled us to achieve rapid revenue and profit growth and increasing profit margins in the past three years.

Our Track Record

Since we commenced operation and became one of the first authorized dealerships for Audi in China in 1999, we have established a proven track record in building and operating successful, high quality dealership stores. We opened one of the first 4S dealership stores authorized by BMW Brilliance Automotive Ltd. ("BMW Brilliance") in China in 2004 and have since become one of BMW's most important and largest dealerships in China in terms of sales volume. BMW was one of the best-selling and one of the fastest growing luxury automobile brands in terms of sales volumes in China in 2010, according to Euromonitor. In 2011, China was the third largest market for BMW in terms of sales volume and the fastest growing of its three largest markets worldwide, according to BMW's 2011 annual report. In 2010, three of our BMW 4S dealership stores ranked second, third and ninth, respectively, out of the ten BMW 4S dealership stores nationwide that won its Best Dealership Quality Award. This ranking takes into account all operational aspects of a 4S dealership store, including sales performance, customer service quality and customer satisfaction rates. We were the only dealership group to achieve multiple placings in this ranking performed by BMW, which had around 170 authorized 4S dealership stores in China at the time of the ranking. In addition, in 2010, two of our BMW stores were ranked first and third, respectively, in BMW's list of its ten best 4S dealership stores nationwide for after-sales business. We commenced operation of three Land Rover & Jaguar dealership stores from November 2010 (when we started our cooperation with Land Rover & Jaguar) to June 30, 2011. According to Euromonitor, this makes us the dealership group which opened the largest number of Land Rover & Jaguar dealership stores in this period and one of the largest Land Rover & Jaguar dealership groups in eastern China in terms of the number of stores as of June 30, 2011. One of our Land Rover & Jaguar dealership stores won the prizes of "Jaguar Dealer of the Year," "Land Rover Sales Dealer of the Year" and "Land Rover After-Sales Dealer of the Year" for 2011–2012, and another dealership of ours won the prizes of "Jaguar Sales Dealer of the Year" and "Land Rover Sales Dealer of the Year" for the same period. We believe that our market position and superior operational capabilities and expertise have enabled us to develop long-term and stable relationships with leading automobile manufacturers and placed us in a strong position to win additional authorizations from existing and new automobile manufacturers in the future.

Our after-sales business, which generates recurring revenues and high profit margins for us, has grown significantly over the past three years. In 2009, 2010 and 2011, the gross margins of our after-sales services were 46.5%, 47.5% and 48.5% respectively, which were significantly higher than those of automobile sales.

The following table sets out a breakdown of our gross profits and gross profit margins for the periods indicated:

	Year Ended December 31,					
	2009		2010		2011	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	%
Automobile Sales						
Luxury and ultra-luxury brands	190,567	5.7	375,165	6.7	870,062	9.0
Mid-to-upper market brands	45,070	3.2	52,230	3.3	53,313	3.3
Sub-total	235,637	5.0	427,395	6.0	923,375	8.2
After-Sales Business						
Luxury and ultra-luxury brands.	131,397	47.3	181,459	47.5	260,781	47.7
Mid-to-upper market brands	71,052	45.0	79,144	47.6	105,592	50.4
Sub-total	202,449	46.5	260,603	47.5	366,373	48.5
Total	**438,086**	**8.5**	**687,998**	**8.9**	**1,289,748**	**10.7**

We have recorded significant growth in our revenues and profits in the past three years. Our revenue increased from RMB5,164.7 million in 2009 to RMB7,716.6 million in 2010 and RMB12,010.9 million (US$1,908.3 million) in 2011, representing a compound annual growth rate ("CAGR") of 52.5%, while our net profit increased from RMB175.8 million in 2009 to RMB307.7 million in 2010 and RMB615.8 in 2011, representing a CAGR of 87.1%. Our gross profit margins for automobile sales increased from 5.0% in 2009 to 6.0% in 2010 and 8.2% in 2011 while our gross profit margins for our after-sales business increased from 46.5% in 2009 to 47.5% in 2010 and 48.5% in 2011.

Network Expansion

We have a proven track record for rapid organic expansion and have accelerated the growth in our network since early 2009 by increasing the number of our dealership stores from 13 as of January 1, 2009 to 33 as of December 31, 2011. We will seek opportunities to expand through further organic expansion and selective acquisitions in existing and new areas and to diversify our portfolio of luxury and ultra-luxury automobile brands. With our large and strategically located dealership network, we have been able to achieve synergies among our stores that provide significant competitive advantages in China's highly fragmented automobile dealership industry. Our operating scale allows us to better manage our automobiles and spare parts inventory turnover, coordinate and aggregate our purchases of automobile accessories and other products and implement a systematic approach to train and promote talented personnel.

Our Dealership Arrangements

Each of our dealership stores is subject to a non-exclusive dealership authorization agreement between us and the PRC affiliate or representative of the relevant automobile manufacturer. The terms and conditions of these dealership authorization agreements vary according to the policies and practices of different automobile manufacturers. In general, each agreement specifies the location of the dealership store and requires the store to sell only the brands and models of the relevant automobile manufacturer and to observe its recommended retail pricing guidelines from time to time. These agreements range in duration from one to three years but are subject to early termination in the event of default. See "Business—Our Dealership Network—Dealership Arrangements" for further information regarding our dealership agreements.

Our Competitive Strengths

Our competitive strengths include the following:

- We are well positioned to benefit from the anticipated rising demand for luxury cars in China;
- We are a leading luxury 4S automobile dealership group in China with a well-established network of stores strategically located in populous and affluent regions;
- Our superior sales, after-sales services and other operational capabilities and expertise enable us to form strong partnerships with leading automobile manufacturers;
- Our highly efficient operations and scalable and readily replicable business model allow us to enjoy competitive advantages in China's automobile dealership industry; and
- We are led by an experienced senior management team under a high standard corporate governance framework and we have a large and growing pool of skilled employees to support our expanding network and business.

Our Strategies

We intend to implement the following principal strategies to grow our business:

- Continue to expand our dealership network and brand offerings through organic store growth and selective acquisitions; and

- Continue to enhance our operational efficiency.

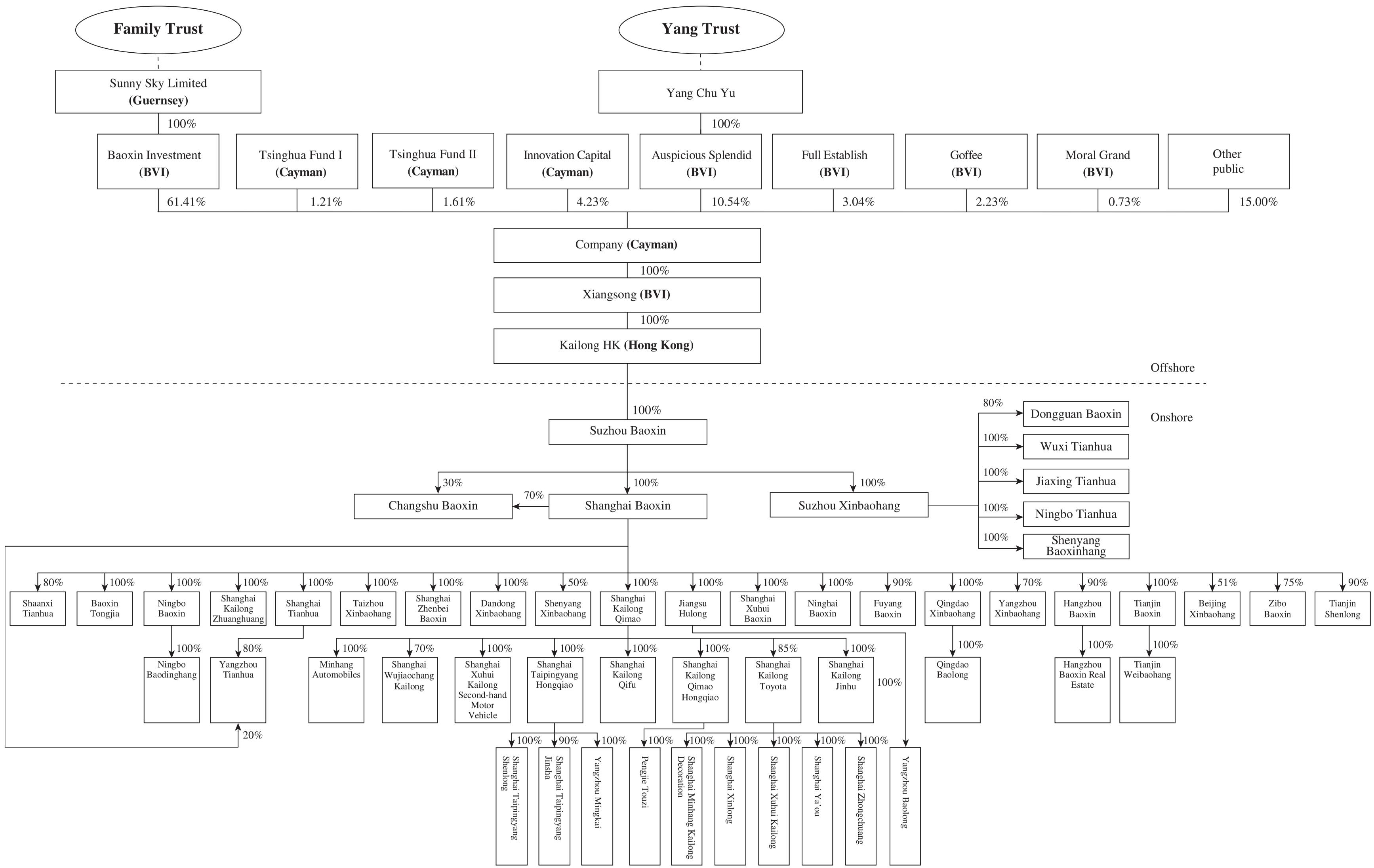
General Information

We were incorporated in the Cayman Islands on September 6, 2010 as an exempted company with limited liability. Our principal place of business in the PRC is at 1715 Wuzhong Road, Minhang District, Shanghai, PRC. Our place of business in Hong Kong is at Units 1803–4, 18/F, Bank of America Tower, 12 Harcourt Road, Hong Kong. Our registered office is located at P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

We completed our initial public offering and listing on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on December 14, 2011. Our ordinary shares are listed under the code "1293."

Our website is *www.klbaoxin.com*.

The following chart sets out our shareholders and corporate structure as of the date of this document. For the full legal name of each of our subsidiaries as of December 31, 2011, see Note 39 to the Audited Financial Statements on pages F-63 through F-68.


Family Trust
Yang Trust
Sunny Sky Limited (Guernsey)
Yang Chu Yu
100%
100%
Baoxin Investment (BVI)
Tsinghua Fund I (Cayman)
Tsinghua Fund II (Cayman)
Innovation Capital (Cayman)
Auspicious Splendid (BVI)
Full Establish (BVI)
Goffee (BVI)
Moral Grand (BVI)
Other public
61.41%
1.21%
1.61%
4.23%
10.54%
3.04%
2.23%
0.73%
15.00%
Company (Cayman)
100%
Xiangsong (BVI)
100%
Kailong HK (Hong Kong)
Offshore
Onshore
100%
Suzhou Baoxin
30%
100%
100%
70%
Changshu Baoxin
Shanghai Baoxin
Suzhou Xinbaohang
80%
Dongguan Baoxin
100%
Wuxi Tianhua
100%
Jiaxing Tianhua
100%
Ningbo Tianhua
100%
Shenyang Baoxinhang
80% Shaanxi Tianhua
100% Baoxin Tongjia
100% Ningbo Baoxin
100% Shanghai Kailong Zhuanghuang
100% Shanghai Tianhua
100% Taizhou Xinbaohang
100% Shanghai Zhenbei Baoxin
100% Dandong Xinbaohang
50% Shenyang Xinbaohang
100% Shanghai Kailong Qimao
100% Jiangsu Hulong
100% Shanghai Xuhui Baoxin
100% Ninghai Baoxin
90% Fuyang Baoxin
100% Qingdao Xinbaohang
70% Yangzhou Xinbaohang
90% Hangzhou Baoxin
100% Tianjin Baoxin
51% Beijing Xinbaohang
75% Zibo Baoxin
90% Tianjin Shenlong
100% Ningbo Baodinghang
80% Yangzhou Tianhua
20%
100% Minhang Automobiles
70% Shanghai Wujiaochang Kailong
100% Shanghai Xuhui Kailong Second-hand Motor Vehicle
100% Shanghai Taipingyang Hongqiao
100% Shanghai Kailong Qifu
100% Shanghai Kailong Qimao Hongqiao
85% Shanghai Kailong Toyota
100% Shanghai Kailong Jinhu
100%
100% Qingdao Baolong
100% Hangzhou Baoxin Real Estate
100% Tianjin Weibaohang
100% Shanghai Taipingyang Shenlong
90% Shanghai Taipingyang Jinsha
100% Yangzhou Mingkai
100% Pengjie Touzi
100% Shanghai Minhang Kailong Decoration
100% Shanghai Xinlong
100% Shanghai Xuhui Kailong
100% Shanghai Ya'ou
100% Shanghai Zhongchuang
Yangzhou Baolong

You should carefully consider all of the information in this document, including, but not limited to, the following risk factors. Our results of operations, financial condition and business could be materially and adversely affected by any of the risks and uncertainties described below.

Risks Relating to Our Business

Our business and operations depend on, and are subject to restrictions imposed by, our dealership authorization agreements with our automobile manufacturer partners. If any of these agreements is terminated or not renewed, on a timely basis or at all, or if our business dealings with any automobile manufacturer are otherwise reduced, our business, results of operations and prospects could be adversely affected.

Our right to operate authorized dealership stores, our supply of automobiles and spare parts and other important aspects of our business and operations are governed by our dealership authorization agreements with automobile manufacturers. Our dealership authorization agreements generally have terms of one to three years with the option of renewal. Some automobile manufacturers do not initiate the process of renewing dealership authorization agreements until shortly before or after the existing agreements expire, and several of our dealership stores currently are in the process of negotiating and signing renewals of dealership authorization agreements that have already expired. The automobile manufacturers also have the right to terminate our dealership authorization agreements with written notice for specified reasons, including failure to abide by the agreements, unapproved business relationships with other automobile manufacturers and unapproved changes to our ownership or management structure that would affect our ability to meet contractual obligations. There can be no assurance that our dealership authorization agreements will be renewed on a timely basis, on commercially acceptable terms, or at all. Moreover, an automobile manufacturer may decide to limit the number of new dealership stores they allow us to open in the future for reasons unrelated to us, such as a change in their business strategy, or otherwise. If any of the foregoing events occur, our business, results of operations and growth prospects may be materially and adversely affected.

In addition, certain automobile manufacturers allow newly established dealership stores to commence trial operations before they pass the final inspection conducted by the manufacturer or enter into a dealership authorization agreement under their own names. If for any reason our dealership stores that are in trial operations were not able to enter into dealership authorization agreements on commercially reasonable terms or at all, it could have a material adverse effect on our growth plans.

The operations of our dealership stores are subject to various restrictions under our dealership authorization agreements including, among other things:

- specifying the location of the relevant dealership store;
- selling only their brands of automobile at the relevant store;

- requiring us to make full payment for our automobile inventory prior to shipment and take ownership and assume risk for the automobiles either upon shipment or upon delivery;

- providing designated services such as vehicle maintenance and provision of spare parts;

- requiring us to adhere to the automobile manufacturers' design guidelines for the dealership stores; and

- requiring us to observe the automobile manufacturers' sales policies.

The restrictions imposed by, and significant influence of, automobile manufacturers on our business could limit our ability to timely respond to changes in the market or our business, which could in turn adversely affect our business and results of operations.

Our business and operations are subject to restrictions imposed by automobile manufacturers, and we depend on their cooperation in many different aspects of our operations. If our relationship with any automobile manufacturer were to deteriorate, our business, results of operations and growth could be negatively affected.

Our dealership authorization agreements subject our business and operations to various restrictions, including geographical limitations on where we can conduct sales and pricing guidelines set by automobile manufacturers for their products and related services provided by us. Any increase in the level of regulation or restrictions by our automobile manufacturer partners on our business and operations may limit our ability to respond to changes in market trends and adversely affect our business and results of operations. In addition, we depend on the cooperation of our automobile manufacturer partners in different aspects of our operations. If our relationship with any automobile manufacturer were to deteriorate, our business, results of operations and growth could be materially and negatively affected.

Incentive rebates. Our profits from the sales of automobiles and spare parts depend on the incentive rebates fixed by our automobile manufacturer partners. If any of our automobile manufacturer partners reduces the amount of our incentive rebates, or imposes more onerous conditions or performance targets for the payment of such incentive rebates, our profits and results of operations could be materially and adversely affected.

Product pricing. We also depend on automobile manufacturers to adopt successful pricing policies that allow us to compete effectively for customers while maintaining profitability. If automobile manufacturers raise their pricing guidelines for their products, it may have a negative impact on customer demand for their automobiles and therefore our sales. Failure to comply with a manufacturer's recommended retail pricing guidelines may constitute a breach of the relevant dealership authorization agreement, which would entitle such manufacturer to terminate the agreement or to seek damages or other remedies against us.

Supply of automobile and parts. We rely exclusively on our automobile manufacturer partners for the supply of automobiles and spare parts that we sell. Any event or development that adversely affects their ability to manufacture and deliver their products to us, such as component shortages, labor unrest or natural disasters, may also have a material adverse effect on us. We also depend on our automobile manufacturer partners to anticipate changes in market trends and consumer tastes and demand and develop attractive automobile models for our markets. If any automobile model launched by any of our automobile manufacturer partners is not well received by the market, or if the popularity of any of their existing automobile models declines, our sales volumes, revenues and profitability could decrease.

Sales and marketing. We depend on the cooperation of our automobile manufacturer partners for our sales and marketing efforts. Our sales of automobiles are affected by the manufacturers' promotional offers to customers, such as complimentary products or services and product warranties. Our advertising and promotional materials are subject to their approval. Sales of automobiles at our dealership stores are also indirectly affected by the marketing efforts of automobile manufacturers to enhance their brand awareness and brand image in the PRC. If any automobile manufacturer were to reduce the scale of its marketing efforts, or adopt an unsuccessful marketing strategy or campaign, our sales volumes, revenues and profitability could be negatively affected.

We depend on our BMW brand dealership stores and our dealership arrangements with our other major automobile manufacturer partners for a significant portion of our revenues.

We operated six, nine and 16 BMW dealership stores as of December 31, 2009, 2010 and 2011, respectively. In addition, we opened a BMW authorized repair center in 2010. Revenues derived from these BMW dealership stores and the repair center were RMB2,958.2 million, RMB5,075.4 million and RMB7,267.1 million (US$1,154.6 million) in 2009, 2010 and 2011, respectively, accounting for 57.3%, 65.8% and 60.5% of our total revenue for the relevant period. The majority of the new dealership stores which we opened in the past three years were BMW brand stores and we expect our BMW dealership stores to continue to account for a significant portion of our revenues in the near future. Like all automobile dealerships, our ability to negotiate with automobile manufacturers is limited. If BMW decides to terminate, not to renew, or to limit or reduce its dealership arrangements with us, or to add or amend any terms or conditions in a way that would be adverse to us, or if market demand for BMW automobile diminishes, our results of operations, financial condition and growth prospects may be materially and adversely affected.

In 2009, 2010 and 2011, purchases from our top five automobile manufacturer partners (including BMW) accounted for approximately 88.2%, 91.4% and 92.7% of our total purchases, respectively, and purchases from BMW, our largest supplier in the past three years, accounted for approximately 35.5%, 46.9% and 41.4%, respectively, of our total purchases. If any of our other top five suppliers decides to terminate, not to renew, or to limit or reduce its dealership arrangements with us, or to add or amend any terms or conditions in a way that would be adverse to us, our results of operations, financial condition and growth prospects may be materially and adversely affected.

A substantial majority of our existing stores are located in Shanghai, Jiangsu and Zhejiang.

As of December 31, 2011, we operated 13 4S dealership stores and three other types of stores in Shanghai, seven stores in Jiangsu and six stores in Zhejiang. In 2011, approximately 48.1% of our revenues were derived from our stores in Shanghai, approximately 19.7% from our stores in Jiangsu and approximately 21.0% from our stores in Zhejiang. We expect our stores in each of these areas to continue to account for significant percentages of our revenues and profits in the foreseeable future. As a result of the geographical concentration of our network in these areas, any negative event or development that affects any of these areas or their local automobile markets, such as any downturn in their local economies, electricity shortage, natural disaster or outbreak of a contagious disease, may have a particularly significant impact on us, and our results of operations could be materially and adversely affected.

We have experienced significant growth over the past three years and we may not sustain similar growth rates or financial performance in the future. We have recorded, and may continue to record, negative operating cash flows due to our rapid expansion.

We have experienced significant growth over the past three years. Our revenues increased from RMB5,164.7 million in 2009 to RMB7,716.6 million in 2010 and RMB12,010.9 million (US$1,908.3 million) in 2011, representing a CAGR of 52.5%. As of December 31, 2011, 13 out of our 33 dealership stores had been operating for less than a year. Newly-established dealership stores require time to ramp up their operations and there is no assurance that our newer dealership stores will achieve their expected business and financial performance levels within an acceptable time frame or at all. We may experience delays in commencing all or part of the operations of a new store due to construction delays, delays in obtaining requisite governmental approvals and other reasons. Our future success and growth, and the performance of our new and future dealership stores, depend on many factors beyond our control, including the macroeconomic conditions in the PRC, consumer demand for our brands, the willingness of automobile manufacturers to grant us additional dealership authorizations, our automobile purchase costs, the terms of our dealership arrangements, availability and costs of land and labor in markets in which we seek to expand and availability of financing. We cannot assure you that we will achieve similar growth rates or maintain our current revenue and profit levels in future periods. In addition, we cannot assure you that the automobile industry in China in general, or the sales of luxury and ultra-luxury automobiles specifically, will sustain similar growth rates. You should not rely on our results of operations for any prior period as an indication of our future financial or operating performance.

We experienced operating cash outflows in 2009, 2010 and 2011 mainly due to increases in our automobile purchases in anticipation of our sales for future periods and to stock our rapidly expanding store network, including newer stores that had not fully ramped up their sales. Such increased automobile purchases resulted in turn in significant increases in our prepayments to automobile manufacturers and automobile inventories, which had a negative impact on our operating cash flows, in the current period. Our negative operating cash flow increased from 2009 to 2011 due to our accelerated pace of opening new dealership stores, and we are likely to continue to have negative operating cash flow in the foreseeable future due to (1) the fact that a significant percentage of our dealership stores commenced operation within the past 24 months and are still in the process of ramping up their automobile sales and after-sales businesses, and (2) our continued network expansion plans. If we continue to record negative operating cash flows in the future, our working capital may be constrained which may materially and adversely affect our business, growth, results of operations and financial condition.

Implementing our expansion plan exposes us to certain risks.

Our growth strategy includes the organic establishment or acquisition of third party dealerships in the PRC. There are uncertainties and risks associated with our expansion plan, including whether we will be able to:

- obtain sufficient funding for our expansion;
- obtain authorizations for new dealership stores or enter into acquisition agreements to acquire other dealerships;
- obtain necessary licenses, permits and approvals from relevant PRC Government authorities on a timely basis;
- secure premises for new dealership stores in desirable locations;
- recruit, train and retain sufficient qualified personnel; and
- commence and ramp up the operations of new dealership stores to achieve our targeted profitability within expected time frames.

In particular, any future acquisition of a third party dealership would entail additional risks, including:

- the loss of key employees or customers of the acquired entity;
- incorrect valuation of the acquired entities, or undiscovered or unanticipated liabilities related to the acquired entities;
- failure to effectively integrate the acquired entity into our existing network;
- our ability to maintain the acquired entities' existing relationships with automobile manufacturers; and
- a prolonged diversion of our management time and attention from our existing business and operations.

Should any of the risks in relation to our expansion plan occur, or if we fail to realize anticipated benefits or synergies from any acquisition, our business, results of operations, financial condition and growth prospects could be materially and adversely affected.

Our business and financial performance depend on our ability to manage our inventory effectively.

Our business and financial performance depend on our ability to maintain a reasonable level of inventory of automobiles, spare parts and automobile accessories at our dealership stores. Our dealership stores generally order their inventory on a monthly basis and plan their inventory purchases for each month based on an annual non-binding sales target set by the relevant automobile manufacturer at the beginning of each year. The monthly purchases made by each store are adjusted by taking into account its existing inventory levels, expected customer demand, projected sales trends and expected delivery times for different automobile models. Our average inventory turnover days in 2009, 2010 and 2011 were 30.1 days, 30.1 days and 34.4 days respectively. If we overstock inventory, we may be required to increase our working capital and incur additional financing costs. If we understock inventory, we may not be able to satisfy demand of our customers, which may cause us to forgo revenue and adversely affect our reputation.

We may not be able to obtain adequate financing on commercially reasonable terms on a timely basis or at all. Any future debt financing may contain covenants that restrict our business or operations.

We require significant working capital to purchase the automobiles and spare parts inventory required by the operations of our dealership stores. In addition, we require capital to establish and, to the extent applicable, acquire new dealership groups, upgrade our existing dealership stores, procure land use rights and upgrade our information technology systems. We expect our funding needs to increase as our inventory level and prepayments for automobiles and spare parts increase due to the addition of new dealership stores and as we upgrade and refurbish our existing stores.

Historically, we generally relied on bank loans and other external financing as well as cash generated from our operations to fund our operations and expansion. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as other factors beyond our control, including the global and PRC economies, interest rates, applicable laws, rules and regulations and the conditions of the PRC automobile market and the geographical regions where we operate. There can be no assurance that the cash flow generated by our operations will be sufficient to fund our future operations and expansion plans, nor can we assure you that we will be able to obtain bank loans and other external financing on a commercially reasonable, timely basis or at all. If we are unable to obtain financing in a timely manner, at a reasonable cost, on commercially reasonable terms or at all, our business and operations may suffer and the implementation of our expansion plans may be delayed.

We depend on key individuals of our senior management team and our ability to attract, train, motivate and retain an adequate number of skilled personnel.

Our success is, to a significant extent, attributable to the leadership of our senior management team, in particular, our chairman and executive director Mr. Yang Aihua and our executive directors Mr. Yang Hansong and Mr. Yang Zehua. If for any reason the services of any of these individuals were to become unavailable, and we were unable to find any suitable replacement on a timely basis, our business, operations and prospects may be adversely affected.

We also depend on our ability to attract, train, motivate and retain an adequate number of skilled personnel, including our dealership store managers, customer service and sales personnel and automotive engineers and technicians, for the performance and continued success of our business. Due to the strong growth in the PRC economy and the PRC automobile industry, competition for such personnel is increasingly intense. There is no assurance that we will be able to attract, train, motivate and retain the necessary personnel to grow and develop our business, continue to deliver high quality sales or customer services or appropriately staff new dealership stores. Our business, operations and growth plans may be materially and adversely affected if we fail to attract and retain the skilled personnel we need.

We have not obtained valid titles or rights to use certain properties or the required permits for construction and development on certain properties occupied by us.

The properties we occupy primarily comprise dealership stores, repair centers, warehouses and ancillary buildings. Any dispute or claim in relation to the title to the properties we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, may result in our having to relocate operations therefrom and may materially and adversely affect our operations, financial condition, reputation and future growth. In addition, the PRC Government could amend or revise existing property laws, rules or regulations to require additional approvals, licenses or permits, or to impose stricter requirements on us to obtain or maintain relevant title certificates for the properties that we occupy.

We have not obtained valid titles or rights to use certain properties or the required permits for construction and development on certain properties we occupy. See "Business—Properties" for more information. The revenue generated from the dealership stores and one repair center located on the properties we lease with defects in title was RMB2,159.5 million, RMB3,330.7 million and RMB4,332.6 million (US$688.4 million) and accounted for approximately 41.8%, 43.2% and 36.1% of our total revenues in 2009, 2010 and 2011, respectively. In addition, the revenue generated from the dealership stores located on the defective properties for which we have obtained confirmation from the relevant government authorities with respect to our operating of dealership stores thereon was RMB1,536.5 million, RMB2,295.5 million and RMB2,856.6 million (US$453.9 million) and accounted for approximately 29.8%, 29.7% and 23.8% of our total revenues in 2009, 2010 and 2011, respectively. If any of our leases are terminated as a result of challenges from third parties or not renewed by our landlords upon expiration, we may need to seek alternative premises and incur relocation costs. Any such relocation could disrupt our operations and adversely affect our results of operations and financial position.

Any automobile recall could have a negative impact on our results of operations, financial condition and growth prospects.

Our automobile manufacturer partners have conducted recalls of their automobiles from time to time as a result of defects or other problems with their products. See "Business—After-Sales Services—Automobile Recalls." We have been advised by Jingtian & Gongcheng, our PRC legal advisors, that we are not liable under PRC laws and regulations for product defects of automobile manufacturers and, under our existing dealership arrangements, we are entitled to be compensated by automobile manufacturers for the repair services we undertake in connection with any automobile recall. However, automobile recalls may have a material adverse effect on customers' confidence in the quality and safety of the affected automobile brands and the reputation and image of the relevant automobile manufacturers, which could in turn reduce demand for particular automobile brands or models we offer. Any future automobile recall by our automobile manufacturer partners could have a negative impact on our sales which could adversely affect our results of operations, financial condition and growth prospects.

Our insurance coverage may be inadequate to protect us from certain types of losses.

We carry insurance covering risks including loss and theft of and damage to our properties such as our fixed assets and inventories in our dealership stores, and losses due to fire, flood and a broad range of other natural disasters excluding earthquakes. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business, nor do we maintain any insurance coverage for business interruption due to the limited coverage of any business interruption insurance in the PRC. Significant uninsured damage to any of our properties, inventories or other assets, whether as a result of fire or other causes, could have a material and adverse effect on our results of operations and financial condition.

We depend on our information technology systems.

We depend on a reliable information technology, or IT, system to manage various aspects of our business. We are in the process of implementing a centralized enterprise resource planning, or ERP, system, and intend to roll out additional IT upgrades in 2012. As our centralized ERP system is relatively new, we may experience problems in its implementation that cause disruptions to our operations. As we implement future upgrades, we may also encounter software and hardware failures that disrupt our operations. Any failure of our information technology system and/or loss of data could have a material adverse effect on our business and operations.

Our business is subject to seasonal fluctuation.

We experience seasonal fluctuations in our business and results of operations. Automobile sales are generally slower in the first half of each year due to store closures during major holidays in China, including the Chinese New Year holidays in January or February and the Labor Day holidays in May. As a result, comparisons of our sales and results of operations between different semi-annual periods within a single fiscal year or in different fiscal years are not necessarily meaningful and should not be relied as indicators of our performance for any future fiscal period.

Risks Relating to Our Industry

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

The PRC automobile dealership industry is competitive. Market practice allows automobile manufacturers to grant non-exclusive dealership rights in the same geographical area. As a result, in many of our markets we compete with dealerships that offer competing brands of automobiles as well as dealerships that sell the same brands and models as we do. Our business is also affected by competition among automobile manufacturers in terms of quality, design and price. We also compete with independent repair shops and auto parts retail centers in after-sales services and spare part sales. We believe that dealership stores in the PRC compete for customers on the level of customer services, inventory of automobiles, capabilities of sales personnel, management personnel, automotive engineers and technicians and on the prices of their automobiles. Increased competition among automobile manufacturers and dealerships in the PRC automobile industry could adversely impact our market share, decrease our revenues and profits and adversely affect our growth prospects.

In addition, new market participants may enter the automobile dealership business, which could intensify competition and adversely affect our business and results of operations. Any changes in the regulation of the automobile dealership industry could allow new market participants to enter the industry more easily.

The global economy is facing significant risks from the ongoing economic crisis in various developed countries, which may adversely affect the PRC economy and our business and results of operations.

Recent global market and economic conditions, including the ongoing credit crisis in Europe, the adverse economic conditions and outlook in the United States and heightened market volatility in major stock markets, have been extremely challenging. Persistent concerns regarding a potentially long-term and widespread recession, geopolitical issues, the availability and cost of credit and consumer spending in major economies have contributed to reduced consumer confidence and spending and diminished expectations for economic growth around the world. In addition, there have also been concerns over strikes in Europe and unrest in the Middle East and Africa, which have resulted in significant market volatility. The PRC economy relies significantly on its exports and any significant economic downturn, in particular a prolonged recession in Europe, the United States or other major economies, could have a material adverse effect on the PRC economy.

We derive all of our revenues in the PRC. Any slowdown in the PRC economy may adversely affect demand for our automobiles and after-sales services and could result in:

- a significant reduction in customer demand for our automobile and after-sales services, which reduces our revenues and profit margins;
- a significant reduction in the availability of automobile financing, which would also reduce customer demand for automobiles;
- increased price competition for automobiles and after-sales services;
- risk of excess and obsolete inventory;
- difficulty in accurately forecasting the demand for automobiles and after-sales services;
- insolvency or credit difficulties of our customers or their insurance carriers, which could limit their ability to pay for our after-sales services; and
- insolvency or credit difficulties of our automobile manufacturer partners, which could disrupt the supply of automobiles or spare parts or increase our inventory costs.

Any of the foregoing developments could have a material adverse effect on our business, results or operations, financial conditions and business expansion plans.

If there is any further fiscal or credit tightening by the PRC Government, demand for our automobiles and after-sales services, as well as our access to external financing, may decrease.

The PRC Government has increased the capital reserve ratios of PRC banks and raised interest rates multiple times since early 2010 in an attempt to control credit growth and inflation in the PRC. Demand for our automobiles and after-sales services may decrease if there is any further fiscal or credit tightening by the PRC Government which reduces business or consumer spending. Many customers rely on automobile financing to fund their automobile purchases. If the PRC Government implements any credit tightening measures that restrict the availability of automobile financing, our sales may be adversely affected. Furthermore, the availability and cost of funding to entities, such as ourselves, in the PRC, are significantly influenced by the fiscal policies of the PRC Government and the availability of credit and liquidity in the PRC banking system. Historically, we have relied in part on bank and other borrowings to fund our purchases of the automobiles and spare parts sold in our stores and our network expansion. If the PRC Government were to implement any further fiscal or credit tightening measures, our access to such borrowing and other types of financing may be reduced or otherwise restricted which could adversely affect our liquidity and our ability to fund our inventory purchases and our planned network expansion. We may also experience higher borrowing costs and a tightening of credit terms. As a result of any of the foregoing, our results of operations, financial condition and prospects may be materially and adversely affected.

Higher fuel prices, stricter fuel economy and emission standards and higher fuel-related taxes on automobile consumption may reduce the demand for automobiles.

The price of gasoline in the PRC, despite the subsidies given by the PRC Government, has been rising steadily in recent years. Continued increases in fuel prices may induce customers to switch to more fuel efficient vehicles or opt for alternatives to automobiles, such as public transportation or bicycles. Such shifts in customer preferences may adversely affect our sales of certain types of automobiles, particularly in the mid-to-upper market. Reduced automobile usage may decrease demand for and frequency of maintenance and repair services for such automobiles, which may have an adverse effect on our after-sales business.

The PRC Government may implement stricter fuel economy and emission standards for automobiles sold in the PRC, which may raise manufacturing and distribution costs for automobile manufacturers and lead to higher pricing guidelines on their automobiles that negatively impact demand. These standards tend to have a greater impact on more expensive, luxury brand automobiles, which tend to be less fuel efficient.

The PRC Government adopted an automobile consumption tax in 1994. The applicable tax rates on automobiles with large cylinder capacities were increased on September 1, 2008. The new policy lowered the personal automobile consumption tax rate for vehicles with the smallest engine displacement capacity, under 1.0 liter, from 3% to 1%, but increased the tax rate on vehicles with larger engine displacements. In particular, the tax rate on vehicles with engine displacement between 3.0 and 4.0 liters was increased from 15% to 25%, and the tax rate on vehicles with engine displacement above 4.0 liters was increased from 20% to 40%.

Certain of the automobiles we sell have larger engine displacement capacity and are subject to the higher automobile consumption taxes, which make those automobiles purchases more expensive for buyers.

The PRC Government could implement stricter fuel economy and emission standards, higher automobile consumption tax rates for automobiles with larger engine displacement capacity, or impose additional restrictions or taxes. Any such measures may cause our sales to decline and adversely affect our revenues.

We operate in a highly regulated industry, and any failure by us to comply with applicable laws, rules or regulations, or to obtain or maintain necessary approvals, licenses and permits, may adversely affect our business and operations and subject us to fines and other penalties.

