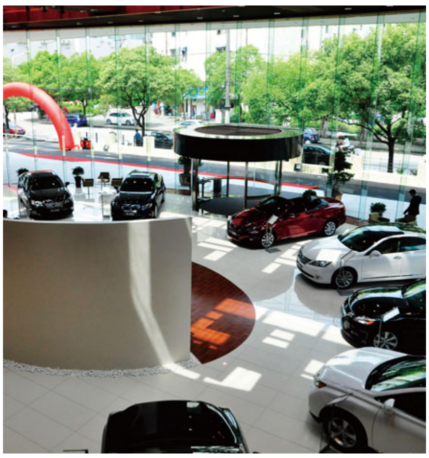
中升集團控股有限公司
ZHONGSHENG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 881

Zhongsheng Group - Lifetime Partner
中升集團 • 終生夥伴



2011
Annual Report

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(Vice-Chairman and CEO)*
Mr. Du Qingshan
Mr. Yu Guangming

Non-executive Director

Mr. Leng Xuesong

Independent Non-executive Directors

Mr. Shigeno Tomihei
Mr. Ng Yuk Keung
Mr. Shen Jinjun

Corporate Headquarters

32nd Floor, Taikang Financial Tower
38 East Third Ring Road North Street
Chaoyang District
Beijing
PRC

Principal Place of Business In Hong Kong

Room 3504–12
35th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Legal Advisers to Hong Kong Law

Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Joint Company Secretaries

Ms. Kam Mei Ha Wendy
Ms. Mak Sze Man

Authorized Representatives

Mr. Huang Yi
Ms. Kam Mei Ha Wendy

Audit Committee

Mr. Ng Yuk Keung *(Chairman)*
Mr. Shen Jinjun
Mr. Leng Xuesong

Remuneration Committee

Mr. Shigeno Tomihei *(Chairman)*
Mr. Li Guoqiang
Mr. Shen Jinjun

Nomination Committee

Mr. Shen Jinjun *(Chairman)*
Mr. Huang Yi
Mr. Shigeno Tomihei

Compliance Committee

Mr. Du Qingshan *(Chairman)*
Mr. Huang Yi
Mr. Li Guoqiang

Compliance Adviser

Haitong International Capital Limited
25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

Hong Kong Share Registrar

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

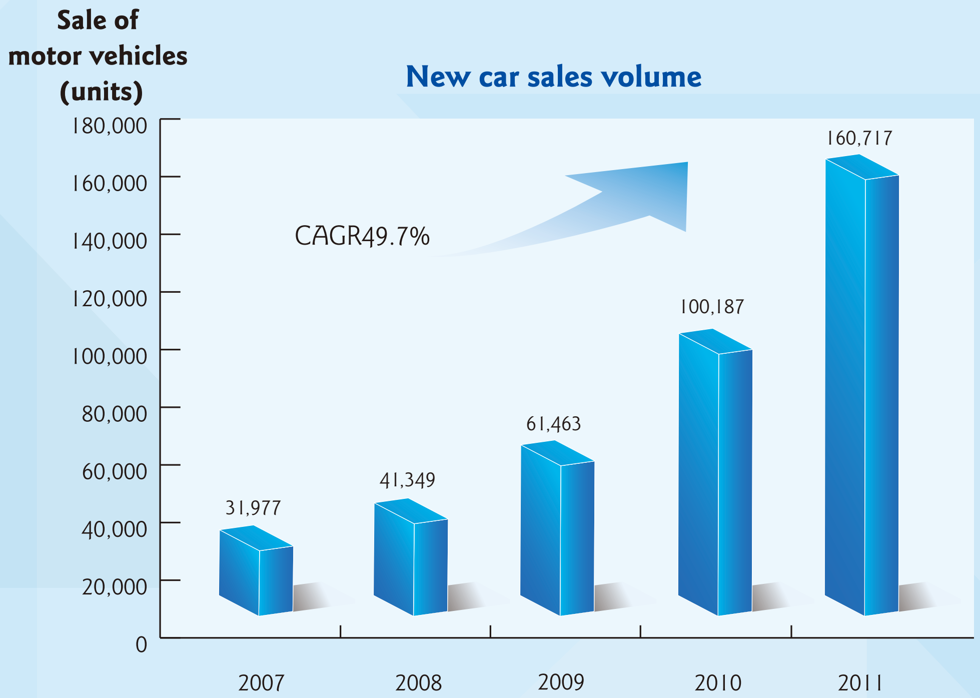
Stock Code

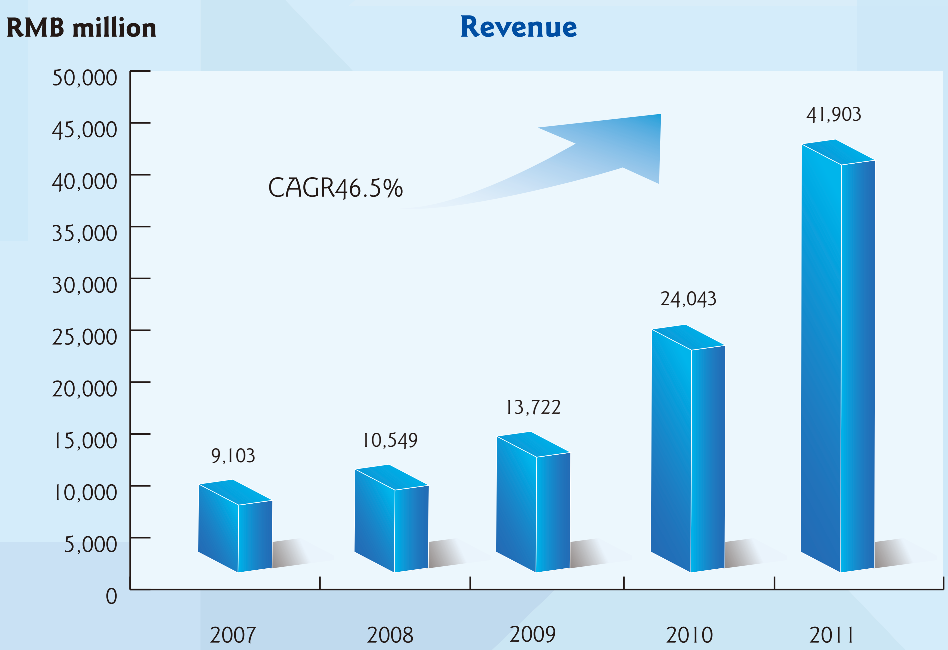
881