We operate in a highly regulated industry. We are required to maintain various approvals, licenses and permits for our operations, including automobile maintenance and repair licenses, automobile insurance agent licenses and road transportation licenses. We are required to file with the State Administration of Industry and Commerce of the PRC ("SAIC") and be included in the list announced by SAIC from time to time under the Notice Relating to Announcement of Name List of Branded Automobile Sales Enterprises issued by SAIC. Any failure by us to comply with applicable laws, rules or regulations, or to obtain or maintain necessary approvals, licenses and permits, may adversely affect our business or operations and subject us to fines and other penalties.

Anti-congestion regulations and ordinances of certain Chinese cities may restrict local demand for automobiles.

To curb urban traffic congestion, certain Chinese cities have adopted urban regulations and ordinances that limit new automobile registration or restrict automobile use. Both Shanghai and Beijing impose quotas on the number of new automobile registrations permitted each month. In Shanghai, rights to new registrations are auctioned to the highest bidders, which may add to the cost of new automobile purchases. These and any future anti-congestion ordinances in the markets where we operate may restrict the ability of potential customers to purchase automobiles and in turn reduce customer demand for automobiles. Should similar ordinances be adopted in other cities where we operate, or if existing regulations become stricter, our sales in those cities may be adversely affected.

Risks Relating to Conducting Business in the PRC

Changes in PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

All of our business and operations are conducted in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to economic, political and social developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC Government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC Government. In addition, the PRC Government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC Government also exercises significant control over the PRC economic growth through allocation of resources, controlling payment of foreign currency-denominated, obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While PRC economy has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC Government has also recently implemented certain measures, including recent interest rate increases, in an attempt to control the rate of economic growth. These measures may decrease economic activities in the PRC, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are primarily conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. Since the late 1970s, the PRC Government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

In addition, the PRC Government could amend or revise existing laws, rules or regulations to require additional approvals, licenses or permits, or to impose stricter requirements or conditions for the approvals, licenses or permits required for our business and operations. Any loss of or failure to obtain or renew our approvals, licenses or permits could disrupt our operations, subject us to fines or penalties imposed by the PRC Government. The PRC Government could also amend or revise existing laws, rules or regulations, or promulgate new laws, rules or regulations, that have a material adverse effect on our business, operations, growth or prospects.

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

Under the PRC Enterprise Income Tax Law ("EIT Law"), the profits of a foreign invested enterprise which are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and the PRC, such rate will be lowered to 5% if a Hong Kong resident enterprise owns over 25% of the PRC company. However, the 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under relevant taxation treaties. However, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, PRC tax authorities have the discretion to adjust the tax rate enjoyed by the relevant offshore entity. We cannot assure you that the PRC tax authorities will determine that the 5% tax rate applies to dividends received by our subsidiary in Hong Kong from our PRC subsidiaries, nor that the PRC tax authorities will not levy a higher withholding tax rate on such dividends in the future.

Under the EIT Law, we may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavorable tax consequences to us.

Under the EIT Law, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementation rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. As no official interpretation or application of this new "resident enterprise" classification is currently available, the status and tax treatment of an enterprise registered outside the PRC in accordance with foreign laws and with a PRC individual as a controlling shareholder are unclear.

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

Failure by our shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under the PRC laws.

The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicles and Round-Trip Investment in the PRC by Domestic Residents ("SAFE Circular") requires PRC residents with direct or indirect offshore investments, including overseas special purpose vehicles, to file a Registration Form of Overseas Investments Contributed by Domestic Individual Residents and register with SAFE, and to update SAFE's records within 30 days of any major changes in capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. Failure to register may result in the prohibition of distributions or contributions from capital reductions, share transfers or liquidations, from PRC entities to the relevant offshore entity in which the PRC resident has a direct or indirect investment.

Due to the uncertainty concerning the reconciliation with other approval requirements, it remains unclear how the SAFE Circular and any future legislation concerning offshore or cross-border transactions will be interpreted, amended and implemented by the PRC Government. We have been advised by our PRC shareholders that they have completed their registration with SAFE and have updated the registration upon our listing on the Hong Kong Stock Exchange. Any failure by our relevant PRC shareholders to update their registration with SAFE may result in the prohibition of distributions, share transfers, or liquidations of our PRC subsidiaries, and may affect our ownership structure, acquisition strategy and business operations.

Government control over currency conversion may limit our ability to utilize our cash effectively.

Substantially all of our revenue is denominated in Renminbi. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our corporate structure, our revenue is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies.

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

Almost all of our assets are located in the PRC. In addition, most of our directors and senior management reside within the PRC, and the assets of our directors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of our directors and senior management, including matters arising under applicable securities laws. Moreover, a judgement of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgements of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements.

However, the PRC does not have treaties providing for the reciprocal enforcement of judgements of courts with Japan, the United Kingdom, the United States and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgements with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgements of courts in some jurisdictions is uncertain.

The state of the PRC's political relationships with other countries may affect the performance of our business.

We retail automobiles, spare parts, automobile accessories and other automobile-related products supplied by a number of automobile manufacturers and suppliers that either have operations in Germany, India, the United States, Japan and South Korea or that are otherwise closely associated with these countries.

The PRC's political relationships with other nations, particularly those connected or associated with automobile manufacturers or suppliers, may affect both the supply and demand for the relevant automobile manufacturers' or suppliers' products. PRC consumers might alter their brand preferences based on the state of political relations between the PRC and the automobile manufacturers' or suppliers' real or perceived countries of origin. Any relevant political dispute and adverse response to it by PRC automobile consumers may cause a decline in our revenues and profits and materially and adversely affect our financial condition, results of operations and prospects for growth.

Risks Relating to the Presentation of Certain Information in this Document

This document contains industry and market descriptions, estimates, projections and statistical data, some of which were obtained from Euromonitor, an independent consulting firm. All such data and other information are only estimates, are not representations of fact and their accuracy and completeness are subject to significant risks and uncertainties, and you should not place undue reliance on such data and other information.

We engaged Euromonitor International ("Euromonitor") in connection with our listing on the Hong Kong Stock Exchange to conduct an analysis and provide us with a report regarding the markets in which we operate, including data and other information regarding PRC and global passenger vehicle market, as well as market positions and market shares in these markets. The data and other information, including descriptions of our beliefs and expectations, regarding such matters contained in this document, including in the section entitled "Industry Overview," are derived from the data and other information provided by Euromonitor. In considering this data and other information, you should be aware that this Euromonitor data and other information are subject to significant risks and uncertainties, including the following:

- Most of the Euromonitor data and other information is not available from governmental or other official or publicly available sources. We understand that Euromonitor's methodology in preparing its report consisted of primary and secondary research, including interviews with automobile manufacturers, automobile dealerships, industry experts, review of specialized trade press, government statistics, reports and databases, and use of Euromonitor's internal data.

- The Euromonitor data and other information includes forecasts and projections that are based on a number of assumptions, all of which are subject to significant uncertainties. Any of such forecasts and projections and the underlying assumptions may prove to be incorrect, which could adversely affect our industry and markets as well as our business, financial results and prospects.

- The Euromonitor data and other information included in this document are based on Euromonitor's research conducted as of the date of its report to us, which is November 25, 2011. The data and other information on which Euromonitor's research was based, including historical data and other information regarding our markets and competitive position, could have changed materially after that date and could change in the future due to any additional research conducted by Euromonitor, changes in the historical information and sources on which Euromonitor's research was based, and other factors. Therefore, the results of any future research or other analyses of our historical markets and competitive position could differ materially from the information presented in this document.

- All of the Euromonitor data and other information included in this document are only estimates and are not representations of fact, and their accuracy and completeness are subject to significant risks and uncertainties.

None of we, or any of our affiliates or advisers has verified the accuracy of the data or other information provided by Euromonitor. If any of the Euromonitor data or other information proves to be incorrect, the industry and markets in which we operate, as well as our business, financial results, market position and prospects, could differ materially and adversely from the descriptions contained in this document. Accordingly, you should not place undue reliance on such data or other information.

Certain facts and statistics in this document relating to the PRC, the PRC economy and certain industries in the PRC are derived from various publicly available government or official sources and may not be fully reliable.

Certain facts and statistics in this document relating to the PRC, the PRC economy, the total and urban population of the PRC, the transportation and infrastructure industries of the PRC and other related sectors of the PRC are derived from various government or official publications and obtained in communications with various official agencies which are generally believed to be reliable. However, we cannot guarantee the quality or reliability of such official source materials. Moreover, to the extent that different assumptions and procedures were applied in the preparation of various sets of statistics, comparisons between such sources may be unreliable. Neither we nor any of our affiliates or advisors have verified the accuracy of the information received from such sources. We make no representation as to the accuracy of such facts and statistics from official sources, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly inadequate or ineffective collection methods or discrepancies between published information and market practice and other problems, the official statistics in this document relating to the PRC, the PRC economy, the total and urban population of the PRC, the transportation and infrastructure industries of the PRC and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. In addition, given that government or official sources for certain year-end statistical data of the PRC are not available in officially published form until the second half of the following year, such data are included in this document to the extent available in officially published form at the date of this document and may not reflect developments, if any, since the most recent date of publication in the immediate past year. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as may be the case in other countries. Accordingly, you should not place undue reliance on such official facts or statistics.

CAPITALIZATION

The following tables set forth our consolidated cash and cash equivalents, bank loans and other borrowings, and capitalization as of December 31, 2011. This table should be read in conjunction with our consolidated financial statements, including the notes thereto, included elsewhere in this document.

	As of December 31, 2011	
	Actual	
	RMB'000	US$'000
Cash and cash equivalents	2,884,038	458,227
Current liabilities		
Bank loans and other borrowings	2,341,021	371,951
Non-current liabilities		
Bank loans and other borrowings	29,800	4,735
Capital and reserves attributable to owners of the parent		
Share capital	20,604	3,274
Reserves	2,997,149	476,199
	3,017,753	479,473
Non-controlling interests	36,072	5,731
Total equity	3,053,825	485,204
Total capitalization[1]	3,083,625	489,939

Note:

(1) Represents the sum of non-current liabilities and total equity.

Other than the drawdown and repayment of bank loans and other borrowings in the normal course of business, there have been no material changes in our borrowings and capitalization since December 31, 2011.

SELECTED COMBINED AND CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary financial data as of and for the fiscal years ended December 31, 2009 and 2010 is derived from our audited combined financial information included elsewhere in this document. The summary financial data as of and for the fiscal year ended December 31, 2011 is derived from our audited consolidated financial statements included elsewhere in this document. Our combined financial information and consolidated financial statements have been audited by Ernst & Young, Certified Public Accountants. Our past operating results are no guarantee of our future operating performance. Our combined and consolidated financial statements are prepared and presented in accordance with HKFRS. For a summary of our significant accounting policies and the basis of the presentation of our financial statements, you should refer to the notes to our audited combined and consolidated financial statements included elsewhere in this document.

You should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our combined and consolidated financial statements and the related notes, included elsewhere in this document.

Income Statements

	Year Ended December 31,			
	2009	**2010**	**2011**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
Revenue	5,164,730	7,716,564	12,010,929	1,908,344
Cost of sales and services provided	(4,726,644)	(7,028,566)	(10,721,181)	(1,703,424)
Gross profit	438,086	687,998	1,289,748	204,920
Other income and gains, net	26,965	37,482	93,756	14,896
Selling and distribution costs	(133,756)	(177,100)	(256,629)	(40,774)
Administrative expenses	(68,596)	(90,985)	(166,977)	(26,530)
Profit from operations	262,699	457,395	959,898	152,512
Finance costs	(26,033)	(48,378)	(128,397)	(20,400)
Share of (loss)/profit of a jointly-controlled entity	(33)	2,907	5,372	854
Profit before tax	236,633	411,924	836,873	132,966
Tax	(60,788)	(104,266)	(221,041)	(35,120)
Profit for the year	175,845	307,658	615,832	97,846
Attributable to:				
Owners of the parent	174,756	303,940	601,905	95,633
Non-controlling interests	1,089	3,718	13,927	2,213
	175,845	307,658	615,832	97,846

Statements of Financial Position

	As of December 31,			
	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	US$'000
Non-current assets				
Property, plant and equipment	409,274	520,707	798,995	126,948
Land use rights	72,638	327,938	174,624	27,745
Intangible assets	—	—	2,219	353
Prepayments	2,171	7,554	16,042	2,549
Interest in a jointly-controlled entity	4,967	7,874	13,246	2,105
Deferred tax assets	5,782	6,549	8,065	1,281
Total non-current assets	494,832	870,622	1,013,191	160,981
Current assets				
Inventories	420,165	737,953	1,284,159	204,032
Trade receivables	41,736	42,847	125,504	19,941
Prepayments, deposits and other receivables	478,905	897,726	2,022,874	321,402
Amounts due from a jointly-controlled entity	1,000	33,900	37,835	6,011
Pledged bank deposits	163,623	276,149	399,416	63,461
Cash in transit	17,423	14,022	13,383	2,126
Cash and cash equivalents	212,793	384,476	2,884,038	458,227
Total current assets	1,335,645	2,387,073	6,767,209	1,075,200
Current liabilities				
Bank loans and other borrowings	547,988	807,339	2,341,021	371,951
Trade and bills payables	327,593	589,645	1,174,914	186,675
Other payables and accruals	170,324	164,375	346,494	55,052
Amount due to related parties	148,814	5,385	626,680	99,569
Income tax payable	69,804	152,713	199,131	31,639
Total current liabilities	1,264,523	1,719,457	4,688,240	744,886
Net Current Assets	71,122	667,616	2,078,969	330,314
Total assets less current liabilities	565,954	1,538,238	3,092,160	491,295

	As of December 31,			
	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	US$'000
Non-current liabilities				
Bank loans and other borrowings.	—	—	29,800	4,735
Deferred tax liabilities	—	—	8,535	1,356
Total non-current liabilities. . . .	—	—	38,335	6,091
Net Assets	565,954	1,538,238	3,053,825	485,204
Equity				
Equity attributable to owners of the parent				
Share capital.	—	—	20,604	3,274
Reserves	562,234	1,465,573	2,997,149	476,199
Non-controlling interests.	3,720	72,665	36,072	5,731
Total equity.	565,954	1,538,238	3,053,825	485,204

Other Financial Data

	Year Ended December 31,			
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
EBITDA[1]	294,047	499,802	1,020,231	162,097
EBITDA margin[2]	5.7%	6.5%	8.5%	8.5%

Notes:

(1) We define EBITDA for any year as profit for the year less interest income and share of profit or loss of a jointly-controlled entity and plus interest expense, taxation, depreciation and amortization. EBITDA is not a standard measure of our financial condition or liquidity under HKFRS. EBITDA should not be considered in isolation or construed as an alternative to profit or any other performance measures derived in accordance with HKFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to our profit in measuring our operating performance. Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. The following provides a reconciliation of profit for the year to EBITDA:

	Year Ended December 31,			
	2009	**2010**	**2011**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
Profit for the year	175,845	307,658	615,832	97,846
Interest expense	26,033	48,378	128,397	20,400
Interest income	(2,509)	(2,345)	(5,809)	(923)
Share of loss/(profit) of a jointly-controlled entity	33	(2,907)	(5,372)	(854)
Amortization	1,658	2,098	3,326	528
Tax	60,788	104,266	221,041	35,120
Depreciation	32,199	42,654	62,816	9,980
EBITDA	294,047	499,802	1,020,231	162,097

(2) EBITDA margin represents EBITDA as a percentage of revenue.

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

The following discussion should be read in conjunction with our audited combined and consolidated financial statements, together with the accompanying notes. Our combined and consolidated financial statements have been prepared in accordance with HKFRS. The following discussion contains certain forward-looking statements that involve risks and uncertainties and, accordingly, you should not place undue reliance on any such statements.

OVERVIEW

According to Euromonitor, we are a leading luxury 4S dealership group in China in terms of sales volume and number of dealership stores for BMW with a rapidly growing ultra-luxury dealership business. As of December 31, 2011, we had a well-established network of 33 dealership stores, comprising 30 formally launched dealership stores and three additional dealership stores which were in trial operations. Twenty-three of these stores were luxury and ultra-luxury brand stores. We have received manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. All of our 4S dealership stores are strategically located in populous and affluent regions in China with rapidly growing economies. Each of our 4S dealerships is designated to sell one brand of automobiles. Our strong brand portfolio includes luxury brands such as BMW, MINI, Audi, and Cadillac, ultra-luxury brands such as Land Rover & Jaguar, and other popular mid-to-upper market brands, such as Buick, Toyota, Honda, Nissan, Volkswagen, Chevrolet and Hyundai. Sales of luxury and ultra-luxury brand automobiles in our stores have contributed to an increasing percentage of our revenue and gross profit from automobile sales in the past three years, accounting for 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.9%, 87.8% and 94.2% of our gross profit from automobile sales, in 2009, 2010 and 2011, respectively. We also provide a wide range of after-sales services and products to our customers including repair, maintenance, customization and styling services, spare parts, other automobile related products and sales-related agency services. We believe that our strong brand portfolio enables us to capture opportunities to expand in the PRC market.

Since we commenced operation in 1999, we have established a proven track record in building and operating successful, high quality dealership stores. We opened one of the first BMW Brilliance authorized 4S dealership stores in China in 2004 and have since become one of BMW's most important and largest dealerships in China in terms of 2010 sales volume. In 2011, China was the third largest market for BMW in terms of sales volume and the fastest growing of its three largest markets worldwide, according to BMW's 2011 annual report. Average sales volume per store of our Comparable Stores for Automobile Sales of luxury and ultra-luxury brands grew by 25.0% from 1,624 units in 2009 to 2,030 units in 2010 and by a further 1.8% to 2,067 units in 2011. Average revenue from automobile sales per store of these stores grew by 26.0% from RMB771.8 million in 2009 to RMB972.6 million in 2010 and by a further 4.2% to RMB1,013.0 million in 2011. Average revenue from after-sales business per store of our Comparable Stores for After-Sales Business in the luxury and ultra-luxury market grew by 15.1% from RMB86.8 million in 2009 to RMB99.9 million in 2010 and increased by 15.4% to RMB114.6 million in 2011, and the gross profit margin of our Comparable Stores for After-Sales Business for luxury and ultra-luxury brands was 47.6% in 2009, 48.2% in 2010 and 47.5% in 2011.

We have rapidly expanded our network since early 2009 by increasing the number of our dealership stores from 13 as of January 1, 2009 to 33 as of December 31, 2011. As of December 31, 2011, over 56.5% of our luxury and ultra-luxury 4S dealership stores had been operating for less than one year. As our newer stores continue to ramp up their operations, we expect the growth in the number of stores to continue.

We recorded significant growth in our revenues and profits during the past three years ended December 31, 2011. The following table sets out a breakdown of our revenue for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Revenue	Contribution	Revenue	Contribution	Revenue	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Revenue							
Revenue from automobile sales							
Luxury and ultra-luxury brands	3,336,666	70.6	5,583,995	77.9	9,632,667	1,530,477	85.6
Mid-to-upper market brands	1,392,256	29.4	1,584,111	22.1	1,622,279	257,754	14.4
Sub-total	4,728,922	100.0	7,168,106	100.0	11,254,946	1,788,231	100.0
Revenue from automobile sales	4,728,922	91.6	7,168,106	92.9	11,254,946	1,788,231	93.7
Revenue from after-sales business	435,808	8.4	548,458	7.1	755,983	120,113	6.3
Total Revenue	5,164,730	100.0	7,716,564	100.0	12,010,929	1,908,344	100.0

The following table sets out a breakdown of our gross profits and gross profit margins for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Automobile Sales							
Luxury and ultra-luxury brands	190,567	5.7	375,165	6.7	870,062	138,239	9.0
Mid-to-upper market brands	45,070	3.2	52,230	3.3	53,313	8,471	3.3
Sub-total	235,637	5.0	427,395	6.0	923,375	146,710	8.2
After-Sales Business							
Luxury and ultra-luxury brands	131,397	47.3	181,459	47.5	260,781	41,434	47.7
Mid-to-upper market brands	71,052	45.0	79,144	47.6	105,592	16,777	50.4
Sub-total	202,449	46.5	260,603	47.5	366,373	58,211	48.5
Total	438,086	8.5	687,998	8.9	1,289,748	204,921	10.7

BASIS OF PRESENTATION

This document includes our combined financial information for the years ended December 31, 2009 and 2010 and our consolidated financial statements for the year ended December 31, 2011.

Through the Reorganization conducted in preparation for the public listing of our shares on the Main Board of Hong Kong Stock Exchange in December 2011, we became the holding company of the companies now comprising the Group on August 4, 2011. Since the Controlling Shareholder control the Group before and after the Reorganization, the Reorganization is accounted for as a reorganization under common control using the principles of merger accounting in accordance with Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The combined financial information of the Group for the years ended December 31, 2009 and 2010 and the related notes thereto have been presented in these financial statements on the principle of merger accounting such that our Company was treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on August 4, 2011. Upon completion of the Reorganization on August 4, 2011, the consolidated financial statements of the Group for the year ended December 31, 2011 and the related notes thereto have been presented in these financial statements as our Company together with its subsidiaries could be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ended December 31, 2011.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Demand for Luxury and Ultra-luxury Brand Automobiles in the PRC

Our results of operations are affected by the demand for luxury and ultra-luxury automobiles and, to a lesser extent, by the demand for mid-to-upper market brand automobiles in the PRC. The rapid growth of the PRC economy has led to accelerated urbanization, increased living standards and higher per capita disposable income, which have in turn driven demand for automobiles in the PRC. Furthermore, the consumption of more expensive branded lifestyle products, including luxury and ultra- luxury automobiles, have also increased significantly.

Our Dealership Network

Our sales of new automobiles are directly affected by the number, locations, maturity and business performance of our dealership stores. To capture more of the increasing demand for luxury, ultra-luxury and mid-to-upper market automobiles, we have rapidly expanded our dealership network through organic growth in the past three years.

Our dealership stores are strategically located in populous and affluent areas in the PRC with rapidly growing economies. The main regions where we operate, namely, Shanghai, Jiangsu, Zhejiang, Tianjin, Shandong and Liaoning, all ranked in the top ten in terms of per capita gross domestic product ("GDP") in China in 2011. Our presence in these areas differentiates us from competitors who operate in less developed regions. We believe that, due in part to their advantageous locations, we have generally been able to achieve relatively high per store sales revenues and our newly-established stores have generally been able to ramp up their sales during their first year of operation.

For example, we opened two new luxury brand stores during the second half of 2010 (excluding Shenyang Xinbaohang Automobile Sales & Services Co., Ltd. ("Shenyang Xinbaohang"), a jointly-controlled entity the revenues and sales volume of which are not included in our combined revenues and sales volume).

The combined automobile sales revenues of our two stores opened in 2010 increased from RMB217.9 million in 2010 to RMB921.2 million (US$146.4 million) in 2011 and contributed to 3.0% and 8.2% of our revenue from automobile sales in 2010 and 2011, respectively. The combined revenue from after-sales business of these two stores grew from RMB1.2 million in 2010 to RMB28.1 million (US$4.5 million) in 2011 and accounted for 0.2% and 3.7% of our revenue from after-sales business in 2010 and 2011, respectively.

The following table demonstrates the growth in our store network over the past three years:

	As of December 31,					
	2009		2010		2011	
Brand	Number of Stores	Increase	Number of Stores	Increase	Number of Stores	Increase
		%		%		%
Luxury and ultra-luxury brands . . .	7	133.3	10	42.9	23	130
Mid-to-upper market brands	10	—	10	—	10	—
Total	17	30.8	20	17.6	33	65

A substantial majority of our existing and planned stores are located in provincial, sub-provincial and prefectural cities, as opposed to county cities and less developed areas. In addition, our newly-established stores have generally started to achieve our expected automobile sales levels in their second year of operation. Accordingly, we view the revenues and gross profits from automobile sales of our dealership stores that are located in a provincial, sub-provincial or prefectural city and have been in operation for at least 12 months as a useful measure for evaluating our performance in automobile sales. This measure excludes those of our dealership stores which are located in county cities and less developed areas. We have only one store (Changshu Baoxin Automobile Sales & Service Co., Ltd., "Changshu Baoxin") which falls into this latter category and has been in operation for at least 12 months.

The after-sales revenues of our newer dealership stores typically have achieved our expected levels during their third year of operation as there is usually a time lapse between the automobile purchases and the demand for maintenance and repair services. Accordingly, we view the revenues and gross profits from our after-sales business of our dealership stores that have been in operation for at least 24 months as a useful measure for evaluating the performance of our after-sales business. Due to the timing of our new store openings, Comparable Stores for After-Sales Business during the three years ended December 31, 2011 do not include any of the dealership stores opened since January 1, 2009.

We believe that our network expansion during the three years ended December 31, 2011 led to certain synergies among our stores which improved our financial performance in recent years. As a result of the increase in the number of our dealership stores, (1) we were able to better manage our automobile inventory by re-allocating automobiles of the same brand among different stores in the same region according to demand, which improved our sales performance, and (2) we were able to aggregate purchases of certain automobile accessories and other products to lower our related purchase costs. We believe that our high operating standards and service quality may enable us to maximize the incentive rebates that we receive under prevailing manufacturers' rebate policies.

Product and Service Mix

We offer a diversified portfolio of luxury, ultra-luxury and mid-to-upper market automobile brands, which bear different gross margins. Changes in the mix of automobile brands and automobile models that we sell and the relative contribution of our after-sales business to our revenue affect our gross margins. Our gross profit margin increased from 8.5% in 2009 to 8.9% in 2010 and 10.7% in 2011. Sales of luxury and ultra-luxury automobiles have accounted for an increasing percentage of our revenue and gross profit over the past three years, accounting for 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.9%, 87.8% and 94.2% of our gross profit from automobile sales, in 2009, 2010 and 2011, respectively. As of December 31 2011, 23 out of 33 of our dealership stores were dedicated to the sales of luxury and ultra-luxury brands. During the past three years, our sales of luxury and ultra-luxury brand automobiles have resulted in higher gross margins than our sales of mid-to-upper market automobile brands. As a result of our increased sales of luxury brand automobiles during the past three years ended December 31, 2011, our overall profit margins for automobile sales have increased over the same period.

The following table sets out a breakdown of our revenue from the sales of automobiles and the relative percentage contribution of each automobile category for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Revenue	Contribution	Revenue	Contribution	Revenue	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Automobile Sales							
Luxury and ultra-luxury brands. . . .	3,336,666	70.6	5,583,995	77.9	9,632,667	1,530,477	85.6
Mid-to-upper market brands	1,392,256	29.4	1,584,111	22.1	1,622,279	257,754	14.4
Total	4,728,922	100.0	7,168,106	100.0	11,254,946	1,788,231	100.0

The following table sets out a breakdown of our revenue from automobile sales by geography and the relative percentage contribution of each area for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Revenue	Contribution	Revenue	Contribution	Revenue	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Automobile Sales							
Shanghai	2,858,510	60.4	3,524,830	49.2	5,282,791	839,351	46.9
Jiangsu	963,754	20.4	1,283,984	17.9	2,227,060	353,844	19.8
Zhejiang	718,548	15.2	1,683,515	23.5	2,445,662	388,577	21.7
Greater Bohai Rim Economic Region .	188,110	4.0	675,777	9.4	1,299,433	206,459	11.6
Total	4,728,922	100.0	7,168,106	100.0	11,254,946	1,788,231	100.0

The following table sets out our gross profits and gross margins for automobile sales for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Profit	Gross Margin
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Automobile Sales							
Luxury and ultra-luxury brands. . . .	190,567	5.7	375,165	6.7	870,062	138,239	9.0
Mid-to-upper market brands	45,070	3.2	52,230	3.3	53,313	8,471	3.3
Overall	235,637	5.0	427,395	6.0	923,375	146,710	8.2

Our overall profitability and gross margins of our business are also impacted by our product and service mix as the profit margins of our after-sales business are significantly higher than our profit margins for automobile sales. The following table sets out revenue, gross profits and gross margins from our after-sales business for the periods indicated:

	Year Ended December 31,										
	2009			2010			2011				
	Revenue	Gross Profit	Gross Margin	Revenue	Gross Profit	Gross Margin	Revenue	Revenue	Gross Profit	Gross Profit	Gross Margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	US$'000	RMB'000	US$'000	%
After-Sales Business											
Luxury and ultra-luxury brands	277,846	131,397	47.3	382,166	181,459	47.5	546,643	86,853	260,781	41,434	47.7
Mid-to-upper market brands	157,962	71,052	45.0	166,292	79,144	47.6	209,340	33,261	105,592	16,777	50.4
Overall	435,808	202,449	46.5	548,458	260,603	47.5	755,983	120,114	366,373	58,211	48.5

Our after-sales business volume in any given year is affected by the number of automobiles sold by us in prior years and the number and relative maturity of newly-established stores in our network at the time. Although revenue from our after-sales business increased over the past three years, the relative contribution of our after-sales business to our revenue decreased slightly over the past three years from 8.4% in 2009 to 7.1% in 2010 and to 6.3% in 2011. This decrease was primarily due to the opening of new stores. 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. We expect our stores that commenced operation in 2009 and 2010 to contribute more to our overall revenue and profitability as their after-sales business continue to ramp up in 2012.

Our Automobile Purchase Costs and Incentive Rebates from Automobile Manufacturers

Our profitability is affected to a large extent by our costs of purchasing automobiles and spare parts from automobile manufacturers and the incentive rebates that they offer. The wholesale prices that we pay for new automobiles and spare parts are determined by the automobile manufacturers and we do not exercise any control or influence over their pricing and business strategies. However, our purchase costs of new automobiles are affected by the volume discounts that we receive from automobile manufacturers based on the units of new automobiles that we purchase or sell (depending on the policies of different automobile manufacturers).

In addition, automobile manufacturers typically offer incentive rebates that are generally determined with reference to the units of new automobiles which we purchase or sell, and are further adjusted based on our performance relative to certain targets set by our automobile manufacturer partners, including customer satisfaction ratings and dealership operating standards. We believe that it is common practice in our industry for the automobile manufacturers to determine their own rebate policies and practices and these policies and practices are not subject to negotiation by automobile dealerships. The basis for determining the rebate amounts is made known to us by the relevant automobile manufacturer in advance. Certain adjustments to our incentive rebates are assessed at the end of each quarter or year (depending on the policies of different automobile manufacturers) when the relevant manufacturer is able to assess our performance for the period and accordingly these amounts are not finalized until the end of each quarter or year, as the case may be. From time to time, automobile manufacturers also offer special incentive rebates for particular models of automobiles. These rebate amounts are settled from time to time (typically on a quarterly or annual basis) according to the different business practices of different automobile manufacturers. Incentive rebates are accrued at each reporting date based on our actual purchasing amounts, the corresponding rebate rates as agreed with the automobile manufacturers and our management's estimate of relevant factors, including meeting certain sales and service targets set by the relevant automobile manufacturers. In 2009, 2010 and 2011, we recorded rebates of approximately RMB325.7 million, RMB467.1 million and RMB691.1 million (US$109.8 million), respectively.

Rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but still held by us as inventory on the reporting date are deducted from the carrying value of these automobiles so that the cost of our inventory is recorded net of applicable rebates. There was no material discrepancy between accrued rebates and actual rebates we received from the automobile manufacturers during the past three years. Any significant change to our purchase costs and the rebates that we receive from automobile manufacturers will affect our results of operation and financial condition. See "Risk Factors—Risks Relating to Our Business—Our business and operations depend on, and are subject to restrictions imposed by, our dealership authorization agreements with our automobile manufacturer partners. If any of these agreements is terminated or not renewed, or if our business dealings with any automobile manufacturer are otherwise reduced, our business, results of operations and prospects could be adversely affected."

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 3 to the Audited Financial Statements on pages F-14 through F-34 and pages F-79 through F-92. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

Judgments and Estimates

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

Judgments

In the process of applying our accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial information:

Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB5.8 million, RMB6.5 million and RMB8.1 million (US$1.3 million) as of December 31, 2009, 2010 and 2011, respectively.

Estimation Uncertainty

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

Impairment of Non-Financial Assets (Other than Goodwill)

We assess whether there are any indicators of impairment for all non-financial assets at each reporting date. 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.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The following summarizes components of certain items appearing in the Audited Financial Statements beginning on page F-2, which we believe will be helpful in understanding the period-to-period discussion that follows below.

Revenue

The following table sets forth a breakdown of our revenue for the periods indicated:

	Year Ended December 31,							
	2009		2010		2011			2009–2011
	Revenue	Contribution	Revenue	Contribution	Revenue	Revenue	Contribution	CAGR
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%	%
Revenue from automobile sales. .	4,728,922	91.6	7,168,106	92.9	11,254,946	1,788,231	93.7	54.3
Revenue from after-sales business . . .	435,808	8.4	548,458	7.1	755,983	120,113	6.3	31.7
Overall.	5,164,730	100.0	7,716,564	100.0	12,010,929	1,908,344	100.0	52.5

Automobile sales generated a substantial portion of our revenue, accounting for 91.6%, 92.9% and 93.7% of our revenue in 2009, 2010 and 2011, respectively. The contribution of our after-sales business to our revenue decreased slightly over the past three years from 8.4% in 2009 to 7.1% in 2010 and to 6.3% in 2011. This decrease was primarily due to the opening of new stores during this period of time. 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. All of our revenue is derived from our operations in the PRC. In 2010 and 2011, we derived 50.9% and 48.1%, respectively, of our revenue from our dealership stores located in Shanghai, 22.4% and 21.0%, respectively, from our dealership stores located in Zhejiang and 17.7% and 19.7% from our dealership stores located in Jiangsu, respectively.

Revenue from automobile sales represents the sales of automobiles sold. Revenue from our after-sales business includes charges for maintenance, repair and other services rendered by us and revenue from the sales of spare parts, automobile accessories and other automobile-related products. We receive payment from automobile manufacturers for the repair and maintenance services and spare parts provided by us under their warranties. The warranty terms offered by automobile manufacturers generally cover services at any authorized dealership store under their brands. Our after-sales customers include both our automobile buyers and customers who had purchased their automobiles elsewhere.

The prices of the automobiles and spare parts that we sell are affected by automobile manufacturers' pricing guidelines and other factors such as the popularity of particular models and competition with other dealership stores in the same region who sell the same brands and models of automobiles as we do. Our after-sales service charges are also influenced by automobile manufacturers' pricing guidelines. We have greater flexibility to determine our retail pricing for automobile accessories and products of other types of manufacturers. We generally require customers to make full payment in cash when our products and services are delivered.

Sales of automobiles, spare parts and automobile accessories and revenues generated from our provision of repair, maintenance and customization services are generally subject to a 17% value-added tax (VAT). Our revenue is recorded exclusive of VAT.

Cost of Sales and Services Provided

In 2009, 2010 and 2011, our cost of sales and services represented 91.5%, 91.1% and 89.3% of our revenue, respectively. Our cost of sales and services primarily comprises the cost of the new automobiles purchased from automobile manufacturers, which represented 95.1%, 95.9% and 96.4% of our total cost of sales and services in 2009, 2010 and 2011, respectively. Our cost of sales and services also includes the costs of our after-sales business, which primarily comprise the cost of purchasing spare parts for our repair, maintenance and customization services and the cost of purchasing automobile accessories and other products that we sell.

Other Income and Gains, Net

Our other income and gains, net, primarily comprise commissions received from insurance companies for automobile insurance policies sold to our customers, advertisement support received from automobile manufacturers, interest income from our bank deposits and government grants from local government authorities. The government grants that we receive are made at the discretion of local government authorities to encourage our business and development in their jurisdictions and are determined based on our tax contributions to the relevant local government authorities and our employment of local residents. There is no assurance that similar grants will be made in any future period.

Selling and Distribution Costs

In the three years ended December 31, 2011, our selling and distribution costs were RMB133.8 million, RMB177.1 million and RMB256.6 million (US$40.8 million), respectively, representing 2.6%, 2.3% and 2.1% of our revenue, respectively. The following table sets forth a breakdown of our sales and distribution costs for the periods indicated:

	Year Ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Selling and distribution costs				
Salary and welfare expenses	49,054	56,456	72,364	11,497
Rental expenses and utilities	22,445	29,380	49,282	7,830
Advertising and promotion expenses	22,919	37,469	55,226	8,775
Depreciation	21,955	27,844	41,980	6,670
Logistics and petroleum costs	14,222	18,837	29,829	4,739
Software licensing fees	2,445	3,709	2,628	418
Others	716	3,405	5,320	845
Total	133,756	177,100	256,629	40,774

Administrative Expenses

In the three years ended December 31, 2011, our administrative expenses were RMB68.6 million, RMB91.0 million and RMB167.0 million (US$26.5 million), representing 1.3%, 1.2% and 1.4% of our revenue, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year Ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Administrative expenses				
Salary and welfare expenses	17,895	21,663	38,536	6,123
Office supplies and utilities	10,524	12,948	16,573	2,633
Business entertainment and travelling	9,313	12,932	22,812	3,624
Depreciation and amortization	11,902	16,908	24,162	3,839
Bank charges	4,408	6,913	17,585	2,794
Taxation.	2,898	5,069	19,643	3,121
Professional fees and service charges	4,582	3,964	18,574	2,951
Others	7,074	10,588	9,092	1,445
Total.	68,596	90,985	166,977	26,530

Finance Costs

Our finance costs primarily include interest expenses on bank loans and other borrowings. In the three years ended December 31, 2011, finance costs were RMB26.0 million, RMB48.4 million and RMB128.4 million (US$20.4 million), representing 0.5%, 0.6% and 1.1% of our revenue, respectively. Our bank loans carried annual interest rates ranging from 5.3% to 6.1% in 2009, 5.7% to 6.8% in 2010 and 5.8% to 11.8% in 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 5.6% to 7.8% in 2009, 6.4% to 8.1% in 2010 and 6.7% to 9.2% in 2011.

Share of (Loss)/Profit of a Jointly-Controlled Entity

Our BMW brand 4S dealership in Shenyang, Shenyang Xinbaohang, is operated under a joint venture arrangement that we have with an independent third party, Mr. Liu Yan. We hold 50% of the equity of Shenyang Xinbaohang. We have not entered into a shareholders' agreement with Mr. Liu with respect to Shenyang Xinbaohang. The articles of association of Shenyang Xinbaohang provides that profit distribution among its shareholders shall be made in accordance with the PRC Company Law. The PRC Company Law provides that profit distribution among the shareholders shall be made on the basis of capital contribution ratio, unless otherwise agreed by the shareholders. There is no other agreement regarding profit distribution among the shareholders of Shenyang Xinbaohang. We recorded a share of loss of Shenyang Xinbaohang of approximately RMB33,000 in 2009, which was primarily attributable to cost and expenses incurred for its establishment, including its company registration fee and employee salaries. Shenyang Xinbaohang commenced operation in early 2010.

Tax

Our Company is incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

Our subsidiaries incorporated in the British Virgin Islands ("BVI") are, under the current laws of the BVI, not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the BVI.

Our subsidiaries in the PRC are directly or indirectly held by our subsidiary, Kailong HK, a Hong Kong tax resident. Our subsidiaries incorporated in Hong Kong were subject to an income tax at the rates of 16.5% during the three years ended December 31, 2011. No provision for Hong Kong profits tax has been made as we had no assessable profits arising in Hong Kong during these three years.

All of our PRC subsidiaries have been subject to the statutory income tax rate of 25% in accordance with the EIT Law.

Pursuant to the EIT Law and its implementation regulations, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC. 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 of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, 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%, with the approval of the competent tax authorities.

RESULTS OF OPERATIONS

The following table sets forth a summary of our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Revenue	5,164,730	7,716,564	12,010,929	1,908,344
Cost of sales and services provided	(4,726,644)	(7,028,566)	(10,721,181)	(1,703,424)
Gross profit	438,086	687,998	1,289,748	204,920
Other income and gains, net	26,965	37,482	93,756	14,896
Selling and distribution costs	(133,756)	(177,100)	(256,629)	(40,774)
Administrative expenses	(68,596)	(90,985)	(166,977)	(26,530)
Profit from operations	262,699	457,395	959,898	152,512
Finance costs	(26,033)	(48,378)	(128,397)	(20,400)
Share of (loss)/profit of a jointly-controlled entity	(33)	2,907	5,372	854
Profit before tax	236,633	411,924	836,873	132,966
Tax	(60,788)	(104,266)	(221,041)	(35,120)
Profit for the year	175,845	307,658	615,832	97,846
Attributable to:				
Owners of the parent	174,756	303,940	601,905	95,633
Non-controlling interests	1,089	3,718	13,927	2,213
	175,845	307,658	615,832	97,846

Year ended December 31, 2011 Compared with Year ended December 31, 2010

Revenue. Our revenue increased by 55.7% from RMB7,716.6 million in 2010 to RMB12,010.9 million (US$1,908.3 million) in 2011 due primarily to an increase in revenue from the sale of automobiles.

Revenue from the sale of automobiles increased by 57.0% from RMB7,168.1 million in 2010 to RMB11,254.9 million US$1,788.2 million) in 2011 due to (1) ten additional 4S dealership stores which were formally launched in 2011, whose combined automobile sales revenues were RMB2,327.7 million (US$369.8 million) in 2011, accounting for 20.7% of our revenue from automobile sales in 2011; (2) a 322.8% increase in revenues in 2011 compared to 2010 at our two stores which commenced operation in 2010; (3) our introduction of Land Rover & Jaguar to our brand portfolio and commencement of operation of five Land Rover & Jaguar dealership stores in 2011, whose combined automobile sales revenues were RMB1,734.2 million (US$275.5 million) in 2011, accounting for 15.4% of our revenue from automobile sales in 2011; and (4) the increased proportion of BMW and other luxury brand automobiles that we sold in 2011, which generally have higher unit prices than mid-to-upper market brand automobiles. We formally launched five BMW dealership stores, four Land Rover & Jaguar dealership stores and one Cadillac dealership store in 2011, and we commenced trial operation in two BMW dealership stores and one Land Rover and Jaguar dealership store in 2011, bringing our total number of dealership stores that are dedicated to luxury and ultra-luxury brands to 23. Revenue from sales of luxury and ultra-luxury automobiles increased by 72.5% from RMB5,584.0 million in 2010 to RMB9,632.6 million (US$1,530.5 million) in 2011, while revenue from sales of mid-to-upper market automobiles increased by 2.4% from RMB1,584.1 million in 2010 to RMB1,622.3 million in 2011.

Revenue from our after-sales business increased by 37.8% from RMB548.5 million in 2010 to RMB756.0 million (US$120.1 million) in 2011. The increase in revenue from our after-sales business in 2011 was attributable to increased after-sales revenue generated by our luxury brand 4S dealership stores the four BMW dealership stores which commenced operation in 2009, whose combined after-sales services revenues were RMB130.1 million (US$20.7 million), accounting for 17.2% of our revenue for after-sale services in 2011.

Cost of sales and services provided. Our cost of sales increased by 52.5% from RMB7,028.6 million in 2010 to RMB10,721.2 million (US$1,703.4 million) in 2011. This increase was consistent with the growth in our sales in 2011. As a percentage of revenue, our cost of sales decreased from 91.1% in 2010 to 89.3% in 2011 primarily due to increased sales of luxury and ultra-luxury automobiles as well as synergies among our stores that resulted from our network expansion. Cost of sales for luxury and ultra-luxury automobiles increased by 68.2% from RMB5,208.8 million in 2010 to RMB8,762.6 million (US$1,392.2 million) in 2011. Cost of sales for mid-to-upper market automobiles increased by 2.4% from RMB1,531.9 million in 2010 to RMB1,569.0 million (US$249.3 million) in 2011. These increases are consistent with the trends in our automobile sales in these markets.

Gross profit. For the foregoing reasons, our gross profit increased by 87.5% from RMB688.0 million in 2010 to RMB1,289.7 million (US$204.9 million) in 2011. Gross profit from automobile sales increased by 116.0% from RMB427.4 million in 2010 to RMB923.3 million (US$146.7 million) in 2011. Gross margins from automobile sales increased from 6.0% in 2010 to 8.2% in 2011. Gross profit from sales of luxury and ultra-luxury automobiles increased by 131.9% from RMB375.2 million in 2010 to RMB870.0 million (US$138.2 million) in 2011. Gross margins from sales of luxury and ultra-luxury automobiles increased from 6.7% in 2010 to 9.0% in 2011. Gross profit from sales of mid-to-upper market automobiles increased by 2.1% from RMB52.2 million in 2010 to RMB53.3 million (US$8.5 million) in 2011. Gross margins from sales of mid-to-upper market automobiles remained constant at 3.3% in 2011.

Other income and gains, net. Other income and gains, net, increased by 150.1% from RMB37.5 million in 2010 to RMB93.8 million (US$14.9 million) in 2011, primarily due to an increase in our commissions received from insurance companies. 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.

Selling and distribution costs. Our selling and distribution costs increased by 44.9% from RMB177.1 million in 2010 to RMB256.6 million (US$40.8 million) in 2011, primarily due to increases in our rental expenses and utilities, logistics and petroleum costs, depreciation, advertising and promotion expenses and salary and welfare expenses, which were consistent with the growth in our business operations. As a percentage of revenue, sales and distribution costs remained relatively stable at 2.1% in 2011 compared to 2.3% in 2010.

Administrative expenses. Our administrative expenses increased by 83.5% from RMB91.0 million in 2010 to RMB167.0 million (US$26.5 million) in 2011, primarily due to increases in our third party fees and service charges, taxation, bank charges and salary and welfare expenses. As a percentage of revenue, administrative expenses remained relatively stable at 1.4% in 2011 compared to 1.2% in 2010.

Profit from operations. As a result of the foregoing, our profit from operations increased by 109.9% from RMB457.4 million in 2010 to RMB959.9 million (US$152.5 million) in 2011.

Finance costs. Our finance costs increased by 165.3% from RMB48.4 million in 2010 to RMB128.4 million (US$20.4 million) in 2011, primarily due to (1) increased bank borrowings to fund increased automobile purchases resulting from our network expansion and sales growth, and (2) higher borrowing rates in the PRC in 2011 compared to 2010. Our bank loans carried annual interest rates ranging from 5.7% to 6.8% in 2010 compared to from 5.8% to 11.8% in 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 6.4% to 8.1% in 2010 compared to from 6.7% to 9.2% in 2011.

Tax. Our income tax increased by 111.9% from RMB104.3 million in 2010 to RMB221.0 million (US$35.1 million) in 2011. Our effective tax rate remained relatively stable at 26.4% in 2011 compared to 25.3% in 2010.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year increased by 100.1% from RMB307.7 million in 2010 to RMB615.8 million (US$97.8 million) in 2011.

Year ended December 31, 2010 Compared with Year ended December 31, 2009

Revenue. Our revenue increased by 49.4% from RMB5,164.7 million in 2009 to RMB7,716.6 million in 2010 primarily due to an increase in revenue from the sale of automobiles.

Revenue from the sale of automobiles increased by 51.6% from RMB4,728.9 million in 2009 to RMB7,168.1 million in 2010 due to (1) a 139.7% increase in revenues in 2010 compared to 2009 at our four stores which commenced operation in 2009; (2) increased demand for automobiles generally in our markets, particularly for luxury brand automobiles, which resulted in continued strong growth in sales at our more mature stores; (3) the increased proportion of BMW and other luxury brand automobiles that we sold, which generally have higher unit prices than mid-to-upper market brand automobiles; and (4) two additional 4S dealership stores which commenced operation in 2010. Revenue from sales of luxury and ultra-luxury automobiles increased by 67.4% from RMB3,336.7 million in 2009 to RMB5,584.0 million in 2010, while revenue from sales of mid-to-upper market automobiles increased by 13.8% from RMB1,392.2 million in 2009 to RMB1,584.1 million in 2010.

Revenue from our after-sales business increased by 25.9% from RMB435.8 million in 2009 to RMB548.5 million in 2010. The increase in revenue from our after-sales business in 2010 was attributable to increased after-sales revenue generated by our luxury brand 4S dealership stores, including our stores which commenced operation in 2009.

Cost of sales and services provided. Our cost of sales increased by 48.7% from RMB4,726.6 million in 2009 to RMB7,028.6 million in 2010. This increase was consistent with the growth in our sales in 2010. As a percentage of revenue, our cost of sales decreased from 91.5% in 2009 to 91.1% in 2010 primarily due to increased sales of luxury and ultra-luxury automobiles as well as synergies among our stores that resulted from our network expansion. Cost of sales for luxury and ultra-luxury automobiles increased by 65.6% from RMB3,146.1 million in 2009 to RMB5,208.8 million in 2010. Cost of sales for mid-to-upper market automobiles increased by 13.7% from RMB1,347.2 million in 2009 to RMB1,531.9 million in 2010. These increases are consistent with the trends in our automobile sales in these markets.

Gross profit. For the foregoing reasons, our gross profit increased by 57.0% from RMB438.1 million in 2009 to RMB688.0 million in 2010. Gross profit from automobile sales increased by 81.4% from RMB235.6 million in 2009 to RMB427.4 million in 2010. Gross margins from automobile sales increased from 5.0% in 2009 to 6.0% in 2010. Gross profit from sales of luxury and ultra-luxury automobiles increased by 96.9% from RMB190.6 million in 2009 to RMB375.2 million in 2010. Gross margins from sales of luxury and ultra-luxury automobiles increased from 5.7% in 2009 to 6.7% in 2010. Gross profit from sales of mid-to-upper market automobiles increased by 16.0% from RMB45.0 million in 2009 to RMB52.2 million in 2010. Gross margins from sales of mid-to-upper market automobiles increased from 3.2% in 2009 to 3.3% in 2010.

Other income and gains, net. Other income and gains, net, increased by 38.9% from RMB27.0 million in 2009 to RMB37.5 million in 2010, 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.

Selling and distribution costs. Our selling and distribution costs increased by 32.4% from RMB133.8 million in 2009 to RMB177.1 million in 2010. This increase was primarily due to increases in our advertising and promotion expenses, related salary and welfare, rental expenses and utilities and depreciation, which were consistent with the growth in our business operations. As a percentage of revenue, sales and distribution costs remained relatively stable at 2.3% in 2010 compared to 2.6% in 2009.

Administrative expenses. Our administrative expenses increased by 32.7% from RMB68.6 million in 2009 to RMB91.0 million in 2010. This increase was consistent with the growth in our business operations over this period. As a percentage of revenue, administrative expenses remained relatively stable at 1.2% in 2010 compared to 1.3% in 2009.

Profit from operations. As a result of the foregoing, our profit from operations increased by 74.1% from RMB262.7 million in 2009 to RMB457.4 million in 2010.

Finance costs. Our finance costs increased by 86.2% from RMB26.0 million in 2009 to RMB48.4 million in 2010, primarily due to (1) increased bank borrowings to fund increased automobile purchases resulted from our network expansion and sales growth, and (2) higher borrowing rates in the PRC in 2010 compared to 2009. Our bank loans carried annual interest rates ranging from 5.3% to 6.1% in 2009 compared to 5.7% to 6.8% in 2010. Our borrowings from other financial institutions carried annual interest rates ranging from 5.6% to 7.8% in 2009 compared to 6.4% to 8.1% in 2010.

Tax. Our income tax increased by 71.5% from RMB60.8 million in 2009 to RMB104.3 million in 2010. Our effective tax rate remained relatively stable at 25.3% in 2010 compared to 25.7% in 2009.

Profit for the year. As a result of the cumulative effect of the foregoing, our profit for the year increased by 75.0% from RMB175.8 million in 2009 to RMB307.7 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new 4S 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. We expect the finance costs of our Group to increase as our inventory level and prepayments for new automobiles will grow due to the continuing expansion of our business. We finance our working capital needs primarily through cash flow generated from operations and bank borrowings. We have historically repaid our bank acceptance notes and repaid or rolled over our bank loans when due. During the past three years, we did not experience any significant difficulties in rolling over our bank loans. Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loans and other borrowings and [●], our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital available to satisfy our requirements, including to fund our planned dealership network expansion, for at least 12 months following the date of this document. We do not expect our future dealership network expansion to have a significant impact on our financing capability.

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

	Year Ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Net cash generated used in operating activities	(56,974)	(121,247)	(332,849)	(52,884)
Net cash used in investing activities	(187,153)	(579,906)	(693,121)	(110,126)
Net cash generated from financing activities	370,726	872,836	3,536,269	561,857
Net increase in cash and cash equivalents	126,599	171,683	2,510,299	398,847
Cash and cash equivalents at the end of each year	212,793	384,476	2,884,038	458,227

Cash Flow Used in Operating Activities

Our net cashflow from operating activities was negative in each of the three years ended December 31, 2011 mainly because (1) we needed to purchase and maintain inventory for the new stores opened during those periods although they were still in the process of ramping up their sales; as a result of our network expansion, a significant number of our dealership stores had been operating for less than one year at any given time during the past three years (four out of 17 as of December 31, 2009, three out of 20 as of December 31, 2010 and 13 out of 33 as of December 31, 2011), which meant that those stores had not fully ramped up their sales; and (2) we are required to make full payment for our automobile purchases prior to shipment, and there is a time lapse ranging from two to three weeks to, in extreme cases, four months before the related automobiles are delivered to our stores for sale; as a result, our prepayments for automobile purchases are reflected in our operating cashflows before profit from the related automobile sales are recorded and significantly higher automobile purchases made in anticipation of increased sales for future periods result in significant cash outflow for the current period.

We finance our liquidity requirements through a combination of bank loans and other borrowings and cash flows generated from our operating activities. We regularly monitor current and expected liquidity requirements and our compliance with lending covenants to ensure that we maintain sufficient working capital to meet our daily operation demand and liquidity requirements both in the short term and in the long term. Our negative operating cashflow increased from 2010 to 2011 and from 2009 to 2010 due to our accelerated pace of opening new dealership stores, and we are likely to continue to have negative operating cashflow in the foreseeable future due to (1) the fact that a significant percentage of our dealership stores (16 out of 33 as of December 31, 2011, including a jointly-controlled entity whose revenues and sales volume are not included in our combined revenues and sales volume) commenced operation within the past 24 months and are still in the process of ramping up their automobile sales and after-sales businesses, and (2) our continued network expansion plans. As of the date of this document, we have received automobile manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. See "Business—Our Dealership Network—Network Expansion" for a description of our planned network expansion for 2012. Unless we have sufficient funding from other resources, such as bank credit facilities, our working capital and capital expenditures may be constrained which could materially and adversely affect our business, growth, results of operations and financial condition.

In 2011, our net cash used in operating activities was RMB332.8 million (US$52.9 million), consisting primarily of profit before taxation of RMB836.9 million (US$133.0 million) and an increase in trade and bills payables of RMB585.5 million (US$93.0 million) attributable to increased automobile purchases, which was offset by an increase in prepayments, deposits and other receivables of RMB1,149.6 million (US$182.7 million) primarily attributable to increased prepayments for automobile purchases, an increase in inventories of RMB546.2 million (US$86.8 million) and an increase in pledged bank deposits of RMB123.3 million (US$19.6 million), which corresponded with the increase in bills payables. The increase in our automobile purchases in 2011 was primarily due to increased sales at our stores, including the stores opened in 2010 and 2011 and the need to purchase and maintain inventory for the new stores opened in 2010 and to be opened in 2012. The increase in inventories in 2011 reflected our increased automobile purchases made during that year.

In 2010, our net cash used in operating activities was RMB121.2 million, consisting primarily of profit before taxation of RMB411.9 million and an increase in trade and bills payables of RMB262.1 million attributable to increased automobile purchases, which was offset by an increase in prepayments, deposits and other receivables of RMB419.8 million primarily attributable to increased prepayments for automobile purchases, an increase in inventories of RMB317.8 million and an increase in pledged bank deposits of RMB112.5 million, which corresponded with the increase in bills payables. The increase in our automobile purchases in 2010 was primarily due to increased sales at our stores, including the stores opened in 2009 and the need to purchase and maintain inventory for the new stores opened in 2010 and 2011. The increase in inventories in 2010 reflected our increased automobile purchases made during that year.

In 2009, our net cash used in operating activities was RMB57.0 million, consisting primarily of profit before taxation of RMB236.6 million and an increase in trade and bills payables of RMB29.8 million attributable to increased automobile purchases, which was offset by an increase in prepayments, deposits and other receivables of RMB256.4 million primarily attributable to increased prepayments for automobile purchases, an increase in inventories of RMB60.3 million and an increase in pledged bank deposits of RMB51.7 million which corresponded with the increase in bills payables. The increase in our automobile purchases in 2009 was primarily due to increased sales at our stores and the need to purchase and maintain inventory for the new stores that we opened in 2009.

Cash Flow Used in Investing Activities

In 2011, our net cash used in investing activities was RMB693.1 million (US$110.1 million), consisting primarily of RMB312.2 million (US$49.6 million) used for the purchase of property, plant and equipment, RMB291.9 million (US$46.4 million) used for acquisition of equity interests by the Group from the then equity holders, which was primarily due to the acquisition of 97% of the equity interest in Shanghai Baoxin Automobile Sales &

Services Co., Ltd. ("Shanghai Baoxin") by Suzhou Baoxin Automobile Sales & Services Co., Ltd. ("Suzhou Baoxin") from the then equity holders and RMB116.5 million (US$18.5 million) for the purchase of land use rights in connection with our new stores that commenced operation in 2011 and new stores planned for 2012.

In 2010, our net cash used in investing activities was RMB579.9 million, consisting primarily of RMB257.4 million used for the purchase and development of land use rights, purchases of property, plant and equipment of RMB163.1 million in connection with our new stores which commenced operation in 2010, the acquisition of certain equity interests from Mr. Yang Aihua in the amount of RMB146.0 million in connection with our reorganization and an advance of RMB32.9 million to Shenyang Xinbaohang for its business development. This advance is non-trading related in nature and has no fixed repayment date.

In 2009, our net cash used in investing activities was RMB187.2 million, consisting primarily of purchases of property, plant and equipment of RMB163.3 million for our new stores which commenced operation in 2009 and acquisition of certain equity interests from Mr. Yang Aihua in the amount of RMB41.8 million in connection with our reorganization, which were partially offset by proceeds of RMB21.4 million from the disposal of a relatively large quantity of retired test-drive automobiles.

Cash Flow Generated from Financing Activities

In 2011, our net cash generated from financing activities was RMB3,536.3 million (US$561.9 million), consisting primarily of net proceeds of RMB2,167.7 million (US$344.4 million) from the issuance of new shares in connection with our initial public offering and proceeds from bank loans and other borrowings of RMB3,248.0 million (US$516.1 million), which was partially offset by repayment of bank loans and other borrowings of RMB1,534.5 million (US$243.8 million) and dividends paid to the then equity holders of RMB400.3 million (US$63.6 million).

In 2010, our net cash generated from financing activities was RMB872.8 million, consisting primarily of proceeds from bank loans and other borrowings of RMB2,471.7 million, contribution from the then equity holders of our subsidiaries of RMB755.5 million, which was partially offset by repayment of bank loans and other borrowings of RMB2,212.3 million and repayment of advances from Mr. Yang Aihua of RMB143.4 million.

In 2009, our net cash generated from financing activities was RMB370.7 million, consisting primarily of proceeds from bank loans and other borrowings of RMB1,934.8 million and advances from Mr. Yang Aihua of RMB130.9 million, which were partially offset by repayment of bank loans and other borrowings of RMB1,649.0 million and dividends of RMB14.6 million paid to Mr. Yang Aihua.

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:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Current assets				
Inventories	420,165	737,953	1,284,159	204,032
Trade receivables	41,736	42,847	125,504	19,941
Prepayments, deposits and other receivables	478,905	897,726	2,022,874	321,402
Amounts due from a jointly-controlled entity	1,000	33,900	37,835	6,011
Pledged bank deposits	163,623	276,149	399,416	63,461
Cash in transit	17,423	14,022	13,383	2,126
Cash and cash equivalents	212,793	384,476	2,884,038	458,227
Total current assets	1,335,645	2,387,073	6,767,209	1,075,200
Current liabilities				
Bank loans and other borrowings	547,988	807,339	2,341,021	371,951
Trade and bills payables	327,593	589,645	1,174,914	186,675
Other payables and accruals	170,324	164,375	346,494	55,052
Amounts due to related parties	148,814	5,385	626,680	99,569
Income tax payable	69,804	152,713	199,131	31,639
Total current liabilities	1,264,523	1,719,457	4,688,240	744,886
Net Current Assets	71,122	667,616	2,078,969	330,314

As of December 31, 2011, we had net current assets of RMB2,079.0 million (US$330.3 million), representing an increase of RMB1,411.4 million (US$224.2 million) from our net current assets of RMB667.6 million as of December 31, 2010. This change was primarily due to an increase in cash and cash equivalents of RMB2,499.6 million as a result of the net proceeds we received from our initial public offering, an increase in our prepayments, deposits and other receivables of RMB1,125.1 million and an increase in our inventories of RMB546.2 million, which were partially offset by an increase in short-term bank loans and other borrowings of RMB1,533.7 million and an increase in trade and bills payable of RMB585.3 million. Our trade and bills payables, bank loans and other borrowings, inventories and prepayments, deposits and other receivables increased due to increased automobile purchase volumes, which was attributable both to increased sales at our existing stores and to the new stores which we opened during the second half of 2010 and in 2011. Amounts due to related parties increased as a result of the acquisition of 3% of the equity interest in Shanghai Baoxin by Suzhou Baoxin from Huakong (Tianjin) Innovation Fund ("Huakong Innovation") and Huakong (Tianjin) Industry Investment Fund ("Huakong

Industry"). Deposits pledged to our lenders as collateral against bank credit facilities granted to us increased as a result of the increase in our bank loans and bank acceptance notes. The increase in other payables and accruals is mainly attributable to payables incurred for the purchase of property, plant and equipment and increased advances from customers, both of which are attributable to the new dealership stores which we opened during 2011.

Our net current assets increased by RMB596.5 million from RMB71.1 million as of December 31, 2009 to RMB667.6 million as of December 31, 2010. This change was primarily due to an increase in our inventories of RMB317.8 million, an increase in our prepayments, deposits and other receivables of RMB418.8 million, an increase in our cash and cash equivalents of RMB171.7 million, an increase in our pledged bank deposits of RMB112.5 million and an increase in our amounts due from related parties of RMB32.9 million, which were partially offset by an increase in bank loans and other borrowings of RMB259.4 million and an increase in trade and bills payable of RMB262.1 million. Our cash and cash equivalents, inventories, prepayments to suppliers, incentive rebates receivables due from automobile manufacturers and bank loans and other borrowings increased due to increased automobile sales and purchase volumes, which was attributable both to increased sales at our existing stores and to the new stores which we opened in 2010. Our deposits pledged to our lenders as collateral against bank credit facilities granted to us increased as a result of the increase in our bank loans and bank acceptance notes. Amounts due from a jointly-controlled entity increased due to the loan made by us to Shenyang Xinbaohang in 2010. Amounts due to our related party, namely, Mr. Yang Aihua, decreased from RMB148.8 million as of December 31, 2009 to RMB5.4 million as of December 31, 2010. This outstanding amount was extended to us by Mr. Yang Aihua on an interest-free basis and has been repaid in full.

CAPITAL EXPENDITURE

Our capital expenditures during the three years ended December 31, 2011 primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During these three years, our total capital expenditures were RMB180.2 million, RMB427.0 million and RMB486.0 million (US$77.2 million), respectively. The following table sets out our capital expenditures for the periods indicated:

	Year Ended December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Capital expenditure				
Property, plant and equipment	180,152	169,556	367,023	58,314
Land use rights	—	257,398	116,479	18,507
Intangible assets	—	—	2,457	390
Total	180,152	426,954	485,959	77,211

The increase in our capital expenditure from 2009 to 2011 was primarily due to increased cost of property and equipment acquired for the new dealership stores which we opened during those periods. Our capital expenditures on property, plant and equipment from 2009 to 2010 decreased slightly because we opened fewer new dealership stores in

2010 than in 2009. In addition, our capital expenditure in 2010 included the purchase price of land use rights acquired for two new 4S dealership stores and the conversion of an industrial use land for commercial use in Shanghai.

The converted land ("Putuo Land") is located in the Putuo District of Shanghai and the net book value of the land use right for the Putuo Land as of June 30, 2011 was RMB264.5 million (US$42.0 million), which was calculated by deducting the accumulated amortization from the original cost of RMB57.3 million for the acquisition of the initial industrial use land and the cost of RMB219.1 million for the subsequent conversion for commercial use. The majority portion of the conversion costs was advanced by Mr. Yang Aihua to the Group and was recorded as an amount due to related parties.

The Putuo Land is owned by Shanghai Kailong Qixiao, which also operated a Nissan 4S store on such land before June 30, 2011. Shanghai Kailong Qixiao is controlled by Mr. Yang Aihua. To avoid any competition between the Group and Mr. Yang Aihua, as part of the Reorganization, Shanghai Kailong Qixiao transferred all the operating assets and liabilities relating to the Nissan 4S store to Shanghai Minhang Kailong Automobiles Sales Co., Ltd. ("Minhang Automobiles"), one of our subsidiaries, based on the book value of the operating assets and liabilities as of June 30, 2011. As Mr. Yang Aihua has intended to use the Putuo Land for future commercial property development, which is not an integral part or an intended constituent of the Group's business and operations, the Putuo Land, along with other assets and liabilities that are not directly related to the Group's business, were retained by Shanghai Kailong Qixiao, which was accounted for as a shareholder distribution to Mr. Yang Aihua on June 30, 2011 in our combined financial statements. As a result, our amounts due to related parties have been reduced accordingly. For details of the transfer of the land use rights for the Putuo Land, please refer to Note 31 to the Audited Financial Statements on pages F-53 through F-54 and on page F-110.

The Group currently operates a Nissan 4S store and a Hyundai 4S store on the Putuo Land and the premises on which the two 4S dealership stores conduct their operations only form a small portion of the entire Putuo Land. In order to allow the two 4S dealership stores to continue their business operations, Shanghai Kailong Qixiao has entered into lease agreements with the Group pursuant to which the Group leases from it the premises currently used by these two 4S stores. As each of the lease agreements is valid for a term of three years ending in 2014, we have no current plan to relocate those two 4S dealership stores and do not expect to incur any relocation costs in the foreseeable future. Accordingly, we do not expect the business operations of the abovementioned two 4S dealership stores to be materially and adversely affected. The lease agreements were entered into on normal commercial terms and will constitute a continuing connected transaction of the Group. Although Mr. Yang Aihua has not decided on how and when to carry out the commercial property development on the Putuo Land, there can be no assurance that the lease arrangements between us will not be disrupted. If the lease agreements were terminated or not renewed upon termination, we may need to seek alternate premises.

Our capital expenditure in 2011 included the purchase price of land use rights acquired for opening of new 4S dealership stores during this period.

CAPITAL COMMITMENTS

The following table sets out our capital commitments in respect of property, plant and equipment and land use rights, as of each date indicated:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Contracted, but not provided for land use rights and buildings	5,420	3,010	40,724	6,470
Authorized, but not contracted for land use rights and buildings	233,561	25,124	582,791	92,596
Total.	238,981	28,134	623,515	99,066

OPERATING LEASE COMMITMENTS

The following table sets out our total future minimum lease payments under non-cancellable operating leases as of each date indicated:

	As of December 31,									
	2009		2010		2011					
	Properties	Land	Properties	Land	Properties	Properties	Land	Land	Vehicles	Vehicles
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	US$'000	RMB'000	US$'000
Within 1 year	1,293	13,700	6,861	9,650	16,855	2,678	25,313	4,022	2,509	399
After 1 year but within 5 years	3,906	37,547	18,990	34,531	54,713	8,693	90,611	14,397	—	—
After 5 years	13,693	92,027	24,574	79,676	80,423	12,778	156,768	24,908	—	—
Total	18,892	143,274	50,425	123,857	151,991	24,149	272,692	43,327	2,509	399

INVENTORY

During the three years ended December 31, 2011, our inventories primarily consisted of new automobiles and spare parts and accessories. Each of our 4S 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.

The following table sets forth a summary of our total inventories as of each date indicated:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Automobiles	370,868	678,858	1,191,087	189,245
Spare parts and accessories	49,297	59,095	93,072	14,787
Total	420,165	737,953	1,284,159	204,032

Our inventories increased by 74.0% from RMB738.0 million as of December 31, 2010 to RMB1,284.2 million (US$204.0 million) as of December 31, 2011, primarily due to an 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 in 2011.

Our inventories increased by RMB317.8 million from RMB420.2 million as of December 31, 2009 to RMB738.0 million as of December 31, 2010, primarily due to an increase in our inventory of new automobiles by RMB308.0 million from RMB370.9 million as of December 31, 2009 to RMB678.9 million as of December 31, 2010. We increased the inventory that we maintained across our network in 2010 due to (1) increased demand and sales at our stores, (2) increased sales of luxury and ultra-luxury automobiles, and (3) the addition of two dealership stores which commenced operation in 2010.

Our dealership stores generally order their inventory on a monthly basis and plan their inventory purchases for each month based on an annual non-binding sales target set by the relevant automobile manufacturer at the beginning of each year. The monthly purchases made by each store is adjusted by taking into account its existing inventory levels, expected customer demand, projected sales trends and expected delivery times for different automobile models. We did not experience during the past three years any material fluctuations in our inventory balances on a per store basis. Over the three years ended December 31, 2011, automobile sales were usually slower in the first half of each year due to store closures during the Chinese New Year and Labor Day holidays in China. In anticipation of higher sales in the second half of a given year, we generally purchase more inventories during the first half of the year than in the second half.

We provide inventory provision on an item-by-item basis when the carrying value of the inventories is higher than their net realizable value. Net realizable value is determined based on the estimated selling price of the relevant inventories in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale. We did not record any inventory provision during the three years ended December 31, 2011.

Certain of our inventories with a carrying amount of RMB139.5 million, RMB225.6 million and RMB390.0 million (US$62.0 million) as of December 31, 2009, 2010 and 2011, respectively, were pledged as security for our bank loans and other borrowings. The increase in pledged inventories was primarily due to the increases in our bank loans and other borrowings as of December 31, 2009, 2010 and 2011.

Our inventories with a carrying amount of RMB209.2 million, RMB398.9 million and RMB666.9 million (US$106.0 million) as of December 31, 2009, 2010 and 2011, respectively, were pledged as security for our bills payables. This increase was primarily due to our increased use of bank acceptance notes as of December 31, 2009, 2010 and 2011.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year Ended December 31,		
	2009	2010	2011
Average inventory turnover days[(1)]	30.1	30.1	34.4

Note:

(1) The average inventory turnover days for a certain period is the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 365 days for a year.

Our average inventory turnover days in 2010 remained stable at 30.1 days compared to 2009. Our average inventory turnover days increased to 34.4 days in 2011, primarily due to the new dealership stores opened in 2011 as inventory turnover at these newly established stores took longer compared to our more mature stores.

The table below sets forth the aging analysis of our inventory as of the dates indicated:

	As of December 31,									
	2009			2010			2011			
	Automobiles	Spare parts and accessories	Total	Automobiles	Spare parts and accessories	Total	Automobiles	Spare parts and accessories	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US$'000
Within 6 months	364,205	49,297	413,502	668,943	59,095	728,038	1,143,017	93,072	1,236,089	196,394
6–12 months	3,213	—	3,213	5,027	—	5,027	34,477	—	34,477	5,478
1–2 years	3,450	—	3,450	4,888	—	4,888	13,593	—	13,593	2,160
Over 2 years	—	—	—	—	—	—	—	—	—	—
Total	370,868	49,297	420,165	678,858	59,095	737,953	1,191,087	93,072	1,284,159	204,032

TRADE RECEIVABLES

Our automobile sales are typically settled on a cash basis upon delivery of the automobiles. Our trade receivables primarily comprise (1) proceeds due to us from banks and other financial institutions from automobile financing loans obtained by our customers for their purchases, and (2) outstanding amounts due to us from automobile manufacturers and insurance companies for repair, maintenance and other after-sales services performed for our customers.

As of December 31, 2011, our trade receivables reached RMB125.5 million (US$19.9 million). Our trade receivables increased from RMB41.7 million as of December 31, 2009 to RMB42.8 million as of December 31, 2010. The increase in trade receivables in the past three years was primarily due to the growth in our after-sales business over these years.

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year Ended December 31,		
	2009	**2010**	**2011**
Average trade receivables turnover days(1)	2.5	2.0	2.6

Note:

(1) The average trade receivables turnover days for a certain period is the average of opening and closing gross trade receivables balances divided by revenue for that period and multiplied by 365 days for a year. Therefore, our average trade receivables turnover days indicate the time required for us to obtain cash proceeds from our sales.

We maintained short turnover days during the past three years mainly because our sales are typically settled by cash. Our average trade receivable turnover days remained low during the three years ended December 31, 2011.

It is our accounting policy and practice to provide 100% provision for the trade receivables in doubt with aging over 12 months. The amount of identified trade receivables outstanding for over 12 months and with recoverability in doubt as of December 31, 2009, 2010 and 2011, respectively, was individually and in the aggregate immaterial to us and therefore was not recognized.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The following table sets out our prepayment, deposits and other receivables as of each date indicated:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Prepayments to suppliers	285,666	621,251	1,625,636	258,288
Prepayments for purchase of items of plant, property and equipment	7,970	4,422	9,520	1,513
Deposit paid for potential acquisition of land use rights	22,171	18,698	—	—
Rebate receivables	131,219	180,853	303,781	48,266
VAT recoverable[(1)]	7,497	20,881	29,044	4,615
Staff loans	13,279	30,776	32,754	5,204
Others	11,103	20,845	22,139	3,516
Total	478,905	897,726	2,022,874	321,402

Note:

(1) Our sales of automobiles are subject to PRC 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 our Group is 17%.

The increases in our prepayments, deposits and other receivables as of December 31, 2009 and 2010 and 2011 were primarily attributable to increases in our prepayments to suppliers and rebate receivables. We are required to pay in advance for the automobiles that we purchase prior to shipment. The increases in our prepayments to suppliers as of December 31, 2009, 2010 and 2011 were attributable to the increases in our automobile inventory purchases during those years to support our increased sales and new store openings. The increases in our rebate receivables were also due to the growth in our sales and our business during these years. As of December 31, 2011, the total amount of our rebate receivables was RMB303.8 million (US$48.3 million).

TRADE AND BILLS PAYABLES

The balance of trade and bills payables at the end of each year or period represented outstanding amounts payable by us for new automobiles, spare parts and automobile accessories that we purchased.

Trade payables are mainly relating to purchases of spare parts and automobile accessories, and are recognized upon receipt of spare parts and automobile accessories. Generally, automobile manufacturers do not give any credit period and require us to pay for spare parts and automobiles accessories before delivery. We purchase a small portion of automobile accessories from other types of suppliers. Such suppliers generally grant us a credit period for no more than three months. Our bills payables primarily relate to our use of bank acceptance notes to finance our purchases of new automobiles. These bank acceptance notes are generally secured by bank deposits and inventories. As of December 31, 2010, we had bills payables of RMB575.3 million and pledged bank deposits of RMB276.1 million. As of December 31, 2011, we had bills payables of RMB1,142.0 million (US$181.4 million) and pledged bank deposits of RMB399.4 million (US$63.5 million). We are required to bear relevant bank charges for the issuance of these bank acceptance notes, which are generally non-interest bearing. Upon the repayment of bank acceptance notes, the pledged deposits are released and can be used to secure new bank acceptance notes. If we are unable to generate sufficient sales from our existing inventory of new automobiles to repay our bank acceptance notes within the applicable credit term, which is typically two to three months, we may be required to repay the notes from other cash resources. This could adversely affect our working capital and our ability to acquire new inventory. We may incur additional financing costs as a result of the new borrowings. During the three years ended December 31, 2011, our inventory turnover days were generally shorter than the credit term of our bank acceptance notes and we did not experience any difficulty in repaying our bank acceptance notes with payments from customers for sales of new automobiles.

The following table sets forth an ageing analysis of our trade and bills payables as of the dates indicated:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Within 3 months	307,768	570,884	1,167,616	185,516
3 to 6 months	11,996	16,410	4,534	720
6 to 12 months	1,784	2,129	—	—
Over 12 months	6,045	222	2,764	439
Total	327,593	589,645	1,174,914	186,675

Our trade and bills payables increased by RMB585.3 million (US$93.0 million), or 99.3%, from RMB589.6 million as of December 31, 2010 to RMB1,174.9 million (US$186.7 million) as of December 31, 2011. Our trade and bills payables increased by RMB262.0 million, or 80.0%, from RMB327.6 million as of December 31, 2009 to RMB589.6 million as of December 31, 2010. The increases in our trade and bills payables as of December 31, 2010 and 2011 were attributable primarily to our increased automobile inventory purchase volumes during those periods.

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

	Year Ended December 31,		
	2009	2010	2011
Average trade and bills payables turnover days[(1)]	24.1	23.8	30.0

Note:

(1) The average trade and bills payables turnover days for a certain period is the average of opening and closing trade and bills payables balances divided by cost of sales and services for that period and multiplied by 365 days for a year.

We maintained very low trade receivables turnover days over the past three years. The average trade and bill payables turnover days in 2010 remain relatively stable at 23.8 days compared to 24.1 days in 2009. Our average trade and bill payables turnover days in 2011 increased to 30.0 days primarily due to our increased use of bank acceptance notes as part of our enhanced efforts to manage our cash flow and liquidity.

AMOUNTS DUE TO RELATED PARTIES

As of December 31, 2009, 2010 and 2011, our amounts due to related parties were RMB148.8 million, RMB5.4 million and RMB626.7 million (US$99.6 million), respectively.

The following table sets forth our amounts due to related parties as of each date indicated:

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Non-trade related:				
The Controlling Shareholder				
— Mr. Yang Aihua	148,814	5,385	26,857	4,267
The then equity holders				
— Huakong Innovation	—	—	359,892	57,181
— Huakong Industry	—	—	239,928	38,121
— Bentai Investment	—	—	3	0.5
Total	148,814	5,385	626,680	99,569

INDEBTEDNESS

Bank Loans and Other Borrowings

Our current and non-current bank loans and other borrowings as of December 31, 2009, 2010 and 2011 were RMB548.0 million, RMB807.3 million and RMB2,370.8 million (US$376.7 million), respectively. Substantially all of our bank loans and other borrowings are short-term. Our bank loans and other borrowings increased during the three years ended December 31, 2011 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.

	As of December 31,			
	2009	2010	2011	
	RMB'000	RMB'000	RMB'000	US$'000
Bank loans and other borrowings				
Secured	154,259	262,772	1,041,016	165,401
Guaranteed[1]	113,000	129,040	32,750	5,204
Unsecured	280,729	415,527	1,297,055	206,081
Total	547,988	807,339	2,370,821	376,686

Note:

(1) Represents the bank loans that were guaranteed by Mr. Yang Aihua, our chairman and executive director.

We pledge buildings, land use rights and inventories as security for some of our bank loans and other borrowings. Pledged buildings had an aggregate net book value of RMB24.3 million, RMB22.8 million and RMB23.2 million (US$3.7 million) as of December 31, 2009, 2010 and 2011, respectively. Pledged land use rights had an aggregate net book value of RMB22.7 million, RMB36.1 million and RMB58.6 million (US$9.3 million) as of December 31, 2009, 2010 and 2011, respectively. Inventories pledged as security for our bank loans and other borrowings had an aggregate carrying value of RMB139.5 million, RMB225.6 million and RMB390.0 million (US$62.0 million), respectively, as of December 31, 2009, 2010 and 2011. The increases in our pledged land use rights and pledged inventories as of December 31, 2009, 2010 and 2011 were primarily due to increased bank loans and other borrowings to finance our capital expenditures for new stores and our increased automobile purchases.

As of December 31, 2011, we had total bank credit facilities of RMB5,361.0 million (US$851.8 million), of which RMB2,805.9 million (US$445.8 million) was utilized, including those utilized in the form of bank acceptance notes.

Contingent Liabilities

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

Off-Balance Sheet Commitments and Arrangements

We have not entered into any off-balance sheet transactions.

MARKET RISK DISCLOSURE

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

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates relating primarily to our borrowings with floating interest rates. Our bank loans carried annual interest rates ranging from 5.3% to 6.1% in 2009, 5.7% to 6.8% in 2010 and 5.8% to 11.8% in 2011. Our borrowings from other financial institutions carried annual interest rates ranging from 5.6% to 7.8% in 2009, 6.4% to 8.1% in 2010 and 6.7% to 9.2% in 2011. We have not used any interest rate swaps to hedge our exposure to interest rate risk. Any future increases in interest rates could increase our cost of borrowings. If this occurs, our profit and financial condition can be adversely affected.

We do not have significant interest-bearing assets other than pledged bank deposits, which amounted to RMB399.4 million (US$63.5 million), and cash and cash equivalents, which amounted to RMB2,884.0 million (US$458.2 million), as of December 31, 2011, respectively.

Credit Risk

We do not have any significant concentration of credit risk. The carrying amounts of our pledged bank deposits, cash in transit, cash and cash equivalents, trade and other receivables and amount due from a jointly-controlled entity represent our maximum exposure to credit risk in relation to our financial assets. As of December 31, 2009, 2010 and 2011, all of our pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity Risk

We are exposed to liquidity risk. We monitor our risk to shortage of funds by using a recurring liquidity planning tool which considers the maturity of both our financial instruments and financial assets and projected cash flows from operations.

We conduct our capital management to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize shareholder value. We manage our capital structure and make 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, we may adjust our dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. We had not made any changes in our objectives, policies or processes for managing capital during the three years ended December 31, 2011.

Foreign Exchange Risk

Substantially all of our revenue, cost of sales and services provided and other 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. Although in general, our exposure to foreign exchange risks should be limited, a depreciation of Renminbi may cause automobile manufacturers to raise their prices, which would increase our purchase costs for automobiles and spare parts, which could in turn increase our automobile retail prices and adversely affect our sales and profits. For more details, please refer to "Risk Factors—Risks Relating to Conducting Business in the PRC—Fluctuation in the exchange rates of Renminbi may have a material adverse effect on your investment."

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

We have not applied in our financial statements the following new and revised HKFRSs that have been issued but are not yet effective.

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:

(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.

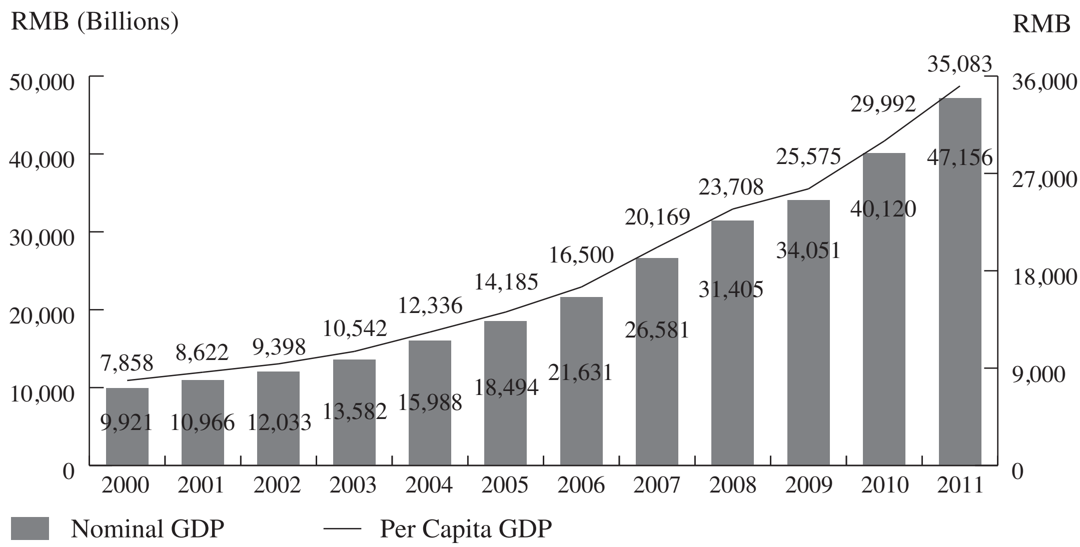
The information and statistics set out in this section and elsewhere in this document relating to the PRC economy and the industry in which we operate are derived from various official government sources, and information obtained from Euromonitor, an independent consulting firm, as described below. No independent verification has been carried out on such information and statistics. None of the Company, its directors and advisors makes any representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with each other or with other information. See "Risk Factors—Risks Relating to the Presentation of Certain Information in this document."

We commissioned Euromonitor to conduct an analysis of the PRC and global passenger vehicle market. The industry report dated November 25, 2011 prepared by Euromonitor's analysts was based on their specific knowledge of the PRC automobile industry and the forecasts were based on Euromonitor's analysis of historical data and trends. This information was obtained by Euromonitor from a variety of industry sources, including relevant PRC Government departments and established PRC industry organizations such as the National Bureau of Statistics of the PRC, the Ministry of Transportation of the PRC, the China Automobile Dealers' Association ("CADA") and China Automotive Technology & Research Center. Euromonitor has conducted interviews with market participants and industry experts in order to support, verify and cross check its estimates.

ECONOMIC GROWTH IN THE PRC

The Chinese economy has been growing rapidly in the past decade. According to the National Bureau of Statistics of the PRC, the PRC's nominal GDP grew from RMB9,921 billion in 2000 to RMB47,156 billion in 2011, representing a CAGR of 15.2%, and correspondingly the PRC's nominal GDP per capita grew from RMB7,858 in 2000 to RMB35,083 in 2011, representing a CAGR of 14.6%.

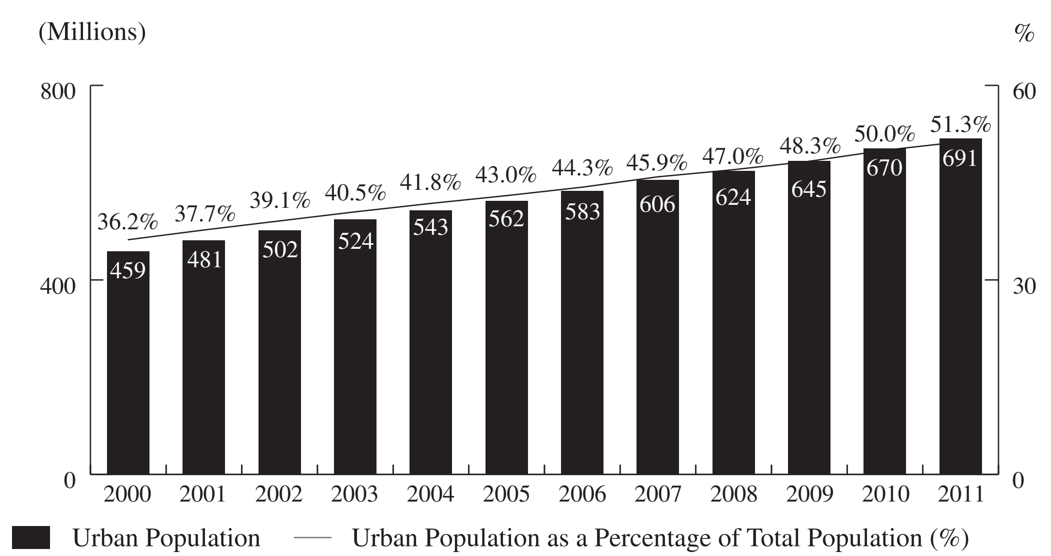
Nominal GDP and Nominal GDP per Capita in the PRC



Source: National Bureau of Statistics of the PRC

Rapid economic growth has accelerated the urbanization process. Between 2000 and 2011, the total urban population in the PRC increased by approximately 232 million, or approximately 51.3%. As of December 31, 2011, the total urban population in the PRC was approximately 691 million and accounted for approximately 51.3% of the total population, according to the National Bureau of Statistics of the PRC.

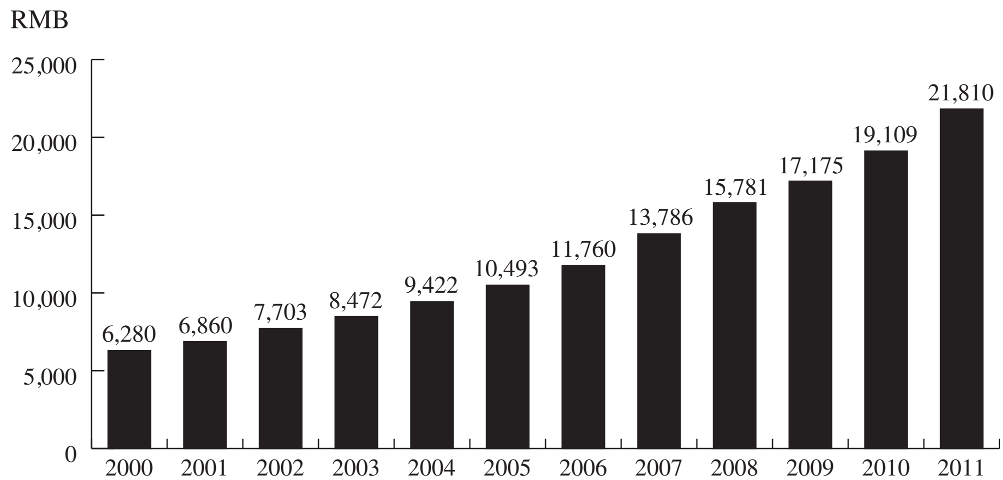
Growth of the Urban Population in the PRC



Source: National Bureau of Statistics of the PRC

The economic growth and the urbanization trend have resulted in an increase in purchasing power. The per capita annual disposable income of urban residents has increased substantially in the past decade. From 2000 to 2011, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 to RMB21,810, representing a CAGR of 12.0%, according to the National Bureau of Statistics of the PRC.

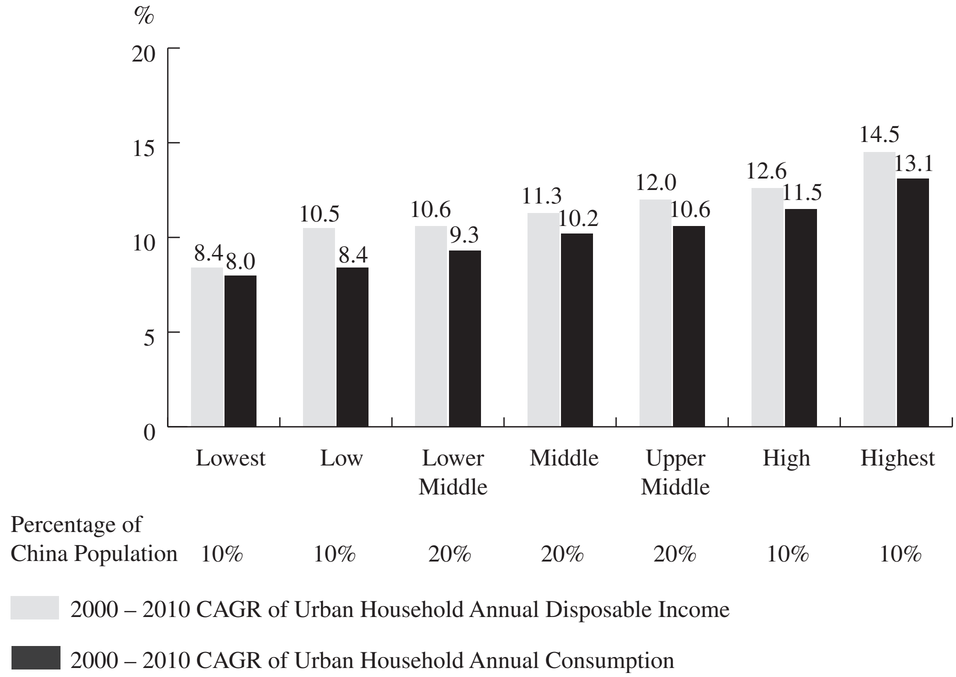
Per Capita Annual Disposable Income of Urban Households in the PRC



Source: National Bureau of Statistics of the PRC

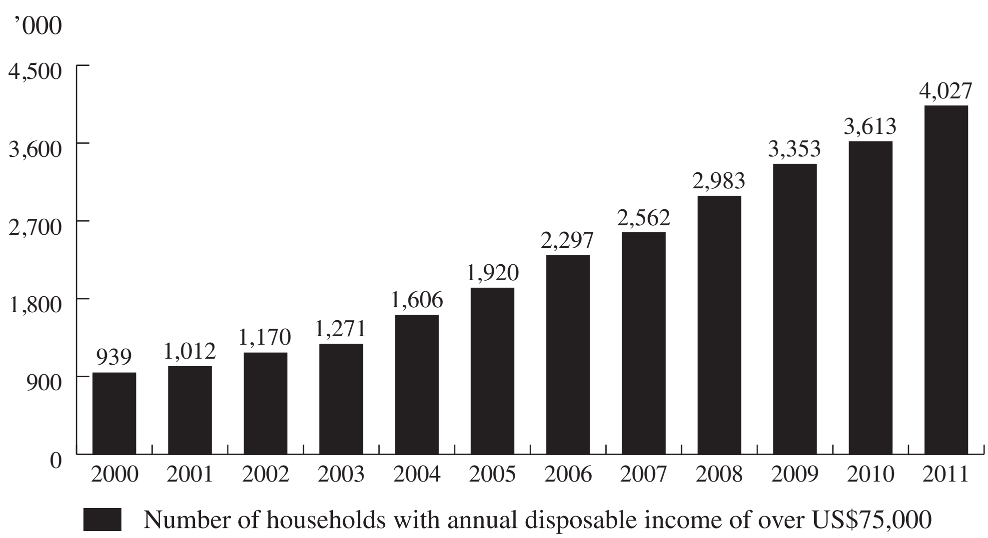
While the average per capita annual disposable income of urban households went up across all classes, the average per capita annual disposable income for the upper-middle to high income classes (including the upper middle, high and highest income classes in the chart below) grew much faster than the low to middle income classes (including the middle, lower middle, low and lowest income classes in the chart below), signaling tremendous opportunities for businesses targeted at the expanding Chinese affluent classes with stronger consumption power.

CAGR of per Capita Disposable Income and Consumption Expenditure of Urban Household of Different Income Classes in the PRC (2000–2010)



Source: National Bureau of Statistics of the PRC

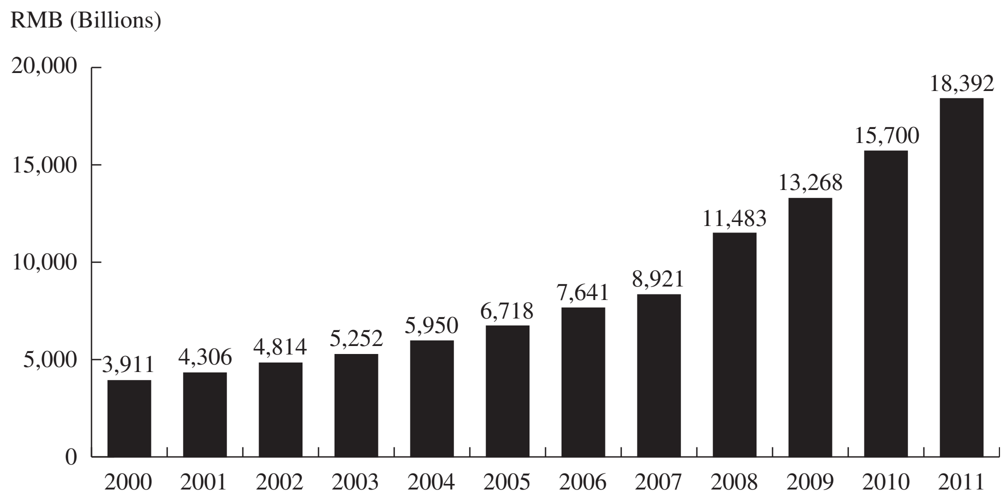
Size of Affluent Class in the PRC



Source: Euromonitor

As a result of strong economic growth, rapid urbanization, increasing disposable income and the growing affluent class, the PRC's consumer goods market expanded significantly during the past few years. Retail sales of consumer goods in China increased from approximately RMB3,911 billion in 2000 to approximately RMB18,392 billion in 2011, representing a CAGR of approximately 15.1%, according to the National Bureau of Statistics of the PRC.

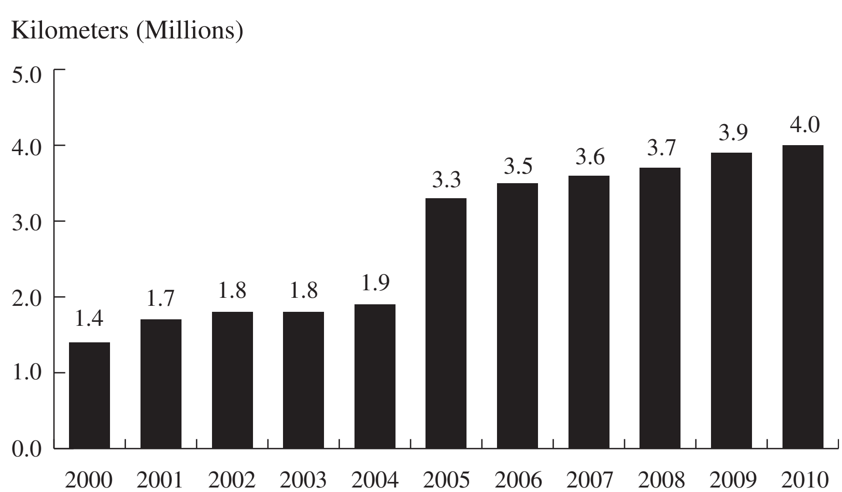
Total Retail Sales of Consumer Goods in China



Source: National Bureau of Statistics of the PRC

The rapid economic growth and the accelerated urbanization have been coupled with substantial investment in the transportation infrastructure. The length of China's highways network grew at a CAGR of 11.1% from approximately 1.4 million kilometers in 2000 to approximately 4.0 million kilometers in 2010, according to the Ministry of Transportation of the PRC. The increasing length of highways greatly facilitates inter-city travel. Improvement in transportation infrastructure is a key driver for the growth of automobile consumption in China.

Length of Highways in the PRC



Source: The Ministry of Transportation of the PRC

THE PRC PASSENGER VEHICLE MARKET

Overview of the Chinese Passenger Vehicle Market

China has become the largest passenger vehicle market, and the fastest growing out of the 10 largest passenger vehicle markets worldwide

The PRC passenger vehicle industry has experienced substantial growth. Since 2009, China has become the largest segment among the global passenger vehicle market in terms of sales volumes, driven by the trends discussed above as well as other factors such as favorable government policies, the entry of global automobile manufacturers and the increasing availability of automobile financing.

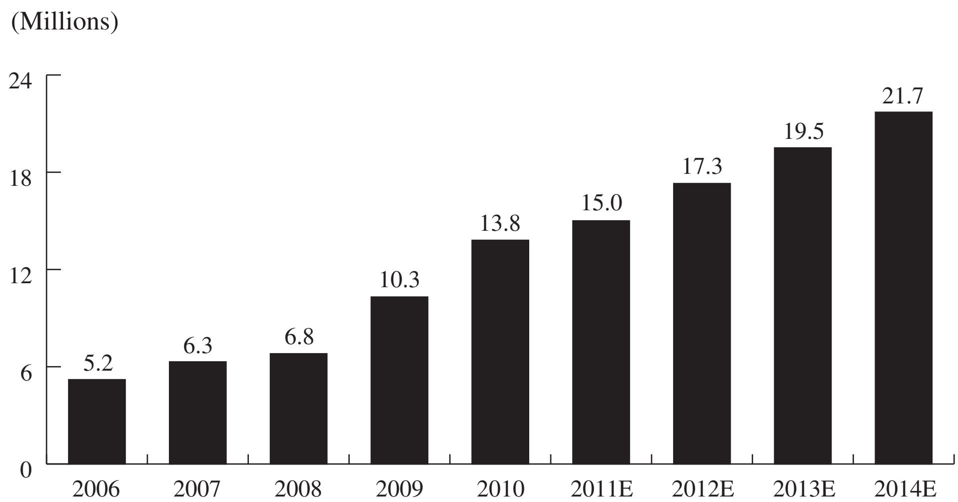
Top Ten Passenger Vehicle Markets by Number of New Passenger Vehicles Sold (in millions)

Rank	Country	2009	2010	YoY (09–10)
1.	**China**	**10.33**	**13.76**	**33.2%**
2.	U.S.	5.46	5.65	3.6%
3.	Japan	3.92	4.21	7.4%
4.	Brazil	3.01	3.33	10.6%
5.	Germany	3.81	2.92	(23.4%)
6.	France	2.30	2.25	(2.2%)
7.	U.K.	2.00	2.03	1.8%
8.	Italy	2.16	1.96	(9.2%)
9.	Russia	1.47	1.91	30.0%
10	India	1.43	1.87	31.0%

Source: Euromonitor

The volume of new passenger vehicle sales increased from approximately 5.2 million units in 2006 to approximately 13.8 million units in 2010, representing a CAGR of approximately 27.7%. The strong growth momentum is expected to continue in the near future. According to Euromonitor, the sales volume of new passenger vehicles in China is expected to grow at a CAGR of approximately 13.0% from 15.0 million units in 2011 to 21.7 million units in 2014.

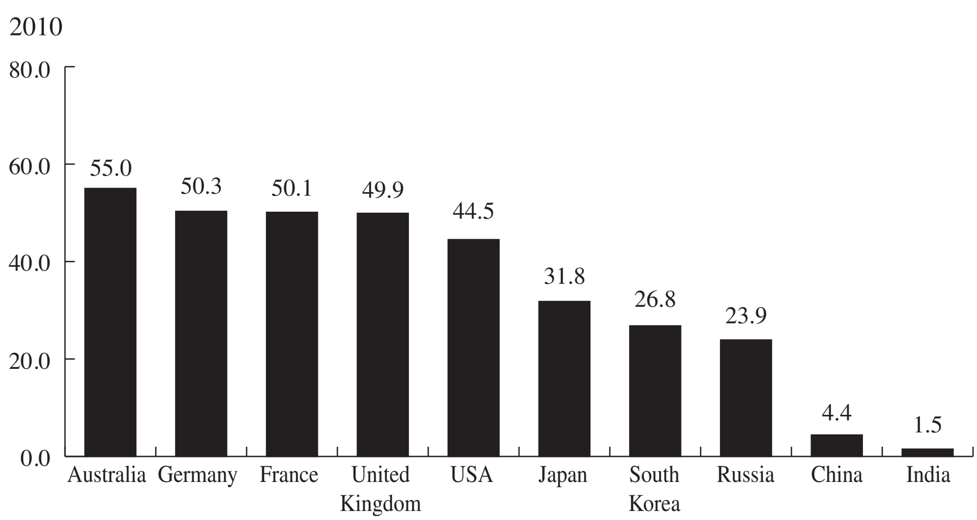
Sales Volume and Sales Volume Forecast of New Passenger Vehicles in the PRC



Source: Euromonitor

Significant growth potential is evidenced by the historical robust growth as well as the low penetration rate of passenger vehicles in China relative to other major markets in the world. In 2010, the passenger vehicle penetration rate, which is defined as the number of passenger vehicles per 100 residents, was 4.4 in China, compared to 50.3 in Germany, 49.9 in the United Kingdom, 44.5 in the United States and 31.8 in Japan, according to Euromonitor.

Passenger Vehicle Penetration Rate(1)



Source: Euromonitor

Note:

(1) Number of passenger vehicles in use per 100 people.

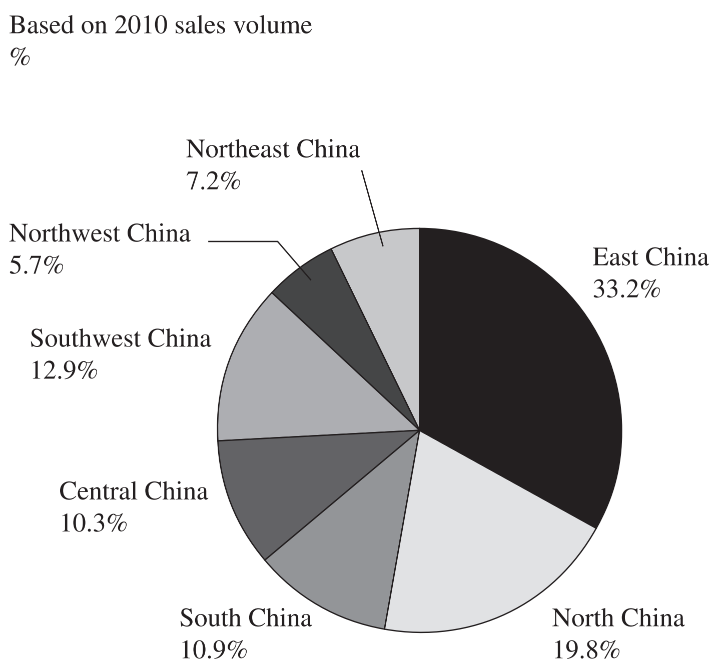
All regions in China experienced strong growth in passenger vehicle consumption

Development in local economy, increase in disposable income and investment in road infrastructures are the main drivers for the passenger vehicle consumption in each region in China. Volume of passenger vehicles sold in East China, North China, Northeast China, Northwest China, Central China, Southwest China and South China grew at a CAGR of 27%, 25%, 30%, 35%, 34%, 34% and 20% from 2006 to 2010, respectively. The strong growth momentum is expected to continue in the future, according to Euromonitor.

Geographical division definition

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

Regional Distribution of Passenger Vehicle Sales Volume

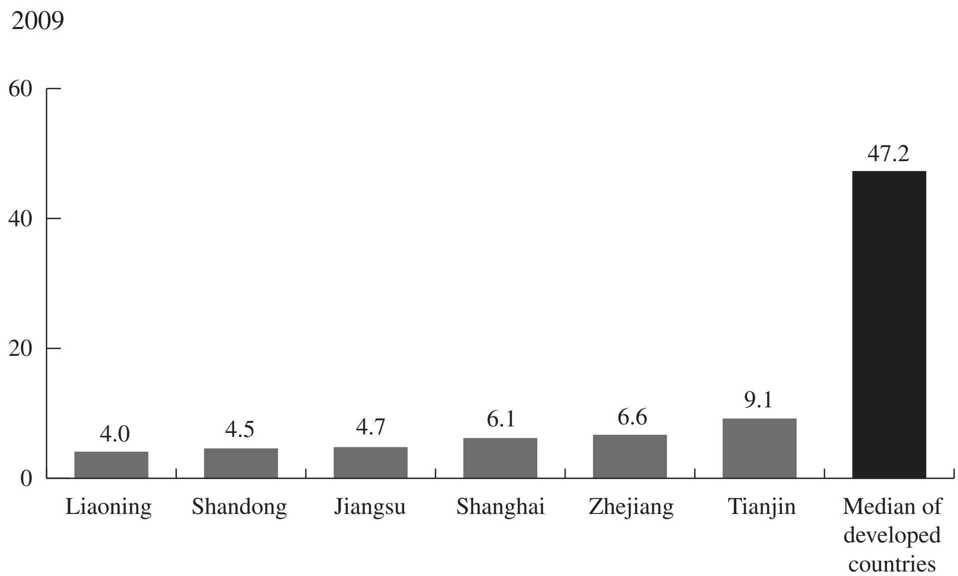


Source: Euromonitor

Despite the significant growth of passenger vehicle consumptions, the affluent cities and provinces in China with above average GDP per capita still demonstrate strong market potential. Their passenger vehicle penetration rates and market shares of luxury and ultra-luxury passenger vehicle are significantly lower compared to developed nations.

The passenger vehicles' penetration rates of Shanghai, Jiangsu, Zhejiang, Liaoning, Shandong and Tianjin in 2009 were 6.1, 4.7, 6.6, 4.0, 4.5 and 9.1 cars per 100 residents, respectively, while the median passenger vehicle penetration rate of developed countries was 47.2 cars per 100 residents, according to Euromonitor and Global Insight, Inc..

Passenger Vehicle Penetration Rate(1) of Selected Affluent Regions



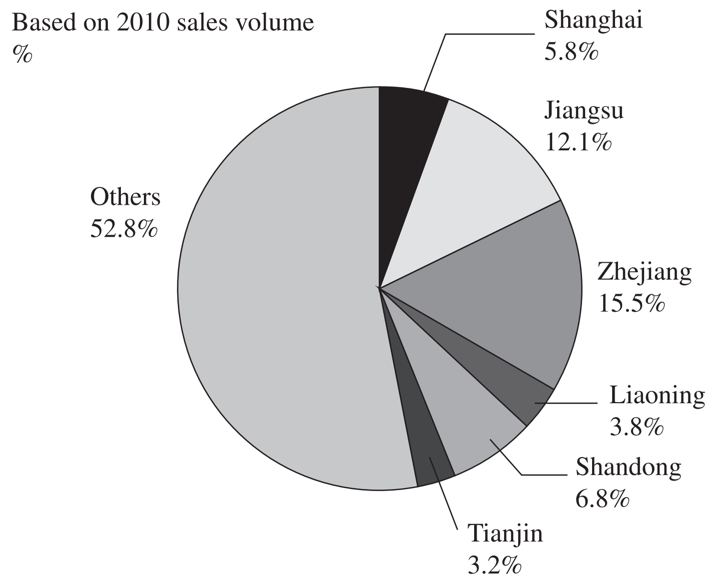
Source: Euromonitor, National Bureau of Statistics of the PRC and Global Insight, Inc.

Note:

(1) Number of passenger vehicles in use per 100 people.

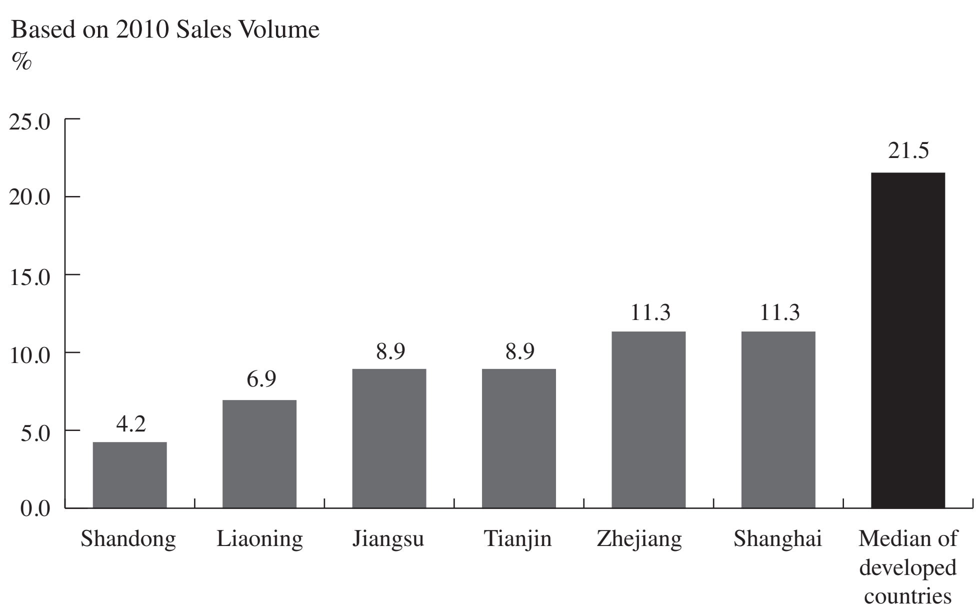
The geographic distribution of sales of luxury and ultra luxury passenger vehicles is skewed to the east coastal regions of China. Shanghai, Jiangsu, Zhejiang, Liaoning, Shandong and Tianjin accounted for 47.2% of China's total luxury and ultra-luxury passenger vehicle sales volume in 2010, according to Euromonitor. However, compared to developed nations, the penetration of luxury and ultra luxury brand in these markets are significantly lower. The following chart sets forth a comparison of market share of luxury and ultra-luxury passenger vehicles in these regions.

Regional Distribution of Luxury and Ultra-Luxury Passenger Vehicle Sales



Source: Euromonitor

Market Share(1) of Luxury and Ultra-Luxury Passenger Vehicle of Selected Affluent Regions



Source: Euromonitor, National Bureau of Statistics, Global Insight, Inc.

Note:

(1) Sales volume of luxury and ultra-luxury passenger vehicles as a percentage of total sales volume of passenger vehicles in each region.

Luxury and ultra-luxury passenger vehicles outpaced the growth of the overall market

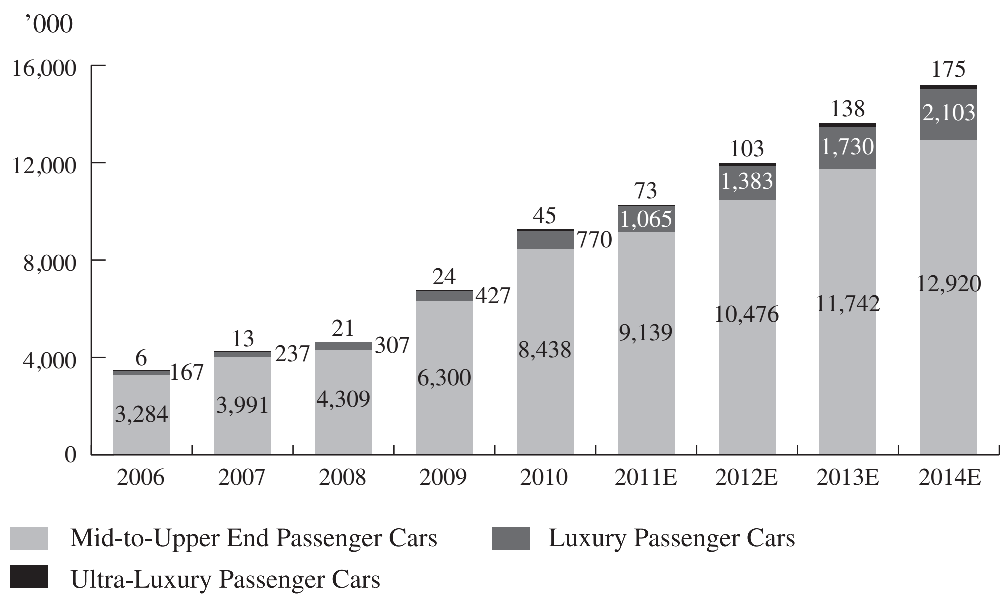
According to Euromonitor, the PRC passenger vehicle market can be generally segmented into four categories of brands, based on, among other things, price range and brand positioning: (i) Ultra-luxury, (ii) Luxury, (iii) Mid-to-upper Market and (iv) Low-end. The following table sets forth the representative brands and the indicative average price range of each of the market categories.

Market segmentation

Segment	Representative Brands	Indicative Average Price Range (RMB)
Ultra-luxury	● Land Rover & Jaguar ● Bentley ● Ferrari ● Porsche ● Rolls-Royce	Over 1 million
Luxury.	● BMW ● Audi ● Cadillac ● Lexus ● MINI ● Mercedes-Benz ● Volvo	300,000–1 million
Mid-to-upper market	● Buick ● Chevrolet ● Honda ● Hyundai ● Nissan ● Toyota ● Volkswagen	80,000–300,000
Low-end	● BYD ● Chery ● Geely ● Great Wall ● Hafei ● Southeast ● SMA	Below 80,000

Mid-to-upper market, luxury and ultra-luxury passenger vehicles sales all experienced rapid growth in China in the past several years driven by the increasing consumption power of the upper-middle to high income classes in China. The sale volume of mid-to-upper end brand passenger vehicles grew from 3.3 million units in 2006 to 8.4 million units in 2010, representing a CAGR of 26.6% and is expected to grow at a CAGR of 12.2% from 2011 to 2014, according to Euromonitor. For luxury brand passenger vehicles, the sales volume increased from 167,462 in 2006 to 770,289 in 2010, representing a CAGR of 46.4% and is expected to grow at a CAGR of 25.5% from 2011 to 2014, according to Euromonitor. Ultra-luxury brand passenger vehicles sales volume increased from 6,493 in 2006 to 44,921 in 2010, representing a CAGR of 62.2% and is expected to grow at a CAGR of 33.7% from 2011 to 2014, according to Euromonitor. The overall sales volume of mid-to-upper market, luxury and ultra-luxury passenger vehicles grew at a CAGR of 27.9% from 2006 to 2010 and is expected to continue to grow significantly, according to Euromonitor.

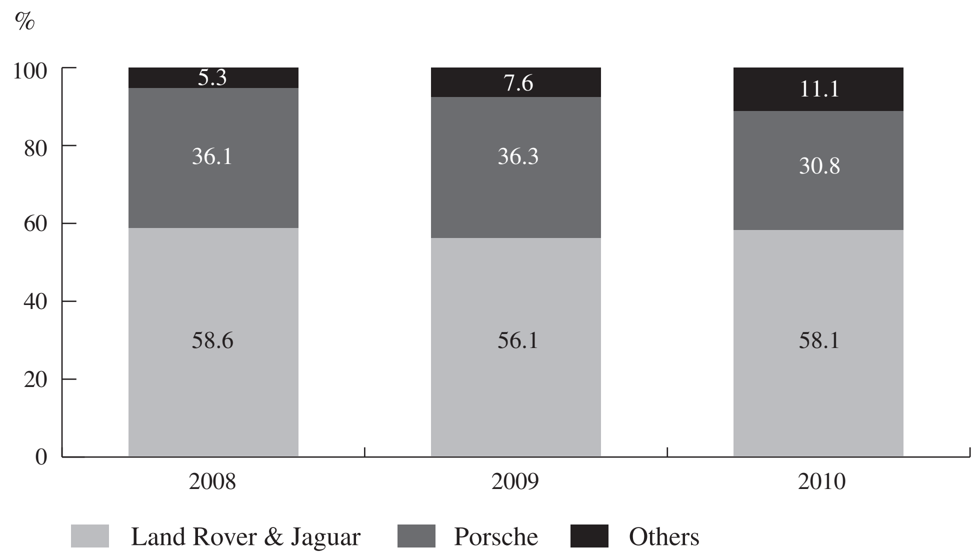
Sales Volume of Mid-to-upper Market, Luxury and Ultra-luxury New Passenger Vehicles



Source: Euromonitor

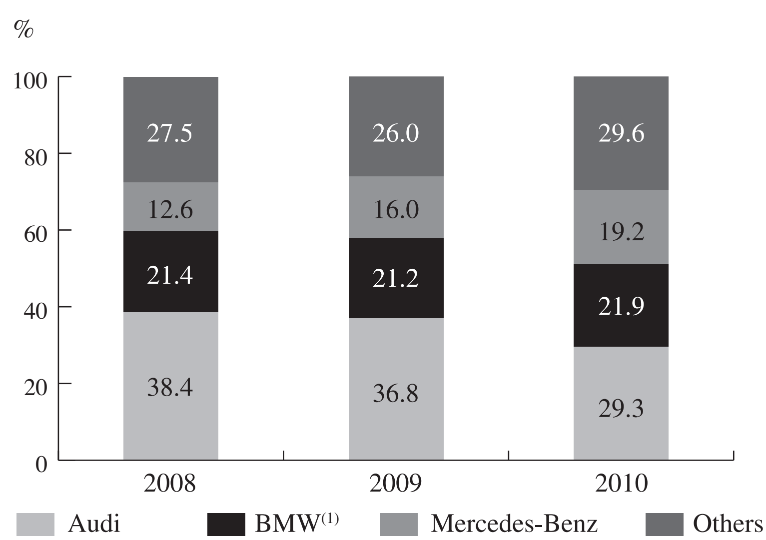
The ultra-luxury and luxury passenger car segments are characterized by the concentration of market share of a small number of brands. Porsche and Land Rover & Jaguar together accounted for 89.0% of the total sales volume of ultra-luxury passenger cars in 2010, according to Euromonitor. Audi, BMW (including MINI) and Mercedes-Benz accounted for 70.4% of the total sales volume of luxury passenger car in 2010, according to Euromonitor. The sales volume of these major brands also experienced significant growth. For the luxury segment, sales volume of Audi and BMW (including MINI) grew at 43.5% and 86.7% from 2009 to 2010, respectively, according to Euromonitor. For the ultra-luxury segment, sales volume of Land Rover & Jaguar and Porsche grew at 95.7% and 60.6% from 2009 to 2010, respectively, according to Euromonitor.

Ultra-Luxury Passenger Vehicles Sales Volume Breakdown in the PRC



Source: Euromonitor

Luxury Passenger Vehicles Sales Volume Breakdown in the PRC[1]



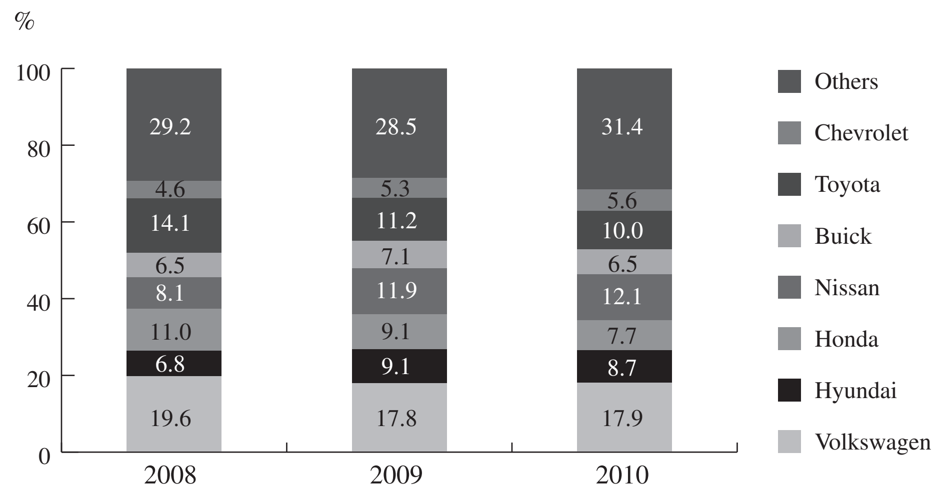
Source: Euromonitor

Note:

(1) Including MINI.

Some major brands in mid-to-upper market segment include Volkswagen, Hyundai, Honda, Nissan, Buick, Toyota and Chevrolet. Sales of these brands accounted for 68.6% of the total sales volume in 2010 in the mid-to-upper end passenger car segment, according to Euromonitor.

Mid-to-upper End Passenger Vehicles Sales Volume Breakdown in the PRC



Source: Euromonitor

Retail Platforms for the Chinese Passenger Vehicle Market

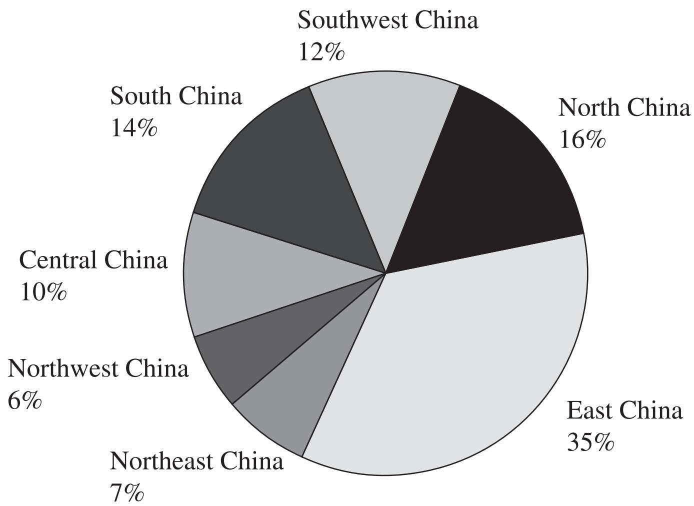
4S dealership is the major retail platform for the Chinese passenger vehicle market

The dominant retail platform in the Chinese passenger vehicle market is the specialized automobile dealerships, known as "4S dealerships" where 4S refers to sales, spare parts, service and survey. The 4S dealership retail platform was introduced to China in the mid-1990s. The dominance of the 4S dealership as the established retail platform was driven by the Measures for the Implementation of Administration of Branded Automobile Sales ("Automobile Sales Measures"). The Automobile Sales Measures stipulate that all automobile dealers must obtain permission from automakers before retailing their brands. As a result of the introduction of the Automobile Sales Measures, other types of automobile sales platforms such as automobile trading markets and automobile supermarkets began to diminish in importance. From 2006 to 2010, total new passenger vehicle sales through 4S dealerships grew from approximately RMB605 billion to RMB1,635 billion, representing a CAGR of approximately 28.2%. Given the solid growth trend, it is expected that total passenger vehicle sales through 4S dealerships will continue to grow.

Regional distribution of 4S dealerships

As of December 31, 2010, the total number of 4S dealerships in the PRC was approximately 14,000, mostly distributed in East China.

Regional Distribution of 4S Dealerships by Number of Stores
As of December 31, 2010
%



Source: Euromonitor

Target customers of 4S dealership stores

Stores of luxury and ultra-luxury brands usually target customers with high income and high net-worth who have higher brand loyalty, higher demand for service quality and lower price sensitivity.

Mid-to-upper market brand dealership stores target customers who have a mix of consumer behavior characteristics of luxury and ultra-luxury brand customers and lower end brand customers.

Lower end brand dealership stores target customers who place more attention on factors such as price, energy efficiency and functionality of the automobiles.

Dealerships for luxury and ultra-luxury brand automobiles

Manufacturers for luxury and ultra-luxury brand automobiles generally have stringent requirements when granting dealership authorizations in order to maintain their premium brand images. Dealership groups that have large scale, proven track record, strong brand recognition and regional dominance are usually well positioned in the competition of the luxury and ultra-luxury segment of automobile dealership market. As an example, according to Euromonitor, in the BMW dealership market of China, the top ten dealership groups by sales volume in aggregate represent 45.5% of the total sales volume of BMW and MINI passenger vehicles in 2010, and these 10 groups represent 84 dealership stores, almost 50% of the total 167 dealership stores for BMW as of December 31, 2010.

Rank	Dealership Group	2010 Market Share by Sales Volume	Number of BMW Dealership Stores as of December 31, 2010
1.	Dealership group 1	6.1%	16
2.	Our group	5.9%	9
3.	Dealership group 2	5.5%	10
4.	Dealership group 3	5.2%	10
5.	Dealership group 4	5.1%	5
6.	Dealership group 5	4.2%	10
7.	Dealership group 6	3.8%	7
8.	Dealership group 7	3.6%	9
9.	Dealership group 8	3.2%	5
10	Dealership group 9	2.8%	3
	Total	45.5%	84

Source: Euromonitor

Euromonitor has conducted a comprehensive analysis of China's luxury and ultra-luxury automobile dealership market and has identified certain leading dealership groups in the segment, which include our group.

To identify leading luxury and ultra-luxury automobile dealership groups, Euromonitor referred to a list of top 50 passenger vehicle dealers ranked by sales revenue according to CADA. In addition, Euromonitor conducted desk research and interviews with automobile dealerships and industry experts, and made the assessment by considering the following factors:

(1) The major automobile brands sold by the dealership groups;

(2) The brand positioning (i.e., ultra-luxury, luxury, mid-to-upper market, and low end) of each brand;

(3) Estimates on sales contribution of ultra-luxury and luxury brands amongst all brands of each dealer; and

(4) Estimates on sales value of ultra-luxury and luxury brands of each dealer.

In the ultra-luxury segment, we commenced operation of three Land Rover & Jaguar dealership stores from November 2010 (when we started our cooperation with Land Rover & Jaguar) to June 30, 2011. According to Euromonitor, this makes us the dealership group which opened the largest number of Land Rover & Jaguar dealership stores in this period. The table below sets forth a list of major Land Rover & Jaguar dealership groups by number of stores and the number of new stores opened from November 1, 2010 through June 30, 2011.

Rank	Dealership Group	Number of Land Rover & Jaguar 4S stores in China as of June 30, 2011	Number of new Land Rover & Jaguar 4S stores opened between November 1, 2010 and June 30, 2011
1.	Dealership group 1	14	0
2.	Dealership group 2	12	0
3.	Dealership group 3	5	0
4.	Our Group	3	3
5.	Dealership group 4	2	0
5.	Dealership group 5	2	0
5.	Dealership group 6	2	0
5.	Dealership group 7	2	1

Source: Euromonitor

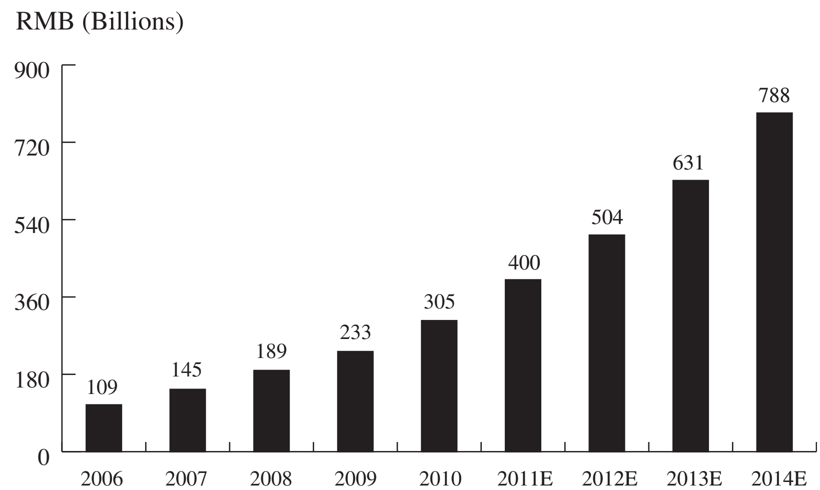
Automobile dealerships with large-scale and cross-regional operations are well positioned to capture the future growth opportunity

Industry consolidation has led to the emergence of large dealership groups whereby one dealer sets up multiple dealerships and operates multiple automobile brands. With competition intensifying, scale has become an important success factor for dealership engaged in new automobile sales. Large dealership groups are able to gain operational strength in personnel training, brand recognition, capital investment and the integration of regional market resources, which present strong competitive advantages against smaller dealership groups. In addition, large automobile dealership groups have more competitive advantages when penetrating into second and third-tier markets in China as a result of their established brand name and accumulated operating expertise. Stronger cooperative relationships with automobile manufacturers provide the larger automobile dealership groups strategic advantages in developing new market channels and retail strategies as well as in capitalizing on business opportunities. Accordingly, the development of large-scale, cross-regional operations is a growing trend for automobile dealership groups operating in China.

Chinese passenger vehicle after-sales market

The growth of the passenger vehicle market has resulted in a fast growing passenger vehicle after-sales market. The size of the Chinese passenger vehicle after-sales market expanded from RMB109 billion in 2006 to RMB305 billion in 2010 at a CAGR of 29.2%. According to Euromonitor, the Chinese passenger vehicle after-sales market is expected to grow at a CAGR of 26.8% from RMB305 billion in 2010 to RMB788 billion in 2014.

Size of the PRC Passenger Vehicle After-Sales Market[(1)]



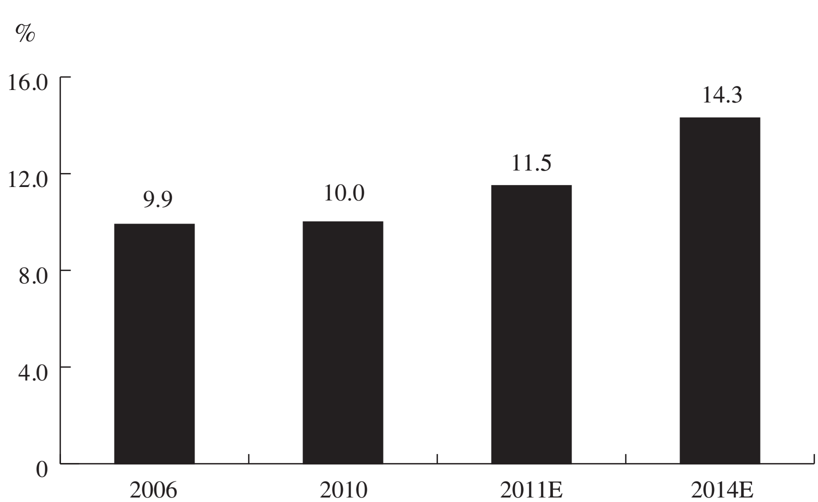
Source: Euromonitor

Note:

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

As a result of the increase in number of passenger vehicles in use, the customer base for after-sales services is expected to expand accordingly, which is expected to lead to higher 4S dealership revenue contribution from after-sales services. According to Euromonitor, it is expected that after-sales services revenue would contribute to 14.3% of total 4S dealership revenue in 2014, compared to 10.0% in 2010. After-sales services generally generate higher gross margins than new passenger vehicle sales.

After-sales Revenue Contribution for 4S Dealerships



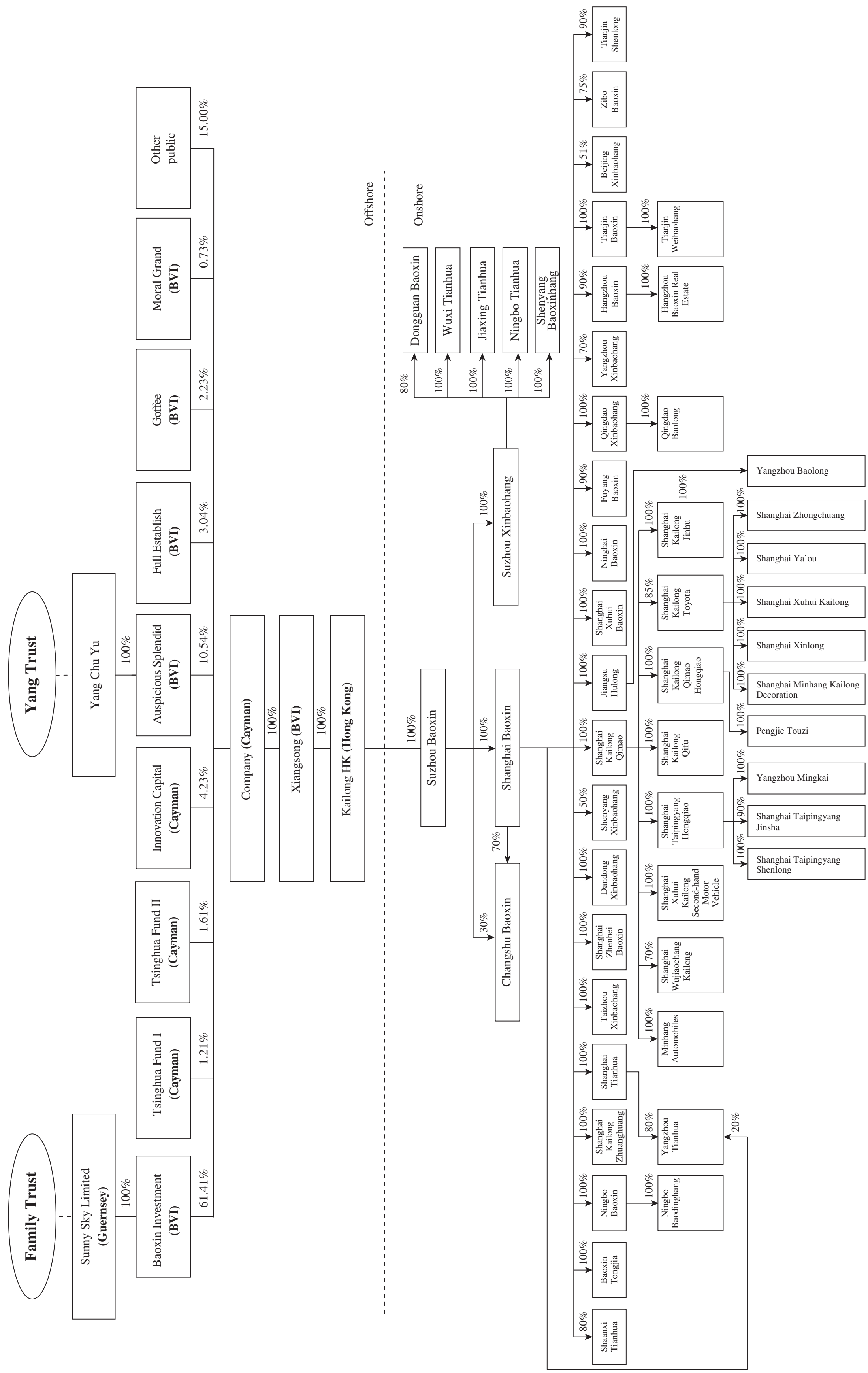
Source: Euromonitor

CORPORATE STRUCTURE

Baoxin Auto Group Limited was incorporated on September 6, 2010 in the Cayman Islands in preparation for the listing of the Company's shares on the Hong Kong Stock Exchange. Our holding company is Baoxin Investment.

Before the formation of the Group, our business was carried out by certain subsidiaries now comprising part of the Group, all of which were controlled by Mr. Yang Aihua. To consolidate Mr. Yang Aihua's interest in our Group, Shanghai Baoxin and Suzhou Baoxin acquired Mr. Yang Aihua's equity interests in such subsidiaries before the listing.

The following chart sets out our shareholders and corporate structure as of the date of this document. For the full legal name of each of our subsidiaries as of December 31, 2011, see Note 39 to the Audited Financial Statements on pages F-63 through F-68.



Family Trust
Yang Trust
Sunny Sky Limited (Guernsey)
Yang Chu Yu
100%
100%
Baoxin Investment (BVI)
Tsinghua Fund I (Cayman)
Tsinghua Fund II (Cayman)
Innovation Capital (Cayman)
Auspicious Splendid (BVI)
Full Establish (BVI)
Goffee (BVI)
Moral Grand (BVI)
Other public
61.41%
1.21%
1.61%
4.23%
10.54%
3.04%
2.23%
0.73%
15.00%
Company (Cayman)
100%
Xiangsong (BVI)
100%
Kailong HK (Hong Kong)
Offshore
Onshore
100%
Suzhou Baoxin
100%
Shanghai Baoxin
70%
30%
Changshu Baoxin
100%
Suzhou Xinbaohang
80%
Dongguan Baoxin
100%
Wuxi Tianhua
100%
Jiaxing Tianhua
100%
Ningbo Tianhua
100%
Shenyang Baoxinhang
80%
Shaanxi Tianhua
100%
Baoxin Tongjia
100%
Ningbo Baoxin
100%
Ningbo Baodinghang
100%
Shanghai Kailong Zhuanghuang
100%
Shanghai Tianhua
80%
Yangzhou Tianhua
20%
100%
Taizhou Xinbaohang
100%
Minhang Automobiles
100%
Shanghai Zhenbei Baoxin
70%
Shanghai Wujiaochang Kailong
100%
Dandong Xinbaohang
100%
Shanghai Xuhui Kailong Second-hand Motor Vehicle
50%
Shenyang Xinbaohang
100%
Shanghai Taipingyang Hongqiao
100%
Shanghai Taipingyang Shenlong
90%
Shanghai Taipingyang Jinsha
100%
Yangzhou Mingkai
100%
Shanghai Kailong Qimao
100%
Shanghai Kailong Qifu
100%
Pengjie Touzi
100%
Jiangsu Hulong
100%
Shanghai Kailong Qimao Hongqiao
100%
Shanghai Minhang Kailong Decoration
100%
Shanghai Xinlong
100%
Shanghai Xuhui Baoxin
85%
Shanghai Kailong Toyota
100%
Shanghai Xuhui Kailong
100%
Shanghai Ya'ou
100%
Ninghai Baoxin
100%
Shanghai Kailong Jinhu
100%
Shanghai Zhongchuang
100%
90%
Fuyang Baoxin
100%
Yangzhou Baolong
100%
Qingdao Xinbaohang
100%
Qingdao Baolong
70%
Yangzhou Xinbaohang
90%
Hangzhou Baoxin
100%
Hangzhou Baoxin Real Estate
100%
Tianjin Baoxin
100%
Tianjin Weibaohang
51%
Beijing Xinbaohang
75%
Zibo Baoxin
90%
Tianjin Shenlong

Overview

According to Euromonitor, we are a leading luxury 4S dealership group in China in terms of sales volume and number of dealership stores for BMW with a rapidly growing ultra-luxury dealership business. We commenced operation of three Land Rover & Jaguar dealership stores from November 2010 (when we started our cooperation with Land Rover & Jaguar) to June 30, 2011. According to Euromonitor, this makes us the dealership group which opened the largest number of Land Rover & Jaguar dealership stores in this period. As of December 31, 2011, we had a well-established network of 33 dealership stores, comprising 30 formally launched dealership stores and three additional dealership stores which were in trial operations. Twenty-three of these stores were luxury and ultra-luxury brand stores. We have received manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. All of our dealership stores are strategically located in populous and affluent regions in China with rapidly growing local economies. Our strong brand portfolio includes luxury brands such as BMW, MINI, Audi, and Cadillac, ultra-luxury brands such as Land Rover & Jaguar, and other popular mid-to-upper market brands, such as Buick, Toyota, Honda, Nissan, Volkswagen, Chevrolet and Hyundai. Sales of luxury and ultra-luxury brand automobiles in our stores have contributed to an increasing percentage of our revenue and gross profit from automobile sales over the past three years, accounting for 70.6%, 77.9% and 85.6% of our revenue from automobile sales, and 80.9%, 87.8% and 94.2% of our gross profit from automobile sales, in 2009, 2010 and 2011, respectively. We believe that our focus on luxury and ultra-luxury brands has enabled us to achieve rapid revenue and profit growth and increasing profit margins over the past three years.

Since we commenced operation in 1999 and became one of the first authorized dealerships in China for Audi in 1999, we have established a proven track record in building and operating successful, high quality dealership stores. We opened one of the first BMW Brilliance authorized 4S dealership stores in China in 2004 and have since become one of BMW's most important and largest dealerships in China in terms of 2010 sales volume. BMW was one of the best-selling and one of the fastest growing luxury automobile brands in terms of sales volumes in China in 2010, according to Euromonitor. In 2011, China was the third largest market for BMW in terms of sales volume and the fastest growing of its three largest markets worldwide, according to BMW's 2011 annual report. In 2010, three of our BMW 4S dealership stores ranked second, third and ninth, respectively, out of the ten BMW 4S dealership stores nationwide that won its Best Dealership Quality Award. This ranking takes into account all operational aspects of a 4S dealership store, including sales performance, customer service quality and customer satisfaction rates. We were the only dealership group to achieve multiple placings in this ranking performed by BMW, which had around 170 authorized 4S dealership stores in China at the time of the ranking. In addition, in 2010, two of our BMW stores were ranked first and third, respectively, in BMW's list of its ten best 4S dealership stores nationwide for after-sales business. We commenced operation of three Land Rover & Jaguar dealership stores from November 2010 (when we started our cooperation with Land Rover & Jaguar) to June 30, 2011. According to Euromonitor, this makes us the dealership group which opened the largest number of Land Rover & Jaguar dealership stores in this period and one of the largest Land Rover & Jaguar dealership groups in eastern China in terms of the number of stores as of June 30, 2011. One of our Land Rover & Jaguar dealership stores won the prizes of "Jaguar Dealer of the Year," "Land Rover Sales Dealer of the Year" and "Land Rover After-Sales Dealer of the Year" for 2011–2012, and another dealership of ours won the prizes of "Jaguar Sales Dealer of the Year" and "Land Rover Sales Dealer of the Year" for the same period. In addition, our Audi 4S dealership store ranked second among all the ten Audi 4S dealership stores in Shanghai in terms of sales volume in 2011, according to Euromonitor. We believe that our market position and superior operational capabilities and expertise have enabled us to develop long-term and stable relationships with leading automobile manufacturers and placed us in a strong position to win additional authorizations from existing and new automobile manufacturers in the future for our organic expansion and potential acquisitions.

We offer a comprehensive range of automobile-related sales and services including (1) sale of new automobiles, both imported and domestically manufactured, (2) automobile maintenance and repair services, (3) sales of automobile accessories and other automobile-related products, (4) automobile customization and styling services and (5) sales-related agency services that help buyers obtain insurance, title and registration. Our 4S dealership stores also conduct consumer surveys and provide other customer support for automobile manufacturers. Each of our 4S dealership stores has a non-exclusive dealership authorization arrangement with one automobile manufacturer (or its PRC affiliates) to offer only the products of and services for one or more brands of that manufacturer.

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

	Year Ended December 31,						
	2009		2010		2011		
Revenue Source	**Revenue**	**Contribution**	**Revenue**	**Contribution**	**Revenue**	**Revenue**	**Contribution**
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**US$'000**	**%**
Automobile Sales							
Luxury and ultra-luxury brands	3,336,666	64.6	5,583,995	72.4	9,632,667	1,530,477	80.2
Mid-to-upper market brands	1,392,256	27.0	1,584,111	20.5	1,622,279	257,754	13.5
After-Sales Business(1)	435,808	8.4	548,458	7.1	755,983	120,113	6.3
Total	5,164,730	100.0	7,716,564	100.0	12,010,929	1,908,344	100.0

Note:

(1) Includes revenue from the provision of after-sales services, such as repair, maintenance and customization, related sales of spare parts, and sales of automobile accessories and other products.

Our after-sales business, which generates recurring revenues and high profit margins for us, has grown significantly in the past three years. We expect that our after-sales business will continue to grow. In 2009, 2010 and 2011, the gross margin of our after-sales services was 46.5%, 47.5% and 48.5%, respectively.

We have a proven track record for rapid organic expansion and have accelerated the growth in our network since early 2009 by increasing the number of our dealership stores from 13 as of January 1, 2009 to 33 as of December 31, 2011. We operated six, nine and 16 BMW dealership stores as of December 31, 2009, 2010 and 2011, respectively. In addition, we opened a BMW authorized repair center in 2010. Revenues derived from these BMW dealership stores and the repair center were RMB2,958.2 million, RMB5,075.4 million and RMB7,267.1 million (US$1,154.6 million) in 2009, 2010 and 2011, respectively, accounting for 57.3%, 65.8% and 58.2% of our total revenue for the relevant period. We will seek opportunities to expand through further organic expansion and selective acquisitions in existing and new areas and to diversify our portfolio of luxury and ultra-luxury automobile brands. With our large and strategically located dealership network, we have been able to achieve synergies among our stores that provide significant competitive advantages in China's highly fragmented automobile dealership industry. Our operating scale allows us to better manage our automobiles and spare parts inventory turnover, coordinate and aggregate our purchases of automobile accessories and other products and implement a systematic approach to train and promote talented personnel.

We have recorded significant growth in our revenues and profits in the past three years. Our revenue increased from RMB5,164.7 million in 2009 to RMB7,716.6 million in 2010 and RMB12,010.9 million (US$1,908.3 million) in 2011, representing a CAGR of 52.5%, while our net profits increased from RMB175.8 million in 2009 to RMB307.7 million in 2010 and RMB615.8 million (US$97.8 million) in 2011, representing a CAGR of 87.1%. Our gross profit margins for automobile sales increased from 5.0% in 2009 to 6.0% in 2010 and 8.2% in 2011, while our gross profit margins for our after-sales business increased from to 46.5% in 2009 to 47.5% in 2010 and 48.5% for 2011.

Our Competitive Strengths

We believe the following are our key strengths:

We are well positioned to benefit from the anticipated rising demand for luxury and ultra-luxury passenger vehicles in China.

China was the largest passenger vehicle market and the fastest growing of the ten largest passenger vehicle markets worldwide in 2010 in terms of sales volumes. The PRC passenger vehicle industry has experienced substantial growth. The volume of new passenger vehicle sales in China increased from approximately 5.2 million units in 2006 to approximately 13.8 million units in 2010, representing a CAGR of approximately 27.7%, according to Euromonitor. In the PRC passenger vehicle market, the growth of the ultra-luxury and luxury segments has been particularly significant, driven by the rising demand for luxury and ultra-luxury passenger vehicles in China. For luxury brand passenger vehicles, the sales volume increased from 167,462 in 2006 to 770,289 in 2010, representing a CAGR of 46.4%, according to Euromonitor. Ultra-luxury brand passenger vehicles sales volume increased from 6,493 in 2006 to 44,921 in 2010, representing a CAGR of 62.2%, according to Euromonitor.

Our sales of luxury and ultra-luxury automobiles usually result in higher profit margins than our sales of other types of automobiles and have contributed to the growth of our after-sales service business as luxury and ultra-luxury automobile users tend to demand the premium after-sales offered by 4S dealership stores. As a result of our focus on luxury and ultra-luxury brands, we have recorded significant growth in our revenues and profits in the past three years. We believe that our strong automobile brand portfolio positions us well to capture future growth opportunities in the luxury and ultra-luxury markets.

We believe that the entry barriers to the automobiles dealership sector of the PRC are high. New automobile dealerships that attempt to enter the sector need to be authorized by automobile manufacturers, while automobile manufacturers prefer to work with large, established dealership groups given their superior brand names, operational strength and easier access to capital compared with those that have limited history or operate at a smaller size. As a result, large and existing dealership groups typically have stronger cooperative relationships with automobile manufacturers and thus have strategic advantages in capitalizing new business opportunities when they arise.

We are a leading luxury 4S automobile dealership group in China with a well-established network of stores strategically located in populous and affluent regions.

According to Euromonitor, we are a leading luxury 4S dealership group in China in terms of sales volume and number of dealership stores for BMW with a rapidly growing ultra-luxury dealership business. Our strong brand portfolio includes luxury brands such as BMW, MINI, Audi, and Cadillac, and ultra-luxury brands such as Land Rover & Jaguar. As of December 31, 2011, 23 out of our 33 dealership stores were dedicated to luxury and ultra-luxury brands. As of the date of this document, we have obtained authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center, which will increase the proportion of luxury and ultra-luxury brand stores in out network to over 70% when they are established.

We have a well-established network of stores strategically located in populous and affluent regions in the PRC with rapidly growing economies. The regions where we operate, namely, Shanghai, Jiangsu, Zhejiang, Shandong, Tianjin and Liaoning, were all ranked in the top ten in terms of per capita GDP in China in 2010 according to the National Bureau of Statistics of the PRC. Sales of luxury and ultra-luxury passenger vehicles in these regions accounted for 47.2% of total sales of luxury and ultra-luxury passenger vehicles in China in 2010, according to Euromonitor. Our presence in these affluent regions differentiates us from competitors who operate in less developed regions. The relatively higher disposable income per capita of the population in these regions generates higher demand for passenger vehicles, particularly for luxury and ultra-luxury passenger vehicles, and for the premium after-sales services offered by 4S dealership stores. Despite their relatively developed economies compared to other regions in China, the passenger vehicle ownership rates in Shanghai, Zhejiang, Jiangsu, Shandong, Tianjin and Liaoning are still well below the passenger vehicle ownership rates in developed countries such as the United States, Japan and Germany and passenger vehicle demand in these regions still have high potential for growth. At the same time, local demand for passenger vehicles in these regions developed earlier than elsewhere in China and, as a result, we believe that there is a growing number of end users who may replace their aging automobiles over the next few years. We believe that many of these potential customers will seek an upgrade when they replace their automobiles due to the increase in affluence in these regions in the past decade. As ownership of passenger vehicles in the regions where we operate increases, we also benefit from a fast growing after-sales services market that generates much higher margins than new vehicle sales. We believe that the advantageous locations of our luxury and ultra-luxury stores contribute to our high per store sales volumes and revenues.

Shanghai Municipality. We operated 13 dealership stores in Shanghai as of December 31, 2011. The average revenue from automobile sales per store of our Comparable Stores for Automobile Sales of luxury and ultra-luxury brands in Shanghai increased by a CAGR of 30.0% from RMB733.1 million in 2009 to RMB970.4 million in 2010 and RMB1,239.0 million (US$196.9 million) in 2011. Revenue derived from our dealership stores in Shanghai was RMB3,206.0 million, RMB3,925.9 million and RMB5,778.5 million (US$918.1 million) in 2009, 2010 and 2011, respectively, accounting for 62.1%, 50.9% and 48.1%, respectively, of our total revenue for the relevant period.

Jiangsu Province. We operated seven stores in Jiangsu province as of December 31, 2011, six of which commenced operation after 2008. All of these stores are luxury or ultra-luxury brand stores. The average revenue from automobile sales per store of our Comparable Store for Automobile Sales in Jiangsu increased by a CAGR of 5.1% from RMB849.0 million in 2009 to RMB977.2 million in 2010 and reached RMB937.4 million (US$148.9 million) in 2011. Revenue derived from our dealership stores in Jiangsu was RMB1,038.4 million, RMB1,367.3 million and RMB2,361.8 million (US$375.3 million) in 2009, 2010 and 2011, respectively, accounting for 20.1%, 17.7% and 19.7%, respectively, of our total revenue for the relevant period.

Zhejiang Province. We operated six stores in Zhejiang province as of December 31, 2011, all of which commenced operation after 2008. All of these stores are luxury or ultra-luxury brand stores. The average revenue from automobile sales per store of our stores in Zhejiang which opened in 2009 increased by a CAGR of 65.1% from RMB359.3 million in 2009 to RMB841.8 million in 2010 and reached RMB979.1 million (US$155.6 million) in 2011. Revenue derived from our dealership stores in Zhejiang was RMB727.9 million, RMB1,725.4 million and RMB2,523.7 million (US$401.0 million) in 2009, 2010 and 2011, respectively, accounting for 14.1%, 22.4% and 21.0%, respectively, of our total revenue for the relevant period.

Greater Bohai Rim Economic Region. We operated seven stores in the Greater Bohai Rim Economic Region as of December 31, 2011, including one store which commenced operation in 2009, two stores (including a jointly-controlled entity) which commenced operation in 2010, and four stores which commenced operation in 2011. All of these stores are luxury or ultra-luxury brand stores. Revenue derived from our dealership stores in Greater Bohai Rim Economic Region was RMB192.4 million, RMB698.0 million and RMB1,346.8 million (US$214.0 million) in 2009, 2010 and 2011, respectively, accounting for 3.7%, 9.0% and 11.2%, respectively, of our total revenue for the relevant period.

Our superior sales, after-sales services and other operational capabilities and expertise enable us to form strong partnerships with leading automobile manufacturers.

We have a proven track record in establishing successful, high quality dealership stores. We were among the first dealership groups authorized by BMW Brilliance, Audi, Buick and FAW Toyota Motor Sales Co. Ltd. ("FAW Toyota") to establish 4S stores in China. We believe that our superior operational capabilities and expertise have helped our automobile manufacturer partners gain market share and win customer loyalty in China, which have contributed to our long-term and stable relationships with them. We have more than seven years of partnership with BMW and more than 12 years of partnership with Audi. In addition, our superior sales, after-sales services and other operational capabilities and expertise have been recognized by numerous awards from automobile manufacturers, industry groups, media and government entities. In 2010, three of our BMW 4S dealership stores ranked second, third and ninth, respectively, out of the ten BMW 4S dealership stores nationwide that won its Best Dealership Quality Awards. In 2010, two of our BMW stores were ranked first and third, respectively, in BMW's list of its ten best 4S dealership stores nationwide for after-sales business. One of our Land Rover & Jaguar dealership stores won the prizes of "Jaguar Dealer of the Year," "Land Rover Sales Dealer of the Year" and "Land Rover After-Sales Dealer of the Year" for 2011–2012, and another dealership of ours won the prizes of "Jaguar Sales Dealer of the Year" and "Land Rover Sales Dealer of the Year" for the same period. One of our Buick stores in Shanghai was accredited by Shanghai General Motors Co., Ltd. ("Shanghai GM") as a five-star authorized service center for sales in 2008, 2009 and 2010 and for after-sales services in 2006, 2009 and 2010, an award that is only given to the top 10% of its 4S dealership stores in terms of overall performance for sales and after-sales services, respectively. See "—Our Dealership Network—Awards and Achievements" below.

Our strong sales capabilities are evident from our strong per store sales performance and revenue per store in the past three years. Average sales volume per store of our Comparable Stores for Automobile Sales of luxury and ultra-luxury brands increased by 25.0% from 1,624 units in 2009 to 2,030 units in 2010 and by a further 1.8% to 2,067 units in 2011, while their average revenue from automobile sales per store increased by 26.0% from RMB771.8 million in 2009 to RMB972.6 million in 2010 and by a further 4.2% to RMB1,013.0 million (US$160.9 million) in 2011.

Our strong after-sales service capabilities are evident from the significant growth in our after-sales business in the last three years. Average revenue from after-sales business per store of our Comparable Stores for After-Sales Business of luxury and ultra-luxury brands grew by 15.1% from RMB86.8 million in 2009 to RMB 99.9 million in 2010 and increased by 15.4% to RMB114.6 million in 2011. The combined gross profit margin of our Comparable Stores for After-Sales Business of luxury and ultra-luxury brands was 47.6% in 2009, 48.2% in 2010 and 47.5% in 2011.

We believe that our superior operational capabilities and expertise have enabled us to develop long-term and stable relationships with leading automobile manufacturers and placed us in a strong position to win additional authorizations from existing and new automobile manufacturers in the future for our organic expansion and potential acquisitions.

Our highly efficient operations and scalable and readily replicable business model allow us to enjoy competitive advantages in China's automobile dealership industry.

- *Our effective control over operations and ability to train and retain talented personnel enable us to meet the stringent requirements imposed by luxury and ultra-luxury automobile manufacturers.*

In order to maintain their premium brand images, manufacturers for luxury and ultra-luxury brand automobiles generally have stringent requirements when granting dealership authorizations and will continue monitoring the operation of the dealership in all aspects.

They regularly conduct customer surveys, comprehensive appraisals and unannounced inspections to ensure their dealerships' services are satisfactory and consistent. To comply with the stringent requirements imposed by the relevant automobile manufacturers, each of our dealership stores uses a proprietary system provided by the relevant automobile manufacturer to record, track and analyze its sales and after-sales businesses on a daily basis. In addition, our centralized ERP system provides us with access to key performance indicators and monitor our accounts, cash flows, human resources and other management functions.

We also implement a systematic approach to train and retain talented personnel in response to automobile manufacturers' requirements on the level of knowledge, experience and skill of our dealership management, sales team and after-sales technicians. For example, the after-sales managers of our BMW dealership stores are required to attend adequate training sessions and pass certain tests administered by BMW before they start serving our customers, and will receive continuing training throughout their career with us. Our ability to retain the highly trained dealership professionals and to implement the requirements imposed by automobile manufacturers makes us well positioned in the competition of the luxury and ultra-luxury segments of automobile dealership market.

- *Economy of scale allows us to achieve synergies among our stores that provide significant competitive advantages in China's highly fragmented automobile dealership industry.*

As a leading luxury 4S dealership group in China, we are able to coordinate and aggregate orders for automobile accessories and other products due to our operating scale in different regions. We can also re-allocate automobile and spare parts inventory and repair and maintenance orders among different stores of same automobile brand in the same general area according to demand and available capacity. This flexibility allows us to exercise better inventory control and helps us to optimize the mix of automobiles and other products in each of our dealership stores. In addition, the scale of our operations and our considerable financial resources put us in a better position than smaller competitors to bargain for better commercial terms from suppliers of automobile accessories and other products.

- *Our standardized store establishment processes and efficient management contribute to successful store replication.*

We have an operating model for establishing new stores which has been successfully replicated in different areas. When selecting a new area, we take into account a broad range of factors, including, among others, local disposable income per capita, consumption patterns and automobile ownership rates. In selecting a new store venue, we consider different factors, such as convenience and ease of access, traffic flow and parking availability. We operate standardized processes for work allocation, training and promotion which enable us to use our human resources efficiently, help to instill our business practices and corporate culture at new stores and ensure consistent service quality across our network. Our large pool of skilled employees allows us to staff new stores quickly and appropriately. To help our new stores normalize their operations quickly, we have a dedicated Dealership Quality Program (DQP) team of highly experienced management, sales and after-sales personnel that oversees the establishment and early operation of all our new 4S dealership stores. We also select seasoned store managers and sales and after-sales personnel from our existing stores and post them to our new stores.

We have generally been able to ramp up sales at our new stores during their first year of operation. Our ability to successfully ramp up sales in new stores is demonstrated, for example, by Qingdao Xinbaohang Automobile Sales & Service Co. Ltd., a BMW 4S store which commenced operation in May 2009 and recorded revenue from automobile sales of RMB188.1 million in 2009, and by Shanghai Tianhua Automobile Sales Co., Ltd., a Land Rover & Jaguar store which commenced operation in January 2011 and recorded revenue from automobile sales of RMB1,182.5 million in 2011. Many of our new stores are located in areas that were new markets for us, including Hangzhou, Ningbo and Qingdao, which we believe demonstrates our ability to successfully expand into and operate across different areas.

We are led by an experienced senior management team under a high standard corporate governance framework and we have a large and growing pool of skilled employees to support our expanding network and business.

We are led by an experienced senior management team that has, over the years, overseen the growth of our business through different economic cycles, our transition into a dealership group focused on luxury and ultra-luxury brands, the increase in the number of our 4S stores, our expansion into more than ten additional cities from our initial base in Shanghai and the growth of our automobile brand portfolio from one in 1999 to the existing 12. Many members of our senior management team, including Mr. Yang Aihua, Mr. Yang Hansong and Mr. Zhu Jieling, have more than 15 years of experience in the automobile industry. Our senior management team has been with our Group for 11 years, on average. We believe that their operational experience and long history with our Group have given them in-depth knowledge of our business and customers and contributed significantly to our success.

As a dealership group focusing on luxury and ultra-luxury brand automobiles, we are operating under a well established system that can effectively control our business and meet the stringent compliance requirements imposed by automobile manufacturers. Our ERP system monitors the sales and operations of our dealership stores and automobile manufacturers generally require our dealership stores to use a proprietary system provided by them to closely monitor our day-to-day operation. In addition, as a public company, we are subject to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), including the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, as well as other rules and regulations applicable to a Hong Kong-listed company.

We have a large pool of employees, including 88 management personnel, 769 sales and marketing personnel and 1,392 after-sales service personnel as of December 31, 2011, to support our planned network expansion. We dedicate significant resources to personnel training, recruiting and promotion. The number of our staff grew significantly in the past three years to meet the requirements of our growing dealership network and business operations. Based on our experience and the training programs of our automobile manufacturer partners, we have developed standardized processes and comprehensive courses for the training of our employees and continuous upgrading of their skills and know-how. We employ full time in-house trainers and regularly apprentice new recruits to our best performing dealership stores for training. We have a systematic approach for identifying and promoting talented employees, often by rotating them to different stores, which offer them long-term career paths and performance incentives and allow us to leverage the skills and know-how of our more experienced employees at our new stores. We have established in Changshu, Jiangsu province a dedicated training institute to provide training courses for all levels of our employees in different fields. As a result of the foregoing, we have a large and growing pool of skilled employees to support our expanding network and business.

Our Strategies

Our goal is to strengthen our market position as a leading luxury 4S dealership group in China and to capture the opportunities in the large and fast-growing luxury and ultra-luxury markets by pursuing the following strategies:

Continue to expand dealership network and brand offerings through organic store growth and selective acquisitions.

We will continue to focus primarily on luxury and ultra-luxury brands to attract high net worth customers who require premium products and services, are less price sensitive and have greater brand loyalty, and we intend to increase the proportion of our stores dedicated to these brands. We plan to expand our dealership network through new store openings, and we may make selective acquisitions of other dealerships if suitable opportunities arise.

Organic Growth. We will continue to strengthen our leading position in eastern China by leveraging our presence, local knowledge and relationships in the areas where we already operate to expand into adjacent or nearby areas. We will also seek opportunities to expand into other populous and affluent areas with rapidly growing economies and relatively higher disposable income per capita, which we believe are poised to have significant growth potential in passenger vehicle demand. We plan to focus our network expansion in the foreseeable future primarily in provincial, sub-provincial and prefectural cities, but we believe that certain county cities and smaller towns that are relatively affluent could also offer significant growth potential in passenger vehicle demand and we will selectively expand into such areas.

We also plan to pursue opportunities to cooperate with other luxury or ultra-luxury brand automobile manufacturers to expand our brand portfolio. We believe that our well-established relationships with leading automobile manufacturers and our successful track record 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. We believe that the addition of other luxury and ultra-luxury brands will leverage our existing strengths, complement our existing brand portfolio and enhance our product mix.

Acquisitions. We believe there will be attractive opportunities for industry consolidation due to automobile manufacturers' increasing preference to work only with the larger dealership groups. We believe that our well-established relationships with leading automobile manufacturers and our experience and operational expertise in this industry will enable us to integrate any acquired targets into our dealership network and realize synergies from such acquisitions. We will leverage our existing network, industry experience and operating expertise to improve the performance of acquired stores.

Continue to enhance our operational efficiency.

We will continue to enhance our operational efficiency by expanding and enhancing our after-sales capabilities and our sales and marketing efforts. To support our continuing growth and expansion, we will also focus on attracting, training and retaining skilled employees.

- *Continue to enhance and expand our after-sales capabilities and capacity.*

Our after-sales business generates recurring revenues and high profit margins for us. We expect the accumulation in our new automobile customers to develop into a growing after-sales customer base over time. To grow our after-sales services business, we plan to continue to increase our service capacity, expand the scope of our after-sales services, improve the productivity of our after-sales service personnel and expand into new product and service offerings.

To increase our service capacity, we are extending service hours and increasing utilization of the floor space allocated to the provision of after-sales services at our existing stores. We are also reallocating work flow among different stores within the same region to increase the utilization of our service capacity. We currently operate one BMW authorized repair center which is dedicated to providing after-sales services for BMW automobiles and generates profitable after-sales revenues for us. We plan to open additional repair centers to capture increasing market demand. As of the date of this document, we have received authorization to establish another BMW authorized repair center.

To improve the productivity of our after-sales service personnel, we are in the process of rolling out an initiative at all of our stores which is designed to increase productivity through (1) enhancing the specialization of our after-sales service technicians by categorizing customer orders according to different automobile models and work type and allocating work more systematically according to its complexity and the level of experience and technical expertise required, (2) introducing systematic performance evaluation procedures and measures to better evaluate an employee's performance and output, and adopting compensation practices to incentivize employees to increase their output and improve their skills and efficiency, and (3) adopting more efficient designs of our after-sales service areas based on workstreams for different automobile models and tasks.

- *Continue to broaden our revenue sources by other automobile related business.*

We will continue to broaden our revenue sources and enhance our profitability by expanding our other automobile related businesses, including our automobile styling and accessories businesses which have high profit margins. The automobile accessories that we offer include electronics, styling products and automobile care products. We believe that the increasing demand for automobile styling and automobile care products, together with our large and growing automobile customer base, provide significant growth potential for our automobile accessories business. The majority of our automobile accessories are obtained from independent suppliers. We intend to maintain and strengthen our relationships with these suppliers in order to expand our offering of high-quality automobile accessories and provide our customers with the latest and most advanced products at attractive prices.

In addition, we have one collision damage assessment center in operation in Shanghai as of the date of this document. We believe that the damage assessment center may bring more repair service referrals to our stores. Other services we are currently expanding include a 24-hour customer service call center and emergency roadside towing service.

- *Further enhance our operational capabilities and sales and marketing efforts.*

We will continue to seek ways to enhance our operational capabilities and sales and marketing efforts to improve sales performance and improve profitability.

As part of our continuing efforts to improve our performance, we will continue to enhance our training programs and improve the product knowledge and other professional expertise of our sales personnel. We will also enhance our sales and marketing efforts through more advertising and marketing campaigns and participation in promotional events, such as sponsorships of selected events where a high proportion of the attendees are likely to meet our targeted customer demographics. We plan to further grow our automobile-related services, such as our agency services for automobile insurance policies and new automobile registration services, through more proactive sales and marketing initiatives.

We plan to further upgrade our centralized ERP system to enhance our operational efficiency. These upgrades are designed to enhance our management of supplies purchases and inventory across different stores, which will in turn help to reduce our inventory turnover days and related expense.

- *Continue to attract, train and retain skilled employees to support our future growth and expansion.*

We recognize that our employees are critical to our long-term success, and therefore we plan to continue to focus on attracting, training and retaining skilled employees to support our continuing growth and expansion. We have established in Changshu, Jiangsu province a dedicated training institute, which is located adjacent to our 4S dealership store in Changshu and equipped with its own campus, after-sales service facilities, classrooms and boarding facilities. This training institute will provide 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.

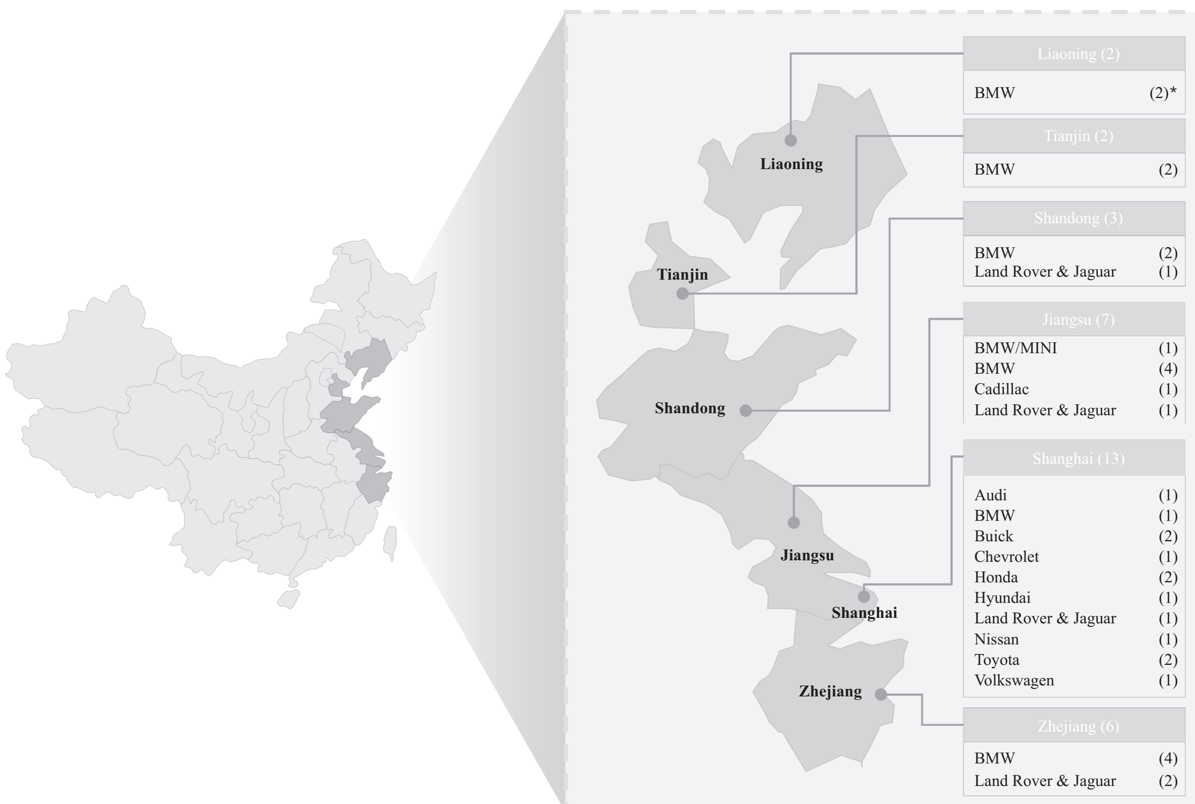
We plan to train and internally promote a majority of the store managers, senior managers and skilled technical personnel required to support our expansion. We plan to continue to evaluate and enhance our human resources management processes to strengthen our ability to train, identify and retain employees. We will continue to regularly evaluate the performance of our employees and provide talented employees with career opportunities within our Group. We will also continue to evaluate our merit-based compensation system to ensure that incentives are aligned with performance. In addition to the automobile manufacturers' standard training courses, we will continue to invest in, develop and upgrade our in-house training programs. As part of our initiative to improve employee productivity, we are developing standardized processes and course modules to help our employees develop the skills and product knowledge relevant to the automobile brands and geographical areas that they service.

Our Dealership Network

Overview

All of our stores are strategically located in populous and affluent regions in China with rapidly growing local economies, including Shanghai, Jiangsu and Zhejiang where we had 13, seven and six dealership stores, respectively, as of December 31, 2011. We have also expanded into the Greater Bohai Rim economic region with seven dealership stores in Shandong, Liaoning and Tianjin as of December 31, 2011.

The map below sets forth the geographic distribution of our dealership stores as of December 31, 2011.



** Include 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

The following table sets forth the details of our dealership stores as of December 31, 2011. The "Dealership Expiration Date" column below indicates the month in which the dealership's authorization agreement expires or, for the stores that are in trial operations or in the process of signing a renewal of an expired dealership authorization, the latest month covered by the most recent automobile supply plan confirmed by the relevant automobile manufacturer as of the date of this document.

Dealership Store	City	Province	Store Type	Commenced Operation	Dealership Expiration Date
Luxury and Ultra-luxury Brand Stores					
BMW					
Shanghai Baoxin	Shanghai	Shanghai	4S store	April 2004	December 2012
Hangzhou Baoxin	Hangzhou	Zhejiang	4S store	January 2009	December 2012
Ningbo Baoxin	Ningbo	Zhejiang	4S store	February 2009	December 2012
Changshu Baoxin	Changshu(1)	Jiangsu	4S store	March 2009	December 2012
Qingdao Xinbaohang	Qingdao	Shandong	4S store	May 2009	December 2012
Shenyang Xinbaohang(2)	Shenyang	Liaoning	4S store	January 2010	December 2012
Tianjin Baoxin	Tianjin	Tianjin	4S store	July 2010	December 2013
Yangzhou Xinbaohang	Yangzhou	Jiangsu	4S store	September 2010	December 2013
Taizhou Xinbaohang	Taizhou	Jiangsu	4S store	January 2011	December 2013
Suzhou Xinbaohang	Suzhou	Jiangsu	4S store	April 2011	December 2014
Ninghai Baoxin	Ningbo	Zhejiang	4S store	August 2011	December 2014
Ningbo Baodinghang(3)	Ningbo	Zhejiang	Showroom	November 2011	December 2012
Qingdao Baolong	Qingdao	Shandong	Showroom	December 2011	December 2012
Tianjin Weibaohang	Tianjin	Tianjin	Showroom	December 2011	December 2013
Dandong Xinbaohang(3)	Dandong	Liaoning	4S store	December 2011	December 2012
BMW/MINI					
Suzhou Baoxin	Suzhou	Jiangsu	4S store	February 2005	December 2012
Land Rover & Jaguar					
Shanghai Tianhua	Shanghai	Shanghai	4S store	January 2011	March 2014
Ningbo Tianhua	Ningbo	Zhejiang	4S store	May 2011	March 2014
Wuxi Tianhua	Wuxi	Jiangsu	4S store	May 2011	March 2014
Jiaxing Tianhua	Jiaxing	Zhejiang	4S store	July 2011	March 2014
Zibo Baoxin(3)(4)	Zibo	Shandong	4S store	December 2011	April 2012
Audi					
Shanghai Kailong Qimao(5)	Shanghai	Shanghai	4S store	December 1999	December 2012
Cadillac					
Yangzhou Mingkai	Yangzhou	Jiangsu	4S store	May 2011	March 2013

Dealership Store	City	Province	Store Type	Commenced Operation	Dealership Expiration Date
Mid-to Upper Market Brand Stores					
Buick					
Shanghai Taipingyang Jinsha .	Shanghai	Shanghai	4S store	September 2002	June 2012
Shanghai Taipingyang Hongqiao	Shanghai	Shanghai	4S store	August 2004	June 2012
Chevrolet					
Shanghai Taipingyang Shenlong.	Shanghai	Shanghai	4S store	May 2005	March 2013
Toyota (FAW)					
Shanghai Kailong Toyota	Shanghai	Shanghai	4S store	October 2002	March 2013
Toyota (GAC)					
Shanghai Xuhui Kailong.	Shanghai	Shanghai	4S store	June 2006	May 2012
Honda (GAC)					
Shanghai Xinlong	Shanghai	Shanghai	4S store	May 2003	June 2012
Shanghai Ya'ou.	Shanghai	Shanghai	4S store	December 2005	December 2012
Volkswagen (FAW)					
Shanghai Kailong Qifu.	Shanghai	Shanghai	4S store	October 2001	December 2012
Hyundai					
Shanghai Zhongchuang(4)(6) . .	Shanghai	Shanghai	4S store	December 2003	April 2012
Nissan (Dongfeng)					
Minhang Automobiles(6).	Shanghai	Shanghai	4S store	November 2001	December 2012

Notes:

(1) Changshu, Jiangsu Province is a county city.

(2) Shenyang Xinbaohang is a jointly-controlled entity whose revenues and sales volume are not included in our combined and consolidated revenues and sales volume.

(3) This store was in trial operation as of December 31, 2011.

(4) We are in the process of obtaining the relevant automobile manufacturer's confirmation on the automobile supply plan for this store for May 2012 and signing of the annual supply contract for the rest of the year.

(5) The dealership authorization agreement for this 4S dealership store was entered into with FAW-Volkswagen Sales Co., Ltd. ("FAW-Volkswagen"), the general distributor for the Audi automobiles manufactured by FAW-Volkswagen Automobiles Co., Ltd.

(6) The land on which this dealership store is located is owned by Shanghai Kailong Qixiao, a company controlled by the Controlling Shareholder.

Other Stores

In addition to dealership stores, our network also included other stores as of December 31, 2011, including:

- A BMW authorized repair center in Shanghai, which offers BMW after-sales services and spare parts. This store, which opened in 2010, supplements the repair capacity of our BMW dealership store in Shanghai.

- Two automobile customization centers in Shanghai that provide a broad range of vehicle styling and detailing services, such as window tinting and electronics installation, for different brands of automobiles. These two automobile customization centers opened in 2003 and 2010, respectively.

Awards and Achievements

Our dealership stores have received numerous awards and recognition from automobile manufacturers, industry trade associations, media and government bureaus, including the following:

- In 2008, we were named one of the ten most influential 4S dealership groups in China by the CADA, and in 2010, we were awarded the CADA's 2010 Dealership Service Innovation Award.

- In 2010, three of our BMW stores were selected from around 170 BMW 4S dealership stores in China and ranked second, third and ninth, respectively, out of the ten BMW 4S dealership stores nationwide that won its Best Dealership Quality Awards. We were the only dealership group to achieve multiple placings in this ranking, which takes into account all operational aspects of a dealership store, including sales performance, customer service quality and customer satisfaction rates. In addition, in 2010, two of our BMW stores were ranked first and third, respectively, in BMW's list of its ten best dealership stores nationwide for after-sales business.

- One of our Land Rover & Jaguar dealership stores won the prizes of "Jaguar Dealer of the Year," "Land Rover Sales Dealer of the Year" and "Land Rover After-Sales Dealer of the Year" for 2011–2012, and another dealership of ours won the prizes of "Jaguar Sales Dealer of the Year" and "Land Rover Sales Dealer of the Year" for the same period.

- One of our Buick stores in Shanghai was accredited by Shanghai GM as a five-star authorized service center for sales in 2008, 2009 and 2010 and for after-sales services in 2006, 2009 and 2010, an award that is awarded only to the top 10% of its dealerships as ranked by Shanghai GM.

In addition, a number of our employees have been honored accolades from automobile manufacturers in the past. In 2007, the spare parts department manager of our Shanghai BMW store won first place globally in BMW's After-Sales Competition of Excellence for product knowledge and sales of parts, accessories and lifestyle products and was honored at BMW headquarters in Germany. In 2010, a technician of our Hangzhou BMW store won first place in BMW's China Service Technican Certification. Other awards include the "Most Valuable Employee" of Guangzhou Toyota Motor Co. Ltd. ("GAC Toyota") (2008 and 2010), "Top Dealer Management Award" (2008 and 2011), "Top Marketing Performance Award" (2008), "Top Service Performance Award" (2009 and 2011), "Media Coverage Award" (2009) and "Best Public Relationship Specialist of Eastern China" (2011) awards of BMW.

Network Expansion

Our network expansion to date has been achieved through organic growth. The following table sets forth the number of our dealership stores as of the dates indicated:

Number of Stores	As of January 1, 2009	As of December 31, 2009	2010	2011
Luxury and ultra-luxury brands	3	7	10	23
Audi	1	1	1	1
BMW	2	6	9	16
Cadillac	—	—	—	1
Land Rover & Jaguar	—	—	—	5
Mid-to-upper market brands	10	10	10	10
Total	13	17	20	33

We have received automobile manufacturers' authorizations, conditional approvals and non-binding letters of intent to establish another ten luxury and ultra-luxury brand 4S dealership stores, showrooms and repair center. Our showrooms engage in sales of automobile but do not offer after-sales services. The details of these stores are described below:

Geographical Location	Brand	Store Type	Planned/Actual Commencement Date
Tianjin	Land Rover & Jaguar	4S store	2nd quarter of 2012
Dongguan, Guangdong Province	BMW	4S store	2nd quarter of 2012
Wuxi, Jiangsu Province	BMW	4S store	2nd quarter of 2012
Yantai, Shandong Province	BMW	4S store	2nd quarter of 2012
Fuyang, Zhejiang Province(1)	BMW	4S store	2nd quarter of 2012
Shenyang, Liaoning Province	BMW	Repair center	2nd quarter of 2012
Shanghai	Audi	4S store	3rd quarter of 2012
Beijing	BMW	4S store	3rd quarter of 2012
Xi'an, Shaanxi Province	Land Rover & Jaguar	4S store	3rd quarter of 2012
Shanghai	BMW	4S store	4th quarter of 2012

Note:

(1) Fuyang, Zhejiang Province is a county city.

We have an operating model for establishing new stores which has been replicated in different areas. We select new store locations by taking into account our automobile manufacturers' expansion plans, which identify the markets they target for new stores, and other factors including, among others, local disposable income per capita, consumption patterns and automobile ownership rates. In selecting a new store venue, we consider different factors, such as convenience and ease of access, traffic flow and parking availability. Each new store proposal that we make for a target market includes our own market analysis and business plan. When our new store proposal is accepted by an automobile manufacturer, we are required to complete the construction and build-out of the dealership store within a prescribed time agreed by the manufacturer. Each completed dealership store must pass the manufacturer's inspection before it can commence its operations.

We operate standardized processes for work allocation, training and promotion which enable us to use our human resources efficiently, help to instill our business practices and corporate culture at new stores and ensure consistent service quality across our network. To help a new store ramp up its operations quickly, we have a dedicated Dealership Quality Program (DQP) team of highly experienced management, sales and after-sales personnel that oversees and supports the establishment and early operations of our new stores. We also select seasoned store managers and sales and after-sales personnel from our existing stores and post them to our new stores. Our large pool of management, sales and technical personnel allows us to staff new stores quickly and appropriately.

To maintain consistent service quality across our growing network, we provide regular training programs for all customer-facing employees and personnel from our headquarters will conduct site-visits, including unscheduled visits, to our stores to monitor their operations. To manage our inventory levels and working capital across different stores, we have a centralized ERP system that provides up-to-date information regarding our cash levels and accounts, as well as sales and inventory levels of different automobile models at different dealership stores on a daily basis, to our headquarters. This information is reviewed regularly to ensure that our stores are adequately funded and appropriately stocked with inventory.

Dealership Arrangements

We have dealership authorization agreements with BMW China Automotive Trading Ltd., BMW Brilliance, Jaguar Land Rover PLC, Shanghai GM, FAW Toyota, GAC Toyota, Guangqi Honda Automobile Co., Ltd., Beijing Hyundai Motor Co. Corp., FAW-Volkswagen, Dongfeng Nissan Passenger Vehicle Co. or their general automobile distributors in China.

The agreements are non-exclusive and granted for an initial period of one to three years. The automobile manufacturers, through dealership authorization agreements, impose standards and restrictions on the dealers of their vehicles. Under these agreements, the automobile manufacturers specify the locations of our dealership stores and require us to observe their recommended pricing guidelines from time to time. Their representatives conduct site-visits, including unscheduled visits, to inspect the compliance of our stores with their requirements. Under our existing dealership authorization agreements, the automobile manufacturers usually require our dealership stores to:

- sell only their brands of automobiles at that store;
- make full payment for our automobile inventory prior to shipment and take ownership and assume risk for the automobiles either upon shipment or upon delivery;
- provide designated services such as vehicle maintenance and provision of spare parts;
- adhere to the automobile manufacturer's design guidelines for the dealership stores; and
- observe the automobile manufacturers' sales policies.

The dealership authorization agreements permit our stores to use the automobile manufacturer's trademarks, trade names and other marketing and branding content in ways consistent with standards set by the automobile manufacturer to promote sales at our dealership stores. The agreements generally do not impose minimum purchase requirements on our dealership stores. The automobile manufacturers can terminate the agreements with written notice for a variety of reasons, including our failure to abide by the agreements, unapproved business relationships with other automobile manufacturers and unapproved changes to our ownership or management structure that would affect our ability to meet our contractual obligations. The notice period required to terminate a dealership authorization agreement varies for different agreements according to the policies of different automobile manufacturers and ranges from nil (namely, a termination notice that takes immediate effect) to 90 days.

Automobile Sales

We derive a majority of our revenue from automobile sales. The following table shows our revenue from automobile sales for the periods indicated:

	Year Ended December 31,						
	2009		2010		2011		
	Revenue	Contribution	Revenue	Contribution	Revenue	Revenue	Contribution
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Automobile Sales							
Luxury and ultra-luxury brands. . . .	3,336,666	70.6	5,583,995	77.9	9,632,667	1,530,477	85.6
Mid-to-upper market brands	1,392,256	29.4	1,158,111	22.1	1,622,279	257,754	14.4
Total	4,728,922	100.0	7,168,106	100.0	11,254,946	1,788,231	100.0

Our automobile manufacturer partners set annual non-binding sales targets for each of our dealership stores and review its performance from time to time, usually on a quarterly basis. Achievement of these targets will be taken into account of when the relevant automobile manufacturer subsequently assesses the dealership store's performance and decides the allocation of new automobiles for future sales. The retail prices of our new automobiles are determined with reference to the manufacturers' wholesale prices and retail pricing guidelines, which do not typically set specific retail prices. We retain some flexibility in determining the retail prices of our new automobiles, which are influenced by a number of factors, including brand and model, market demand, inventory supply and presence of competing dealerships.

As a complimentary service to our customers and to promote sales of new automobiles, our dealership stores assist customers who wish to trade-in their used automobiles by referring them to third parties who offer such trade-in services. We do not purchase or otherwise offer any credit to our customers for their used automobiles.

After-Sales Services

Our after-sales business includes the provision of maintenance, repair and vehicle customization services, related sales of auto parts, and sales of accessories and other automobile related products. All of our 4S dealership stores have well-equipped vehicle repair and maintenance facilities and comfortable waiting lounges that offer complimentary refreshments and free Internet access. We offer a broad range of maintenance and repair services from routine oil changes to post-collision body restoration.

We believe our capability of delivering high quality repair and maintenance services to our customers in a quick and convenient manner contributes to our success in retaining customers and attracting new customers. Technical expertise and high service quality in the provision of after-sales services are critical for attracting new customers and building long-term customer relationships. We place significant emphasis on recruiting, training and retaining skilled technical personnel with specialized knowledge and experience for our after-sales service business. To enhance their customer service skills and sales techniques, our after-sales technical personnel undergo regular training programs designed based on our customer service-oriented and sales-focused philosophy as well as training programs offered by the automobile manufacturers.

Our maintenance and repair services are generally charged based on the prices of the spare parts (if any) used and the hourly rates of our technicians, which are all determined by reference to automobile manufacturers' pricing guidelines. The number and composition of personnel assigned to each job, and their expertise and experience, differ according to the nature and complexity of the particular job. To maintain the quality of our services, experienced technicians inspect each service job upon completion and our store managers regularly conduct random inspections by calling our customers to gauge their degree of satisfaction with our services. Each of our dealership stores uses a proprietary software system provided by the relevant automobile manufacturer to record, track and analyze the manpower and spare parts used in the after-sales service jobs undertaken by them. Our after-sales services capabilities are further enhanced through the use of our information technology systems that collect and analyze detailed customer information and provide other support to our sales personnel. In 2010, two of our BMW stores were ranked first and third, respectively, in BMW's list of its ten best dealership stores nationwide for after-sales business. One of our Buick stores in Shanghai was accredited by Shanghai GM as a five-star authorized service center for sales in 2008, 2009 and 2010 and for after-sales services in 2006, 2009 and 2010, an award that is awarded only to the top 10% of its dealerships in terms of overall performance for sales and after-sales, respectively.

To make our services more convenient for customers, we are working to shorten turnaround times for different maintenance and repair jobs. To accommodate the busy schedules of our customers, we offer prescheduled maintenance appointments, priority appointments for VIP customers, guaranteed turnaround times, and same-day express repair services across our network. We also offer 24-hour towing services and assist customers who wish to rent temporary replacement automobiles. To further expand our after-sales service capacity and meet increasing customer demand, we opened a BMW authorized repair center in Shanghai in 2010.

Maintenance Services

Automobiles require periodic maintenance, and recurring automobile maintenance is an ongoing revenue stream for us. Automobile manufacturers vary in their recommendation of how frequently owners should schedule maintenance, generally once every three to six months or 5,000 to 10,000 kilometres. A typical maintenance service check generally includes routine vehicle inspection and oil change, and may include replacements of air filter, spark plugs, brake pads, and other parts as well as tire rotation and other adjustments. We send periodic reminders to owners to schedule subsequent maintenance checks.

Repair Services

Our 4S dealership stores provide a full range of vehicle repair services, including major repairs to drive-train mechanisms and post-collision body restoration. Automobile manufacturers generally offer new automobile customers warranty coverage for certain types of repairs. The terms of such warranties vary among different automobile manufacturers but are generally limited to repairs caused by defects in spare parts or workmanship that occur during the first 24 to 36 months of vehicle ownership within the first 20,000 to 30,000 kilometers driven. Automobile manufacturers generally do not conduct warranty repair services themselves.

We are not required to provide any warranty with respect to the automobiles and other products that we sell. We are paid by automobile manufacturers for the in-warranty repair services that we perform and the automobile manufacturers bear the costs of the related spare parts. Customers must pay for out-of-warranty repairs, which are charged according to the spare parts and manpower required for the repairs. Our engineers and technicians are required to familiarize themselves with the scope of the relevant automobile manufacturer's warranty coverage.

Under applicable PRC laws, we are required to provide a service warranty for the repair services that we perform. Under the relevant PRC laws and regulations, automobile repairs are divided into several categories and the mandatory warranty period for each repair varies from the shorter of ten days and 2,000 kilometres (in the case of basic repairs) to the shorter of 100 days or 20,000 kilometres (in the case of major repairs). The warranty period commences from the date the automobile leaves the store. The after-sales departments of our stores monitor the status of the claims made by our after-sales service customers against us to ensure that provisions (if any) are made therefor as necessary.

Sale of Automobile Accessories and Related Products

Our dealership stores offer spare parts as part of our repair and maintenance services. All of our spare parts are procured from the original automobile manufacturers. We also retail automobile accessories and other automobile-related products, such as motor oil, additives, GPS navigation devices and original brand merchandise, such as travel cases, toy car models and clothing.

Automobile Recalls

Our dealership stores also assist automobile manufacturers in handling automobile recalls by distributing information to vehicle owners and making remedial repairs. Recall procedures vary with automobile manufacturer. Prior to issuing a public recall, the automobile manufacturers will generally notify their authorized dealers and provide instructions on how to remedy the problem and respond to inquiries from vehicle owners. Upon the notice, we typically contact our customers who may be affected and ask them to bring their vehicles into our dealership stores for remedies in accordance with the automobile manufacturers' instructions. The automobile manufacturers generally do not impose a time limit within which the affected customers must bring their vehicles to dealership stores for repairs. In addition to servicing recalled vehicles we sell, we service recalled vehicles sold by other dealers. We also make remedial repairs to recalled vehicles still in our inventory, if any, prior to their sale. We are compensated by the automobile manufacturers for the repair services we perform in conjunction with their vehicle recalls. All the automobiles sales and after-sales services (including those related to automobile recalls) we provide are conducted in accordance with the dealership authorization agreements with our automobile manufacturer partners. We have not participated in any automobile recalls by an automobile manufacturer that we have not entered into any dealership agreements with. Our costs relating to product recalls are generally reimbursed by automobile manufacturers within two to three months. We have been advised by our PRC legal advisors, Jingtian & Gongcheng, that we are not liable under PRC laws and regulations for the cost associated with vehicle recalls. See "Risk Factors—Risks Relating to Our Business—Any automobile recall could have a negative impact on our results of operations, financial condition and growth prospects".

A number of our dealership authorization agreements provide that the relevant automobile manufacturer bears responsibility for any defects in the design or production of their automobiles, while our dealership stores bear responsibility for any defects caused by them while the automobile was in their possession. We have been advised by our PRC legal advisors, Jingtian & Gongcheng, that the product liability for automobiles sold in China is governed by mandatory provisions of PRC laws and regulations. Under the Product Quality Law, any consumer who purchased a defective product may seek compensation from either the manufacturer or the retailer. The retailer may seek reimbursement from the manufacturer where the defect is attributable to the manufacturer unless any agreement between the manufacturer and the retailer provides otherwise.

Other Services

Automobile Agency Services

In connection with automobile sales, our dealership stores also provide automobile agency services that help buyers obtain insurance and vehicle title registration for their new purchases. We have agency arrangements with insurance companies to offer their insurance products to our customers. All of these insurance companies are independent third parties. We receive a commission for the insurance policies sold through our dealership stores. In 2009, 2010 and 2011, we recorded commission income of RMB16.8 million, RMB21.5 million and RMB60.6 million (US$9.6 million), respectively. We also provide assistance to our customers with services in relation to completion and submission of new automobile registrations and payment of related taxes or charges in exchange for a service fee.

Surveys

We use customer surveys both to collect feedback to improve our own customer service and to provide market information to the automobile manufacturers. Our large base of end user customers allows us to provide valuable customer feedback and market information to our automobile manufacturer partners. Some manufacturers provide their own form questionnaires for the surveys. Customer feedback is reviewed and, where appropriate, forwarded to supervisors of the relevant department for action. Surveys prescribed by the automobile manufacturers are stored in databases to which they have access. Some of our 4S dealership stores also file periodic market condition reports to the automobile manufacturers with information about trends in sales, market conditions and customer preferences.

Sales and Marketing

Our marketing, sales, after-sales and customer relationship management teams collaborate to develop customer profiles for our different brands and models of automobiles, study trends in customer preferences and direct marketing efforts to reach our targeted customer demographic.

We maintain databases on potential customers, which we utilize to identify sales prospects. We also rely on referrals from our customers. Our sales and marketing campaigns include personalized telephone, email and mail communications and invitations to promotional events at our dealership stores.

We advertise through various media channels including radio, magazines, newspaper, Internet, billboard, and elevator advertisement. We also participate in the automobile manufacturers' marketing campaigns including new model launches, sponsorships, automobile fan club activities and other promotional events. Our sales initiatives include gifts, discounts and complementary service packages.

In 2009, 2010 and 2011, we recorded advertisement and business promotion expenses of RMB22.9 million, RMB37.5 million and RMB55.2 million (US$8.8 million), respectively.

Customers

We attach great importance to cultivating long-term customer relationships and delivering high quality services. Our sales and marketing initiatives primarily target high net worth or high income customers. Based on our experience, we believe that these customers tend to require premium products and services, are less price sensitive and show greater brand loyalty. We maintain records of our customers' profiles including their maintenance and repair history, which we use to schedule calls, conduct surveys and send service reminders.

Our customers are required to pay a deposit, typically 2% to 10% of the retail price, when they place their orders, and the balance due must be settled in cash or secured by an approved automobile financing loan before the automobile is collected by or delivered to the customer. We do not offer any credit to our customers for automobile purchases. The time required before we can deliver the automobile to the customer typically ranges from one to three weeks to, in extreme cases, four months depending on a number of factors, including primarily the current inventory level of the relevant dealership store and the availability of the specific model. We are fully compensated by the relevant automobile manufacturers for product returns. In the past three years, we did not experience any significant product returns from our customers. Our top five customers accounted for less than 1% of our total revenue in the past three years, and all of them are independent third parties.

Suppliers and Procurement

We buy new automobiles and spare parts directly from automobile manufacturers. The automobile manufacturers set annual non-binding sales targets and service standards, measured in terms of customer satisfaction rates, for each of their authorized dealership stores. Achievement of these targets will be taken into account when the relevant automobile manufacturer subsequently assesses the dealership store's performance and decides the allocation of new automobiles for future sales. We are required to prepay for the automobiles and spare parts that we order in cash or cash equivalents and to take ownership of new automobile and parts upon shipment or delivery. In 2009, 2010 and 2011, our new automobiles procurement costs were approximately RMB4,542.8 million, RMB7,048.7 million and RMB10,843.8 million (US$1,722.9 million), respectively. In 2009, 2010 and 2011, we purchased from automobile manufacturers new automobiles totaling 17,160 units, 22,993 units and 30,294 units respectively.

All of the new automobiles that we sell are purchased in the PRC, regardless of whether they are imported or manufactured locally. Accordingly, we are not required to pay any import or custom duties or tariffs for our automobiles. The lead time required for delivery of the new automobiles we sell ranges from two to three weeks to, in extreme cases, four months, depending on whether the automobiles are manufactured in China or overseas.

Our top five suppliers are all automobile manufacturers that supply new automobiles and spare parts. In 2009, 2010 and 2011, purchases from our top five suppliers accounted for approximately 88.2%, 91.4% and 92.7% of our total purchases, respectively, and purchases from our top supplier accounted for approximately 35.5%, 46.9% and 41.4%, respectively, of our total purchases.

Inventory Management

We monitor our inventories of new automobiles and spare parts at each of our dealership stores to ensure cost efficiency, quality control and timely distribution. We strive to maintain optimal inventory levels of new automobiles and spare parts to meet customer demand while managing our working capital requirements to finance our inventory. Our dealership stores generally order their inventory on a monthly basis and plan their inventory purchases for each month based on an annual non-binding sales target set by the relevant automobile manufacturer at the start of each year. The monthly purchases made by each store is adjusted by taking into account its existing inventory levels, expected customer demand, projected sales trends and expected delivery times for different automobile models.

To manage our inventory levels, the general manager and the sales manager of each dealership store review the sales and inventory levels of their store on a daily basis to ensure that sales of different automobile models are meeting our expectations. Our centralized inventory management system provides up-to-date information to our headquarters in Shanghai regarding the sales and inventory levels of different automobile models at different dealership stores on a daily basis and enables our management team to supervise and work with individual stores to manage their sales and inventory levels.

Information Technology

We are in the process of implementing an ERP system that is designed to provide us with access to key performance indicators and monitor our cash flows and accounts as well as human resources and other management functions. Our new ERP system is designed to collect and analyze data about potential and existing customers and their vehicles. We intend to further develop our centralized IT system to assume other business functions including customer data processing and online employee training. In addition, we periodically upgrade other hardware and software components of our IT system to improve the productivity of our personnel and our performance.

We maintain interactive websites that provide information about our products, services, stores and new developments, and where customers can provide feedback and schedule maintenance for their vehicles.

Competition

The automobile dealership industry in China is competitive and highly fragmented. We compete against other dealership groups, including those selling the same brands of automobiles as our dealership stores, for dealership authorization rights, for prime store locations, capital to finance expansion and inventory, customers of automobiles and after-sales service and skilled employees. We also compete with independent repair shops and auto parts retail centers in after-sales services and spare part sales. Our dealership business is also affected by competition among the automobile manufacturers and their brands in terms of quality, design and price.

Properties

As of the date of this document, we own seven properties and lease 48 properties in the PRC.

Properties We Own

As of the date of this document, we own seven properties in the PRC. We have obtained all the relevant title certificates for these properties. These seven properties are located in Suzhou, Changshu, Ningbo, Yangzhou, Hangzhou, Fuyang and Taizhou, respectively.

Properties We Lease

As of the date of this document, we lease 48 properties, among which:

- For seven properties on which we operate three dealership stores, the landlords have not obtained the relevant title certificates. These properties are located in Wuxi, Jiangsu province, Dandong, Liaoning province, Xi'an, Shaanxi province, Yangzhou, Jiangsu province, Tianjin and Shanghai respectively.

- For three properties on which we operate four dealership stores and one repair center, the current use was not in compliance with the property's designated usage. Two of these properties are located in Shanghai and the other property is located in Qingdao, Shandong province.

- Six properties are collectively-owned land and are not permitted to be leased to others for non-agricultural or commercial purposes under applicable PRC laws, rules and regulations. We operate four dealership stores on these properties. Three of these properties are located in the Minhang District of Shanghai, two of these properties are located in Dongguan, Guangdong province, and one property is located in the Xiaoshan District of Hangzhou, Zhejiang province. Hangzhou Urban Planning Bureau Xiaoshan Branch and Shanghai Minhang District Planning and Land Administration have confirmed in writing that we can operate our stores on these properties. Our PRC legal advisors, Jingtian & Gongcheng, are of the view that both authorities are competent authorities to make such confirmations, and our ability to use these four properties will not be adversely affected.

The revenue generated from the dealership stores and one repair center located on the properties we lease with defects in title was RMB2,159.5 million, RMB3,330.7 million and RMB4,332.6 million (US$688.4 million) and accounted for approximately 41.8%, 43.2% and 36.1% of our total revenues in 2009, 2010 and 2011, respectively.

The revenue generated from the dealership stores located on the defective properties for which we have obtained confirmation from the relevant government authorities with respect to our operating of dealership stores thereon was RMB1,537 million, RMB2,296 million and RMB2,857 million (US$454 million) and accounted for approximately 29.8%, 29.7% and 24.0% of our total revenues in 2009, 2010 and 2011, respectively.

Insurance

We carry insurance covering risks including loss and theft of and damage to property such as our fixed assets and inventories in our dealership stores, and losses due to fire, flood and a broad range of other natural disasters excluding earthquakes. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business. Neither do we maintain any insurance coverage for business interruption due to the limited coverage of any business interruption insurance in China. We consider our insurance coverage to be adequate and in line with industry practices in China. However, significant uninsured damage to any of our properties, inventory or other assets, whether as a result of fire or other causes, could have a material and adverse effect on our results of operations. See "Risk Factors—Risks Relating to Our Business—Our insurance coverage may be inadequate to protect us from certain types of losses."

Employees

We view our employees as critical to our success. We dedicate significant resources to personnel recruiting, training and promotion. In the past three years, the number of our staff grew significantly to meet the requirements of our growing dealership store network and business operations.

As of December 31, 2009, 2010 and 2011, we employed a total of 1,274, 2,035 and 2,685 full-time staff, respectively. The following table sets forth the number of our employees by function as of December 31, 2011.

Job Function	Number of Employees	Percentage of Total
		%
Management	88	3.3
Administrative	251	9.3
Sales and marketing	769	28.6
After-sales service	1,392	51.9
Finance and accounting	185	6.9
Total	2,685	100.0

We place significant emphasis on internal promotion as a means of offering long-term career paths and performance incentive for our employees. To incentivize them, we offer our sales, marketing and after-sales personnel performance bonuses based on their sales or revenue contribution and take into account their technical skills and other aspects of their performance based on their nature of work. These performance bonuses are calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and compensation.

Our employees regularly attend training courses to improve their skill set and professional knowledge and stay current on new developments. In addition to the training courses offered by our automobile manufacturer partners, we also develop and innovate our own employee training programs. We employ dedicated trainers who participate in the training programs provided by our manufacturer partners and operate regular training programs at our stores. To leverage the accumulated operational expertise and know-how in our network, we frequently apprentice new recruits to our best performing dealership stores for training before rotating them to stores in other locations. In addition, as we have a diversified portfolio of automobile brands, we are able to offer our employees opportunities to work both with different automobile brands as well as in different areas in China, which we believe contributes to our employee retention rates.

Legal Proceedings and Regulatory Compliance

There are no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings against us or any of our directors that could have a material adverse effect on our financial condition or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. In the past three years, our legal proceedings and third party disputes mostly comprised disputes with our customers relating to their non-payment or disagreements regarding the features of the automobiles ordered by them and disputes with or involving our employees or ex-employees regarding a variety of matters, including the circumstances of their dismissal and personal injury claims.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions. Each of our related party transactions was entered into on fair and reasonable commercial terms and was in our interests and the interests of our shareholders.

As a company listed on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Transactions with Related Parties

Certain of our bank loans which amounted to RMB113.0 million, RMB129.0 million and RMB32.8 million (US$5.2 million) were guaranteed by Mr. Yang Aihua as of December 31, 2009, 2010 and 2011, respectively.

On June 28, 2011, Suzhou Baoxin entered into an equity transfer agreement with Huakong Innovation and Huakong Industry, pursuant to which Huakong Innovation and Huakong Industry agreed to sell and Suzhou Baoxin agreed to purchase the 3% of the equity interest in Shanghai Baoxin for a consideration of RMB550.0 million. The payment is not completed as of the date of this document.

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

Balance from a Jointly-controlled Entity

We had the following significant balances with related parties in the past three years.

Due from a Related Party:

	As of December 31,			
	2009	**2010**	**2011**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
Non-trade related:				
A jointly-controlled entity				
Shenyang Xinbaohang	1,000	33,900	37,835	6,011

Due to Related Parties:

	As of December 31,			
	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	US$'000
Non-trade related:				
The Substantial Shareholder				
Mr. Yang Aihua	148,814	5,385	26,857	4,267
The then equity holders Huakong				
Innovation	—	—	359,892	57,181
Huakong Industry	—	—	239,928	38,121
Bentai Investment	—	—	3	0.5
Total	148,814	5,385	626,680	99,569

Except for the amounts due to Huakong Innovation and Huakong Industry of RMB330.0 million and RMB220.0 million, respectively, which have not been settled yet as of the date of this document, other balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

DESCRIPTION OF MATERIAL INDEBTEDNESS

To fund our working capital and trade credits requirements, we have entered into various credit facility agreements and arrangements with various financial institutions. As of December 31, 2011, our total external borrowings amounted to RMB2,370.8 million (US$376.7 million). Set below is a summary of the material terms and conditions of our credit facilities and other indebtedness.

Bank Credit Facilities

Certain of our PRC subsidiaries have entered into bank credit facilities agreements with various PRC banks, including Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of Communications, China Merchants Bank, China Minsheng Bank, China Citic Bank, China Everbright Bank, China Guangfa Bank, Shenzhen Development Bank, Bank of Shanghai, Bank of Nanjing, and Shanghai Minhang Shangyin Village Bank. These bank credit facilities typically are used to purchase automobiles from automobile manufacturers, fund the Group's working capital and for other general corporate purposes. These bank credit facilities generally have a term of six months to one year. As of December 31, 2011, our PRC subsidiaries had total bank credit facilities of approximately RMB5,361.0 million (US$851.8 million), of which approximately RMB2,805.9 million (US$445.8 million) was utilized, including those utilized in the form of bank acceptance notes.

Interest

The principal amounts outstanding under the bank credit facilities bear interest at a fixed rate payable monthly or quarterly or floating rate (based on the relevant interbank offered rate) payable monthly or quarterly. In 2011, our bank loans carried annual interest rates ranging from 5.8% to 11.8%.

Covenants

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

- give prior notice to and/or seek consent from the lenders on certain events, including any restructuring or change of control; any changes to the operation model, legal representatives, executive officers or corporate governance structure; any joint venture, merger, acquisition, spin-off or disposal of any substantial assets or equity interest; implementation of or modification to any material investment by the borrower or its actual controller; any suspension of license, operation or registration; and any application for liquidation, bankruptcy and other similar events that would have a material impact on the borrowers' ability to repay the relevant loans;

- comply with certain restrictions on distributing dividends, including, under certain loan agreements, (a) not to distribute any dividends before principal, interest and expenses have been paid in full, (b) not to distribute any dividends when the borrower's after-tax profit is not adequate to make up for any accumulated loss from previous fiscal years, and (c) not to distribute any dividends when the borrower's profit is not adequate for the next instalment of repayment of principal, interest and expenses to the lenders; and

- repay principal, interest and expenses in full before repaying any shareholder loan.

Security/Guarantee

The bank credit facilities are usually guaranteed by other subsidiaries of the Company or by our chairman and executive director Mr. Yang Aihua. Certain facilities are secured by pledges of certain assets, such as properties and inventories.

Events of Default

These bank credit facilities provide for certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, the borrower's dissolution or insolvency, false or misleading statements or material omissions, and defaults under other loans.

The lenders are entitled to terminate the relevant agreements and/or demand immediate repayment of all or part of the outstanding loans and any accrued interest upon the occurrence of an event of default. Under certain automobile sales financing service contracts entered into by certain of our PRC subsidiaries with Shenzhen Development Bank and BMW, in the event of default by the borrower, BWM shall immediately suspend supplying automobiles to the borrower upon its receipt of an overdue notice from the lender and terminate the borrower's dealership authorization if the borrower fails to repay in full its indebtedness to the lender within two months.

Authorized Automobile Dealership Credit Arrangements

Certain of our PRC subsidiaries have entered into authorized automobile dealership credit agreements with automobile financing companies such as GMAC-SAIC Automotive Finance Limited and First Automobile Finance Co., Ltd. These facilities are typically used to fund the payment of automobile purchases by the borrower from the automobile manufacturer affiliates of the lender, and repayment is due upon the sale of the relevant automobiles by the borrower. The term of such credit agreements generally ranges from six months to one year. As of December 31, 2011, our PRC subsidiaries had total bills payable of RMB1,142.0 million (US$181.4 million) outstanding under such facilities.

Interest

The principal amounts outstanding under these financing facilities bear interest either at a floating rate calculated by reference to the offered rate or at a fixed rate which is subject to adjustment upon the lender's approval of drawdown application under the agreement. Interest payments are due monthly or upon the sale of the relevant automobiles by the borrower.

Covenants

Under these facilities, the relevant PRC subsidiaries (each in the capacity of borrower) have agreed, among other things, to seek prior consent from the lender on obtaining loans provided by other lenders and not to create any pledge or other encumbrances on the relevant automobiles or on the qualification certificate of the automobiles.

Events of Default

Termination of the borrower's dealership authorization agreement is typically specified as an event of default under these authorized automobile dealership credit agreements. In addition, these agreements provide for certain other customary events of default, including breaches of terms of the agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, the borrower's dissolution or insolvency, false or misleading statements or material omissions, and defaults under other loans. The lenders are entitled to terminate the relevant agreements and/or demand immediate repayment of all or part of the outstanding loans and any accrued interest upon the occurrence of an event of default.

INDEX TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Audited Financial Statements as of and for the year ended December 31, 2011

Audited Financial Information as of and for the years ended December 31, 2008, 2009 and 2010 and for the six-month period ended June 30, 2011

Notes:

(1) The Independent Auditors' Report is reproduced from the Company's Annual Report for the year ended December 31, 2011, with the page references included in such Independent Auditors' Report referring to pages set out in such annual report.

(2) The Accountants' Report is a reproduction of Appendix I to the prospectus dated December 2, 2011 for our listing on the Hong Kong Stock Exchange, with different page numbering herein.

Independent Auditors' Report

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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

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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

Notes to Financial Statements

December 31, 2011

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**

Notes to Financial Statements

December 31, 2011

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	2010
	RMB'000	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**	2010
	RMB	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

December 31, 2011

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)).

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14. LAND USE RIGHTS

	2011	2010
	RMB'000	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

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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

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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.

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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.

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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

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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

December 31, 2011

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).

Notes to Financial Statements

December 31, 2011

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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December 31, 2011

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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December 31, 2011

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.

Notes to Financial Statements

December 31, 2011

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.

Notes to Financial Statements

December 31, 2011

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

Notes to Financial Statements

December 31, 2011

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%

Notes to Financial Statements

December 31, 2011

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:

			Proportion of ownership interest		
Company name	**Place of operation / date of incorporation**	**Authorised/registered/ paid-in/issued capital**	**Held by the Company**	**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

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	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

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	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

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	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	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.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Center
8 Finance Street
Central, Hong Kong

December 2, 2011

The Directors
Baoxin Auto Group Limited
Morgan Stanley Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information of Baoxin Auto Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2008, 2009 and 2010, and the six months period ended June 30, 2011 (the "Relevant Periods"), and the combined statements of financial position of the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 and the statements of financial position of the Company as at December 31, 2010 and June 30, 2011, together with the notes thereto (the "Financial Information"), and the comparative combined income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months period ended June 30, 2010 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated December 2, 2011 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on September 6, 2010. Pursuant to a group reorganisation (the "Reorganisation") as set out in note 2.1 of Section II below, which was completed on August 4, 2011, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganisation described above.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 39 of Section II below. All companies now comprising the Group have adopted December 31 as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 39 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined financial statements of the Group (the "Underlying Financial Statements") 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"). The Underlying Financial Statements for each of the years ended December 31, 2008, 2009 and 2010, and the six months period ended June 30, 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagement 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Company as at December 31, 2010 and June 30, 2011, and the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 and of the combined results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

The following is the Financial Information and the Interim Comparative Information of the Group for the Relevant Periods prepared on the basis set out in Note 2.1 of Section II:

1. Combined Income Statements

		Year ended December 31,			Six-month period ended June 30,	
	Section II Notes	**2008** **RMB'000**	**2009** **RMB'000**	**2010** **RMB'000**	**2010** **RMB'000** **(unaudited)**	**2011** **RMB'000**
Revenue	*5(a)*	3,701,261	5,164,730	7,716,564	3,392,733	5,233,328
Cost of sales and services provided	*6(b)*	(3,445,172)	(4,726,644)	(7,028,566)	(3,090,381)	(4,714,265)
Gross profit		256,089	438,086	687,998	302,352	519,063
Other income and gains, net	*5(b)*	12,903	26,965	37,482	16,654	38,414
Selling and distribution costs		(97,892)	(133,756)	(177,100)	(82,195)	(131,761)
Administrative expenses		(53,469)	(68,596)	(90,985)	(42,119)	(90,997)
Profit from operations		117,631	262,699	457,395	194,692	334,719
Finance costs	*7*	(39,671)	(26,033)	(48,378)	(19,378)	(48,076)
Share of (loss)/profit of a jointly-controlled entity	*17(b)*	—	(33)	2,907	118	2,275
Profit before tax	*6*	77,960	236,633	411,924	175,432	288,918
Tax	*8(a)*	(20,504)	(60,788)	(104,266)	(44,239)	(75,014)
Profit for the year/period		57,456	175,845	307,658	131,193	213,904
Attributable to:						
Owners of the parent		57,673	174,756	303,940	129,298	204,013
Non-controlling interests		(217)	1,089	3,718	1,895	9,891
		57,456	175,845	307,658	131,193	213,904
Earnings per share attributable to equity holders of the parent	*12*	N/A	N/A	N/A	N/A	N/A

2. Combined Statements of Comprehensive Income

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PROFIT FOR THE YEAR/PERIOD	57,456	175,845	307,658	131,193	213,904
Total comprehensive income for the year/period, net of tax	57,456	175,845	307,658	131,193	213,904
Attributable to:					
Owners of the parent	57,673	174,756	303,940	129,298	204,013
Non-controlling interests	(217)	1,089	3,718	1,895	9,891
	57,456	175,845	307,658	131,193	213,904

3. Combined Statements of Financial Position

	Section II Notes	December 31, 2008 RMB'000	December 31, 2009 RMB'000	December 31, 2010 RMB'000	June 30, 2011 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*13*	280,982	409,274	520,707	664,000
Land use rights	*14*	74,296	72,638	327,938	175,163
Intangible assets	*15*	—	—	—	2,264
Prepayments	*16*	2,110	2,171	7,554	12,125
Interest in a jointly-controlled entity	*17*	—	4,967	7,874	10,149
Deferred tax assets	*28*	6,371	5,782	6,549	9,171
Total non-current assets		363,759	494,832	870,622	872,872
CURRENT ASSETS					
Inventories	*18*	359,894	420,165	737,953	1,515,202
Trade receivables	*19*	28,849	41,736	42,847	54,253
Prepayments, deposits and other receivables	*20*	214,596	478,905	897,726	1,078,113
Amounts due from a related party	*36(b)(i)*	—	1,000	33,900	37,835
Pledged bank deposits	*21*	111,971	163,623	276,149	496,818
Cash in transit	*22*	7,550	17,423	14,022	33,660
Cash and cash equivalents	*23*	86,194	212,793	384,476	414,099
Total current assets		809,054	1,335,645	2,387,073	3,629,980
CURRENT LIABILITIES					
Bank loans and other borrowings	*24*	262,159	547,988	807,339	1,182,456
Trade and bills payables	*25*	297,836	327,593	589,645	1,222,511
Dividends payable		—	—	—	4,932
Other payables and accruals	*26*	130,186	170,324	164,375	281,564
Amounts due to related parties	*36(b)(ii)*	17,879	148,814	5,385	1,143,991
Income tax payable		18,196	69,804	152,713	176,607
Total current liabilities		726,256	1,264,523	1,719,457	4,012,061
NET CURRENT ASSETS/(LIABILITIES)		82,798	71,122	667,616	(382,081)
TOTAL ASSETS LESS CURRENT LIABILITIES		446,557	565,954	1,538,238	490,791
NET ASSETS		446,557	565,954	1,538,238	490,791
EQUITY					
Equity attributable to owners of the parent					
Share capital	*29*	—	—	—	—
Reserves	*30*	443,926	562,234	1,465,573	463,804
		443,926	562,234	1,465,573	463,804
Non-controlling interests		2,631	3,720	72,665	26,987
Total equity		446,557	565,954	1,538,238	490,791

4. Combined Statements of Changes in Equity

	Attributable to owners of the parent							
	Share capital *Note 29*	Statutory reserve *Note 30(i)*	Merger reserve *Note 30(ii)*	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000 *	RMB'000 *	RMB'000 *	RMB'000 *	RMB'000	RMB'000	RMB'000
At January 1, 2008	**—**	**22,043**	**150,900**	**—**	**175,310**	**348,253**	**1,848**	**350,101**
Contribution by the then equity holders	—	—	39,000	—	—	39,000	—	39,000
Disposal of interest in a subsidiary to a non-controlling shareholder without loss of control	—	—	(1,000)	—	—	(1,000)	1,000	—
Transfer from retained profits	—	6,073	—	—	(6,073)	—	—	—
Comprehensive income for the year	—	—	—	—	57,673	57,673	(217)	57,456
At December 31, 2008	**—**	**28,116**	**188,900**	**—**	**226,910**	**443,926**	**2,631**	**446,557**
Acquisition of equity interests by the Group from the then equity holders	—	—	(41,800)	—	—	(41,800)	—	(41,800)
Dividends paid to the then equity holders of the subsidiaries	—	—	—	—	(14,648)	(14,648)	—	(14,648)
Transfer from retained profits	—	21,290	—	—	(21,290)	—	—	—
Comprehensive income for the year	—	—	—	—	174,756	174,756	1,089	175,845
At December 31, 2009	**—**	**49,406**	**147,100**	**—**	**365,728**	**562,234**	**3,720**	**565,954**
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 interest arising from establishing of new subsidiaries	—	—	—	—	—	—	7,900	7,900
Dividends paid to the then equity holders	—	—	—	—	(4,401)	(4,401)	—	(4,401)
Transfer from retained profits	—	31,421	—	—	(31,421)	—	—	—
Disposal of interest in a subsidiary to a non-controlling shareholder without loss of control	—	—	39,675	—	—	39,675	12,000	51,675
Comprehensive income for the year	—	—	—	—	303,940	303,940	3,718	307,658
At December 31, 2010	**—**	**80,827**	**750,900**	**—**	**633,846**	**1,465,573**	**72,665**	**1,538,238**
Acquisition of equity interests by the Group from the then equity holders	—	—	(291,251)	—	—	(291,251)	—	(291,251)
Contribution by the then equity holders	—	—	40,000	—	—	40,000	—	40,000
Non-controlling interest arising from establishing of a new subsidiary	—	—	—	—	—	—	1,000	1,000
Deemed distribution to equity holders of the Company pursuant to the Reorganisation *(Note 31)*	—	—	(7,794)	—	—	(7,794)	—	(7,794)
Dividends paid to the then equity holders	—	—	—	—	(434,922)	(434,922)	—	(434,922)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	(18,384)	(18,384)
Acquisition of non-controlling interests by the Group	—	—	(511,815)	—	—	(511,815)	(38,185)	(550,000)
Comprehensive income for the period	—	—	—	—	204,013	204,013	9,891	213,904
At June 30, 2011	**—**	**80,827**	**(19,960)**	**—**	**402,937**	**463,804**	**26,987**	**490,791**
At December 31, 2009	**—**	**49,406**	**147,100**	**—**	**365,728**	**562,234**	**3,720**	**565,954**
Contribution by the then equity holders	—	—	17,000	—	—	17,000	—	17,000
Non-controlling interest arising from establishing of new subsidiaries	—	—	—	—	—	—	7,900	7,900
Disposal of interest in a subsidiary to a non-controlling interest without loss of control	—	—	39,675	—	—	39,675	12,000	51,675
Comprehensive income for the period	—	—	—	—	129,298	129,298	1,895	131,193
At June 30, 2010 (unaudited)	**—**	**49,406**	**203,775**	**—**	**495,026**	**748,207**	**25,515**	**773,722**

* *These reserve accounts comprise the combined reserves of RMB443,926,000, RMB562,234,000, RMB1,465,573,000, RMB463,804,000 and RMB748,207,000 in the combined statements of financial position as at December 31, 2008, December 31, 2009, December 31, 2010, June 30, 2011 and June 30, 2010, respectively.*

5. Combined Cash Flow Statements

	Section II Notes	Year ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000	Six-month period ended June 30, 2010 RMB'000 (unaudited)	2011 RMB'000
Operating activities						
Profit before tax		77,960	236,633	411,924	175,432	288,918
Adjustments for:						
— Share of loss/(profit) of a jointly-controlled entity		—	33	(2,907)	(118)	(2,275)
— Depreciation of property, plant and equipment	*13*	27,870	32,199	42,654	18,615	29,962
— Amortisation of land use rights	*14*	1,656	1,658	2,098	935	4,726
— Amortisation of intangible assets	*15*	—	—	—	—	115
— Provision for impairment of trade receivables	*19*	—	—	—	—	4,179
— Interest income	*5*	(2,513)	(2,509)	(2,345)	(982)	(2,395)
— Net loss/(gain) on disposal of property, plant and equipment	*5*	318	(1,742)	(1,678)	(170)	(294)
— Finance costs	*7*	39,671	26,033	48,378	19,378	48,076
		144,962	292,305	498,124	213,090	371,012
Decrease/(increase) in pledged bank deposits		55,666	(51,652)	(112,526)	18,181	(220,669)
Decrease/(increase) in cash in transit		4,002	(9,873)	3,401	13,291	(19,946)
Decrease/(increase) in trade receivables		17,539	(12,887)	(1,111)	16,697	(15,935)
Decrease/(increase) in prepayments, deposits and other receivables		61,158	(256,400)	(419,782)	32,796	(216,005)
Increase in inventories		(48,696)	(60,271)	(317,788)	(230,833)	(777,249)
(Decrease)/increase in trade and bills payables		(165,590)	29,757	262,052	1,361	633,059
(Decrease)/increase in other payables and accruals		(42,486)	20,638	(11,493)	19,022	40,018
Cash generated from/(used in) operations		26,555	(48,383)	(99,123)	83,605	(205,715)
Tax paid		(8,662)	(8,591)	(22,124)	(11,230)	(54,160)
Net cash generated from/(used in) operating activities		17,893	(56,974)	(121,247)	72,375	(259,875)

	Section II Notes	Year ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000	Six-month period ended June 30, 2010 RMB'000 (unaudited)	2011 RMB'000
Investing activities						
Purchase of items of property, plant and equipment		(41,514)	(163,265)	(163,100)	(35,063)	(189,548)
Proceeds from disposal of items of property, plant and equipment		3,158	21,403	17,147	3,123	7,994
Purchase of land use rights		(88)	—	(257,398)	(37,396)	(15,481)
Purchase of intangible assets		—	—	—	—	(2,379)
Investment in a jointly-controlled entity		—	(5,000)	—	—	—
Advance to a jointly-controlled entity		—	(1,000)	(32,900)	—	(3,935)
Acquisition of equity interests by the Group from the then equity holders		—	(41,800)	(146,000)	—	(2,000)
Interest received		2,513	2,509	2,345	982	2,395
Net cash used in investing activities		(35,931)	(187,153)	(579,906)	(68,354)	(202,954)
Financing activities						
Proceeds from bank loans and other borrowings		1,483,318	1,934,848	2,471,674	1,150,621	1,724,731
Repayment of bank loans and other borrowings		(1,494,637)	(1,649,019)	(2,212,323)	(952,806)	(1,199,614)
Contributions from the then equity holders		39,000	—	755,452	17,000	40,000
Contribution from non-controlling shareholders		—	—	7,900	7,900	1,000
Proceeds from disposal of interest in a subsidiary to a non-controlling shareholder without loss of control		—	—	51,675	51,675	—
Dividends paid to the then equity holders		—	(14,648)	(4,401)	—	—
Advances from the Controlling Shareholder, net		8,473	130,935	—	—	—
Repayment of advances from the Controlling Shareholder, net		—	—	(143,429)	(182,849)	(12,029)
Deemed distribution to equity holders of the Company pursuant to the Reorganisation	*31*	—	—	—	—	(10,891)
Interest paid		(43,481)	(31,390)	(53,712)	(22,045)	(50,745)
Net cash (used in)/generated from financing activities		(7,327)	370,726	872,836	69,496	492,452
Net (decrease)/increase in cash and cash equivalents		(25,365)	126,599	171,683	73,517	29,623
Cash and cash equivalents at the beginning of each year/period		111,559	86,194	212,793	212,793	384,476
Cash and cash equivalents at the end of each year/period	*23*	86,194	212,793	384,476	286,310	414,099

6. Company Statements of Financial Position

	Section II Note	December 31, 2010 RMB'000	June 30, 2011 RMB'000
NON-CURRENT ASSETS			
Interest in a subsidiary		—	—
Total non-current assets		—	—
CURRENT ASSETS			
Cash and cash equivalents		—	—
Total current assets		—	—
CURRENT LIABILITIES			
Other payables and accruals		—	—
Total current liabilities		—	—
NET CURRENT ASSETS		—	—
TOTAL ASSETS LESS CURRENT LIABILITIES		—	—
NET ASSETS		—	—
EQUITY			
Share capital	*29*	—	—
Reserves		—	—
Total equity		—	—

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated on September 6, 2010 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Particulars of the companies now comprising the Group are set out in Note 39 of section II below.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the sale and service of motor vehicles (the "Listing Business").

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

Before the formation of the Group, except for the case of Shanghai Kailong Automobiles Sales Co., Ltd. ("Shanghai Kailong"), the Listing Business was carried out by the subsidiaries now comprising the Group as set out in Note 39 of section II below, all of which were controlled by Mr. Yang Aihua (the "Controlling Shareholder").

In June 2011, Shanghai Minhang 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.

Pursuant to the Reorganisation as described in the section headed "Our History and Reorganisation" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on August 4, 2011.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Reorganisation" in the section headed "Our History and Reorganisation" in the Prospectus, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Relevant Periods on August 4, 2011. The companies now comprising the Group were under the common control of the Controlling Shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The combined income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the six months period ended June 30, 2010 include the results and cash flows of all companies now comprising the Group 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, where this is a shorter period. The combined statements of financial position of the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

The accounts of Shanghai Kailong have been included in the Financial Information throughout the Relevant Periods since it was 100% owned by the Controlling Shareholder and that its business throughout the Relevant Periods formed an integral part of the Listing Business. Accordingly, it was reflected in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles.

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

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from January 1, 2011, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

3.1 Adoption of new and revised HKFRSs

For the purpose of this Financial Information, the Group has adopted, at the beginning of the Relevant Periods, all the new and revised HKFRSs applicable to the Relevant Periods.

3.2 Impact of 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 9	*Financial Instruments*[3]
HKFRS 10	*Consolidated Financial Statements*[3]
HKFRS 11	*Joint Arrangements*[3]
HKFRS 12	*Disclosure of Interests in Other Entities*[3]
HKFRS 13	*Fair Value Measurement*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes—Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 Amendments	*Employee Benefits*[3]
HKAS 27 Amendments	*Separate Financial Statements*[3]
HKAS 28 Amendments	*Investments in Associates and Joint Ventures*[3]

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 January 1, 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.3 Summary of significant accounting policies

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods.

As explained in Note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group.

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

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.

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party 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;

(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. If the Group is itself such a plan and the sponsoring employers of the post-employment benefit plan;

  (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).

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Category	**Estimated useful life**	**Estimated residual value**
Buildings	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.

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

Intangible assets (other than goodwill)

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

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	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, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 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, held-to-maturity investments and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, dividends receivable, amounts due from related parties and quoted and unquoted financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial investments

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

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

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

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

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. 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.

Revenue recognition

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

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

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

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

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

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

Vendor rebate

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

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

Employee benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.82% and 6.80% has been applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

The Financial Information is presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the combined statement of cash 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 Information 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 reporting date. 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 values of deferred tax assets were RMB6,371,000, RMB5,782,000, RMB6,549,000 and RMB9,171,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively. 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.

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 were generated from the sale and service of motor vehicles in Mainland China and all of the Group's identifiable assets and liabilities 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 each of the Relevant Periods, no major customers segment information is presented in accordance with HKFRS 8 Operating Segments.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from the sale of motor vehicles	3,336,222	4,728,922	7,168,106	3,154,820	4,922,060
Others	365,039	435,808	548,458	237,913	311,268
	3,701,261	5,164,730	7,716,564	3,392,733	5,233,328

(b) Other income and gains, net:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Commission income	7,081	16,818	21,533	10,926	24,494
Advertisement support received from motor vehicle manufacturers	1,815	1,432	3,184	1,297	2,982
Government grants	1,097	3,243	6,904	2,373	6,921
Interest income	2,513	2,509	2,345	982	2,395
Net (loss)/gain on disposal of items of property, plant and equipment	(318)	1,742	1,678	170	294
Others	715	1,221	1,838	906	1,328
Total	12,903	26,965	37,482	16,654	38,414

6. PROFIT BEFORE TAX

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

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Employee benefit expense (including directors' remuneration *(Note 9*)):					
Wages and salaries	38,267	52,899	58,545	28,287	37,581
Other welfare	10,922	14,050	19,574	9,435	11,578
	49,189	66,949	78,119	37,722	49,159
(b) Cost of sales and services:					
Cost of sales of motor vehicles	3,232,140	4,493,285	6,740,711	2,964,259	4,552,403
Others	213,032	233,359	287,855	126,122	161,862
	3,445,172	4,726,644	7,028,566	3,090,381	4,714,265
(c) Other items:					
Depreciation of items of property, plant and equipment	27,870	32,199	42,654	18,615	29,962
Amortisation of land use rights	1,656	1,658	2,098	935	4,726
Amortisation of intangible assets	—	—	—	—	115
Advertisement and business promotion expenses	12,970	22,919	37,469	16,231	32,188
Bank charges	4,185	4,408	6,913	3,266	9,113
Lease expenses	15,031	18,165	24,107	9,854	22,088
Logistics and petroleum expenses	7,693	14,222	18,837	9,473	12,006
Office expenses	3,960	5,579	6,909	3,099	4,597

7. FINANCE COSTS

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expense on bank borrowings wholly repayable within five years	35,792	29,933	51,684	21,077	49,602
Interest expense on other borrowings	7,689	1,457	2,028	968	1,143
Less: interest capitalised	(3,810)	(5,357)	(5,334)	(2,667)	(2,669)
	39,671	26,033	48,378	19,378	48,076

8. TAX

(a) Tax in the combined income statements represents:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current Mainland China corporate income tax	23,735	60,199	105,033	44,565	78,250
Deferred tax *(Note 28)*	(3,231)	589	(767)	(326)	(3,236)
	20,504	60,788	104,266	44,239	75,014

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 Relevant Periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

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

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

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

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	77,960	236,633	411,924	175,432	288,918
Tax at applicable tax rates (25%)	19,490	59,158	102,981	43,858	72,230
Tax effect of non-deductible expenses	1,014	1,622	2,012	411	3,353
Loss/(profit) attributable to a jointly-controlled entity	—	8	(727)	(30)	(569)
Tax charge	20,504	60,788	104,266	44,239	75,014

9. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company during the Relevant Periods and the six-month period ended June 30, 2010, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended December 31, 2008				
	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	—	300	—	39	339
— Yang Hansong	—	330	—	39	369
— Yang Zehua	—	304	—	39	343
— Zhao Hongliang	—	344	—	39	383
— Hua Xiuzhen	—	294	—	—	294
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,572	—	156	1,728

	Year ended December 31, 2009				
	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	—	226	—	44	270
— Yang Hansong	—	536	—	44	580
— Yang Zehua	—	500	—	44	544
— Zhao Hongliang	—	493	—	44	537
— Hua Xiuzhen	—	493	—	—	493
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	2,248	—	176	2,424

	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 directors					
— Zhang Yang	—	—	—	—	—
	—	2,712	—	224	2,936

	Six-month period ended June 30, 2011				
	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	—	540	—	29	569
— Yang Hansong	—	270	—	29	299
— Yang Zehua	—	240	—	29	269
— Zhao Hongliang	—	210	—	29	239
— Hua Xiuzhen	—	210	—	—	210
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,470	—	116	1,586

	Six-month period ended June 30, 2010 (unaudited)				
	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	—	360	—	28	388
— Yang Hansong	—	240	—	28	268
— Yang Zehua	—	200	—	28	228
— Zhao Hongliang	—	200	—	28	228
— Hua Xiuzhen	—	200	—	—	200
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,200	—	112	1,312

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six-month period ended June 30, 2010.

No emoluments were paid to the non-executive directors of the Company during the Relevant Periods and the six-month period ended June 30, 2010.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included four directors for the six-month period ended 30 June 2011 (2008: three; 2009: two; 2010: three; the six-month period ended 30 June 2010: four), details of whose remuneration are detailed in Note 9 above. Details of the remuneration of the remaining non-director, highest paid employees for each of the Relevant Periods and the six-month period ended June 30, 2010 are as follows:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, bonuses, allowances and benefits in kind	688	1,504	848	200	210
Pension scheme contributions	11	23	48	18	21
	699	1,527	896	218	231

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

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010 (unaudited)	2011
Nil to HK$1,000,000	2	3	2	1	1

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The combined profit attributable to owners of the parent for the year ended December 31, 2010 and the six-month period ended June 30, 2011 were all generated by the subsidiaries now comprising the Group and Shanghai Kailong (Note 2.1).

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 2.1 above.

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, 2008	260,130	16,225	16,552	13,794	32,037	—	338,738
Additions	1,333	74	852	2,505	18,465	35,752	58,981
Disposals	(7,947)	—	—	—	(4,750)	—	(12,697)
At December 31, 2008	253,516	16,299	17,404	16,299	45,752	35,752	385,022
Accumulated depreciation:							
At January 1, 2008	58,508	6,246	7,538	5,818	7,281	—	85,391
Depreciation provided during the year	13,550	1,074	2,111	2,515	8,620	—	27,870
Disposals	(7,550)	—	—	—	(1,671)	—	(9,221)
At December 31, 2008	64,508	7,320	9,649	8,333	14,230	—	104,040
Net book value:							
At December 31, 2008	189,008	8,979	7,755	7,966	31,522	35,752	280,982
Cost:							
At January 1, 2009	253,516	16,299	17,404	16,299	45,752	35,752	385,022
Additions	115,953	799	7,127	5,881	33,464	16,928	180,152
Transfers	14,255	14,376	140	—	—	(28,771)	—
Disposals	—	—	—	(32)	(23,500)	—	(23,532)
At December 31, 2009	383,724	31,474	24,671	22,148	55,716	23,909	541,642
Accumulated depreciation:							
At January 1, 2009	64,508	7,320	9,649	8,333	14,230	—	104,040
Depreciation provided during the year	16,443	2,275	2,455	3,091	7,935	—	32,199
Disposals	—	—	—	(30)	(3,841)	—	(3,871)
At December 31, 2009	80,951	9,595	12,104	11,394	18,324	—	132,368
Net book value:							
At December 31, 2009	302,773	21,879	12,567	10,754	37,392	23,909	409,274

	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	58,984	33,801	1,470	2,826	17,360	66,764	181,205
Transfers	47,666	1,057	8,998	4,229	13,885	(75,835)	—
Disposals	—	(864)	—	(238)	(12,740)	—	(13,842)
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	—	—	(250)	(250)
At June 30, 2011	566,617	69,155	53,734	32,569	92,053	42,662	856,790
Accumulated depreciation:							
At January 1, 2011	102,873	11,911	15,698	13,419	25,069	—	168,970
Depreciation during the period	15,408	3,360	2,810	2,444	5,940	—	29,962
Disposals	—	(864)	—	(226)	(5,052)	—	(6,142)
At June 30, 2011	118,281	14,407	18,508	15,637	25,957	—	192,790
Net book value:							
At June 30, 2011	448,336	54,748	35,226	16,932	66,096	42,662	664,000

As at June 30, 2011, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB423,456,000 was still in progress.

Certain of the Group's buildings with aggregate net book values of approximately Nil, RMB24,337,000, RMB22,845,000 and RMB22,099,000 as at December 31, 2008, December 31, 2009 and December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bank borrowings (Note 24(a)).

14. LAND USE RIGHTS

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of each year/period	81,438	81,526	81,526	338,924
Additions	88	—	257,398	116,479
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	(276,358)
At the end of each year/period	81,526	81,526	338,924	179,045
Accumulated amortisation:				
At the beginning of each year/period	5,574	7,230	8,888	10,986
Charge for the year/period	1,656	1,658	2,098	4,726
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	(11,830)
At the end of each year/period	7,230	8,888	10,986	3,882
Net book value:				
At the end of each year/period	74,296	72,638	327,938	175,163

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

Certain of the Group's land use rights with an aggregate net book value of approximately Nil, RMB22,726,000, RMB36,132,000 and RMB82,088,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, 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	2,379
At June 30, 2011	2,379
Accumulated amortisation:	
At January 1, 2011	—
Charge for the period	(115)
At June 30, 2011	(115)
Net book value:	
At June 30, 2011	2,264

16. PREPAYMENTS

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid lease for buildings	2,110	2,171	7,554	12,125

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	—	4,967	7,874	10,149

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/ registered	Authorised registration/paid-in/ issued 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:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities:				
Non-current assets	—	14,078	22,128	21,716
Current assets	—	21,829	87,846	103,019
Current liabilities	—	(30,940)	(102,100)	(114,586)
Net assets	—	4,967	7,874	10,149

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Share of the jointly-controlled entity's results:					
Revenue	—	—	259,103	150,697	157,664
Expenses	—	(33)	(256,196)	(150,579)	(154,631)
Tax	—	—	—	—	(758)
(Loss)/profit for the year/period	—	(33)	2,907	118	2,275

18. INVENTORIES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Motor vehicles	321,400	370,868	678,858	1,429,471
Spare parts and accessories	38,494	49,297	59,095	85,731
	359,894	420,165	737,953	1,515,202

Certain of the Group's inventories with a carrying amount of RMB101,434,000, RMB139,462,000, RMB225,620,000 and RMB382,587,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bank loans and other borrowings (Note 24(a)).

Certain of the Group's inventories with a carrying amount of RMB191,040,000, RMB209,154,000, RMB398,929,000 and RMB798,201,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bills payable.

19. TRADE RECEIVABLES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	28,849	41,736	42,847	58,432
Impairment	—	—	—	(4,179)
	28,849	41,736	42,847	54,253

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

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	27,466	38,610	38,349	50,004
More than 3 months but less than 1 year	690	2,124	2,585	3,369
Over 1 year	693	1,002	1,913	880
	28,849	41,736	42,847	54,253

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	28,156	40,734	40,934	53,373
Over one year past due	693	1,002	1,913	880
	28,849	41,736	42,847	54,253

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

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

The movements in provision for impairment of trade receivables are as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of each year/period	—	—	—	—
Impairment losses recognised	—	—	—	4,179
At the end of each year/period	—	—	—	4,179

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	111,681	285,666	621,251	699,163
Prepayments for purchase of items of plant, property and equipment	8,556	7,970	4,422	13,165
Deposit paid for potential acquisition of land use rights	8,200	22,171	18,698	—
Rebate receivables	60,809	131,219	180,853	239,705
VAT recoverable (i)	5,969	7,497	20,881	60,388
Staff loans	8,829	13,279	30,776	32,279
Others	10,552	11,103	20,845	33,413
	214,596	478,905	897,726	1,078,113

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits pledged with banks as collateral against credit facilities of bills payable granted by the banks	111,971	163,623	276,149	496,818

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.

22. CASH IN TRANSIT

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in transit	7,550	17,423	14,022	33,660

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	86,194	212,793	379,206	414,099
Short term deposits	—	—	5,270	—
Cash and cash equivalents	86,194	212,793	384,476	414,099

At the end of the reporting period, cash and bank balances and short term deposits are all denominated in RMB. Cash at banks earns interest at floating rates based on daily bank deposit rates. 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.

24. BANK LOANS AND OTHER BORROWINGS

	At December 31,						At June 30,	
	2008		2009		2010		2011	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current bank loans	5.8–9.0	212,093	5.3–6.1	444,181	5.7–6.8	756,442	5.8–7.9	1,031,351
Other borrowings	7.5–8.2	50,066	5.6–7.8	103,807	6.4–8.1	50,897	6.7–8.1	151,105
		262,159		547,988		807,339		1,182,456
Current bank loans and other borrowings representing:								
— secured (a)		86,320		154,259		262,772		390,554
— guaranteed (b)		31,000		113,000		129,040		206,711
— unsecured		144,839		280,729		415,527		585,191
		262,159		547,988		807,339		1,182,456

The maturity of bank loans and other borrowings at each reporting date were less than one year.

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately Nil, RMB22,726,000, RMB36,132,000 and RMB82,088,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately Nil, RMB24,337,000, RMB22,845,000 and RMB22,099,000 as at December 31, 2008, December 31, 2009 and December 31, 2010 and June 30, 2011, respectively; and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB101,434,000, RMB139,462,000, RMB225,620,000 and RMB382,587,000 at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

(b) Certain of the Group's bank loans which amounted to RMB31,000,000, RMB113,000,000, RMB129,040,000 and RMB206,711,000 were guaranteed by the Controlling Shareholder as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

25. TRADE AND BILLS PAYABLES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	33,658	20,271	14,325	22,966
Bills payable	264,178	307,322	575,320	1,199,545
Trade and bills payables	297,836	327,593	589,645	1,222,511

An aged analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	265,612	307,768	570,884	1,163,462
3 to 6 months	28,408	11,996	16,410	57,501
6 to 12 months	2,423	1,784	2,129	437
Over 12 months	1,393	6,045	222	1,111
	297,836	327,593	589,645	1,222,511

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

26. OTHER PAYABLES AND ACCRUALS

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for purchase of items of property, plant and equipment	22,212	19,500	5,544	3,275
Payables for purchase of land use rights	—	—	—	82,300
Advances from customers	80,054	116,817	108,115	147,476
Taxes payable (other than income tax)	8,974	14,865	29,783	26,351
Lease payables	7,174	7,036	8,738	7,576
Staff payroll and welfare payables	4,022	4,348	5,554	6,221
Others	7,750	7,758	6,641	8,365
	130,186	170,324	164,375	281,564

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%; 2009: 10% to 22%; 2008: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 10% (2010: 7% to 10%; 2009: 7% to 10%; 2008: 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, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, the Group had no significant obligation apart from the contributions as stated above.

28. DEFERRED TAX

Deferred tax assets:

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

	Losses available for offset against future taxable profits	Accrued payroll	Deferred rental expenses	Other accrual	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008	2,019	333	788	—	3,140
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	2,636	377	218	—	3,231
At December 31, 2008	4,655	710	1,006	—	6,371
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	(1,188)	518	81	—	(589)
At December 31, 2009	3,467	1,228	1,087	—	5,782
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	(140)	605	302	—	767
At December 31, 2010	3,327	1,833	1,389	—	6,549
Deferred tax recognised in the combined income statement during the period *(Note 8(a))*	1,078	(278)	1,391	1,045	3,236
Deemed distribution to equity holders of the Company *(Note 31)*	(614)	—	—	—	(614)
At June 30, 2011	3,791	1,555	2,780	1,045	9,171

Deferred tax liabilities:

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 Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding company, Kailong Investments Management Limited, a Hong Kong tax resident.

The Group has not provided for income taxes on accumulated earnings generated by its PRC entities during the Relevant Periods amounting to RMB51,600,000, RMB190,418,000, RMB458,536,000 and RMB227,627,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, because it is probable that such accumulated earnings will not be distributed to the holding company outside the PRC in the foreseeable future.

29. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on September 6, 2010 with an initial authorised share capital of US$50,000 divided into 500,000 shares of a par value of US$0.1 each. On the date of incorporation, 1 ordinary share of US$0.1 was allotted and issued by the Company to its then shareholders. On September 28, 2010, 499,999 ordinary shares of US$49,999.9 was allotted and issued to its then shareholders.

30. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 39 of this report 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 Relevant Periods represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were combined 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 Relevant Periods represent the decrease in the Group's net assets resulted from distribution to equity holders of the Company and acquisition of equity interests in subsidiaries from the Controlling Shareholder for business combination under common control.

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

As mentioned in Note 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. As mentioned in Note 2.1, the accounts of Shanghai Kailong have been included in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles.

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
Amounts 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
Amounts 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

32. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

	Loans and receivables			
	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	28,849	41,736	42,847	54,253
Financial assets included in prepayments, deposits and other receivables	80,190	155,601	232,474	305,397
Amounts due from a related party	—	1,000	33,900	37,835
Pledged bank deposits	111,971	163,623	276,149	496,818
Cash in transit	7,550	17,423	14,022	33,660
Cash and cash equivalents	86,194	212,793	384,476	414,099
	314,754	592,176	983,868	1,342,062

Financial liabilities

	Financial liabilities at amortised cost			
	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	297,836	327,593	589,645	1,222,511
Financial liabilities included in other payables and accruals	37,136	34,294	20,923	101,516
Amounts due to related parties	17,879	148,814	5,385	1,143,991
Bank loans and other borrowings	262,159	547,988	807,339	1,182,456
	615,010	1,058,689	1,423,292	3,650,474

33. CONTINGENT LIABILITIES

As at December 31, 2008, 2009 and 2010, and June 30, 2011, neither the Group nor the Company had any significant contingent liabilities.

34. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property and equipment outstanding at each reporting date not provided for in the Financial Information were as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for land use rights and buildings	2,040	5,420	3,010	45,976
Authorised, but not contracted for land use rights and buildings	3,040	233,561	25,124	36,986
	5,080	238,981	28,134	82,962

(b) Operating lease commitments

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	December 31,						June 30,	
	2008		2009		2010		2011	
	Properties	Land	Properties	Land	Properties	Land	Properties	Land
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,204	11,846	1,293	13,700	6,861	9,650	10,481	26,034
After 1 year but within 5 years	4,755	34,596	3,906	37,547	18,990	34,531	34,303	103,672
After 5 years	14,057	55,179	13,693	92,027	24,574	79,676	71,323	161,412
	20,016	101,621	18,892	143,274	50,425	123,857	116,107	291,118

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of one 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 Financial Information.

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"), Shanghai Chiheng Investment Management Co., Ltd. ("Chiheng Investment"), Shanghai Hengjun Investment Management Co., Ltd. ("Hengjun 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 RMB31,000,000, RMB113,000,000, RMB129,040,000 and RMB206,711,000 were guaranteed by the Controlling Shareholder as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

(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. for 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 interests were derecognised as if they 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.

(b) Balances with related parties

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

(i) Due from a related party:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related:				
A jointly-controlled entity				
— Shenyang Xinbaohang	—	1,000	33,900	37,835

(ii) Due to related parties:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related:				
The Controlling Shareholder				
— Mr. Yang Aihua	17,879	148,814	5,385	481,045
The then equity holders				
— Huakong (Tianjin) Innovation Fund	—	—	—	370,338
— Huakong (Tianjin) Industry Investment Fund	—	—	—	246,893
— Bentai Investment	—	—	—	23,166
— Hengjun Investment	—	—	—	16,989
— Chiheng Investment	—	—	—	5,560
	17,879	148,814	5,385	1,143,991

Except for the amounts due to Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund by RMB330,000,000 and RMB220,000,000, respectively, which would be settled upon 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.

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

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefits	1,104	1,983	1,696	800	930
Post-employee benefits	50	55	62	31	64
Total compensation paid to key management personnel	1,154	2,038	1,758	831	994

Further details of directors' emoluments are included in Note 9 to the Financial Information.

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 a floating interest rate.

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 included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

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

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

	As at December 31, 2008					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	—	142,127	124,188	—	—	266,315
Trade and bills payables	32,224	265,612	—	—	—	297,836
Other payables and accruals	37,136	—	—	—	—	37,136
Amounts due to related parties	17,879	—	—	—	—	17,879
	87,239	407,739	124,188	—	—	619,166

	As at December 31, 2009					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	—	314,566	241,293	—	—	555,859
Trade and bills payables	19,825	307,768	—	—	—	327,593
Other payables and accruals	34,294	—	—	—	—	34,294
Amounts due to related parties	148,814	—	—	—	—	148,814
	202,933	622,334	241,293	—	—	1,066,560

	As at December 31, 2010					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

	As at June 30, 2011					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	—	418,825	784,759	—	—	1,203,584
Trade and bills payables	59,049	1,163,462	—	—	—	1,222,511
Other payables and accruals	101,516	—	—	—	—	101,516
Amounts due to related parties	1,143,991	—	—	—	—	1,143,991
	1,304,556	1,582,287	784,759	—	—	3,671,602

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2008, December 31, 2009, December 31, 2010 and the six months period ended June 30, 2011.

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	262,159	547,988	807,339	1,182,456
Trade and bills payables	297,836	327,593	589,645	1,222,511
Other payables and accruals	130,186	170,324	164,375	281,564
Amounts due to related parties	17,879	148,814	5,385	1,143,991
Less: Cash and cash equivalents	(86,194)	(212,793)	(384,476)	(414,099)
Net debt	621,866	981,926	1,182,268	3,416,423
Equity attributable to owners of the parent	443,926	562,234	1,465,573	463,804
Gearing ratio	58.3%	63.6%	44.7%	88.0%

39. DETAILS OF SUBSIDIARIES NOW COMPRISING THE GROUP

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	*Notes*	Place and date of incorporation/ operations	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	*(iii)*	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)	*(i)*	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.)	*(i)*	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.)	*(i)*	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.)	*(i)*	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 Taipingyang Hongqiao Automobile Trading Co., Ltd.)	*(i)*	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.)	*(i)*	Shanghai, the PRC 2000	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海開隆豐田汽車銷售服務有限公司 (Shanghai Kailong Toyota Automobile Sales & Services Co., Ltd.)	*(ii)*	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.)	*(i)*	Shanghai, the PRC 2003	Registered and paid-in capital of RMB500,000	—	100%	Sale of spare parts and accessories

Company name	Notes	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
				%	%	
上海徐匯寶信汽車服務有限公司 (Shanghai Xuhui Baoxin Automobile Services Co., Ltd.)	*(i)*	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.)	*(i)*	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.)	*(i)*	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.)	*(i)*	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.)	*(i)*	Ningbo, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Service of motor motor vehicles
寧海寶信汽車銷售服務有限公司 (Ninghai Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	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.)	*(i)*	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.)	*(i)*	Beijing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	51%	Dormant
上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.)	*(i)*	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.)	*(i)*	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.)	*(i)*	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 Taipingyang Jinsha Automobile Sales & Services Co., Ltd.)	*(i)*	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 Taipingyang Shenlong Automobile Sales & Services Co., Ltd.)	*(i)*	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.)	*(ii)*	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.)	*(ii)*	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.)	*(ii)*	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.)	*(ii)*	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles

Company name	Notes	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
				%	%	
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	*(i)*	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles
揚州名凱汽車銷售服務有限公司 (Yangzhou Mingkai Automobile Sales & Services Co., Ltd.)	*(i)*	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.)	*(iv)*	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.)	*(i)*	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.)	*(i)*	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.)	*(i)*	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)	*(i)*	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.)	*(iii)*	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.)	*(iii)*	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.)	*(iii)*	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.)	*(iii)*	Dandong, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
嘉興天華汽車銷售服務有限公司 (Jiaxing Tianhua Automobile Sales & Services Co., Ltd.)	*(iii)*	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.)	*(iii)*	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.)	*(iii)*	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 Automobile Sales Co., Ltd)	*(iii)*	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.)	*(iii)*	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.)	*(iii)*	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.)	*(iii)*	Shenyang, the PRC 2011	Registered and paid-in capital of RMB3,000,000	—	100%	Sale and service of motor vehicles

Company name	Notes	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
				%	%	
天津衛寶行汽車銷售服務有限公司 (Tianjin Weibaohang Automobile Sales & Services Co., Ltd.)	*(iii)*	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.)	*(iii)*	Zibo, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	75%	Sale and service of motor vehicles

The results of Shanghai Kailong have been included in the Financial Information throughout the Relevant Periods since it was 100% owned by the Controlling Shareholder and that its business throughout the Relevant Periods formed an integral part of the Listing Business. Accordingly, the operating result was reflected in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles. Shanghai Kailong was established in the PRC on November 15, 2001 with paid-up capital of RMB50,000,000 as at June 30, 2011. It was engaged in the sale and service of motor vehicles in Shanghai, the PRC, and no statutory accounts have been prepared for Shanghai Kailong since its incorporation as there is no statutory requirement for it to prepare audited financial statements.

Notes:

(i) No statutory accounts have been prepared for these subsidiaries since their incorporation as there is no statutory requirement for these companies to prepare audited financial statements.

(ii) No statutory account for the years ended December 31, 2008 has been prepared for these subsidiaries since their incorporation as there is no statutory requirement for these companies to prepare audited financial statements. The statutory accounts for the year ended December 31, 2009 and 2010 were audited by 公信中南會計師事務所 (Gong Xin Zhong Nan Certified Public Accountants) and 上海宏大東亞會計師事務所有限公司 (Shanghai HDDY Certified Public Accountants Co., Ltd) respectively.

(iii) For the year ended December 31, 2010, these subsidiaries have yet to be incorporated.

(iv) The statutory accounts for the year ended December 31, 2010 were audited by 上海宏大東亞會計師事務所有限公司 (Shanghai HDDY Certified Public Accountants Co., Ltd).

40. POST BALANCE SHEET EVENTS

1. On July 12, 2011, the authorized share capital of the Company was increased to US$200,000 divided into 2,000,000 shares with a par value of US$0.1 each. On the same day, 500,000 ordinary shares of US$50,000 were allotted and issued to its then shareholders.

2. On November 22, 2011, the authorized share capital of the Company was increased to the aggregate of US$200,000 and HK$50,000,000 divided into (i) 2,000,000 shares with a par value of US$0.1 each and (ii) 5,000,000,000 ordinary shares with a par value of HK$0.01 each.

3. On November 25, 2011, 100,000,000 ordinary shares of HK$1,000,000 were allotted and issued as fully paid to its then shareholders.

4. 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.

5. On November 25, 2011, the authorized share capital of the Company was reduced by the cancellation of all of the 2,000,000 authorized but unissued shares of a par value of US$0.1 each, such that the authorized share capital of the Company was reduced to HK$50,000,000 divided into 5,000,000,000 ordinary shares with a par value of HK$0.01 each.

6. The companies now comprising the Group underwent and completed a Reorganisation on August 4, 2011 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Our History and Reorganisation" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to June 30, 2011.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
Hong Kong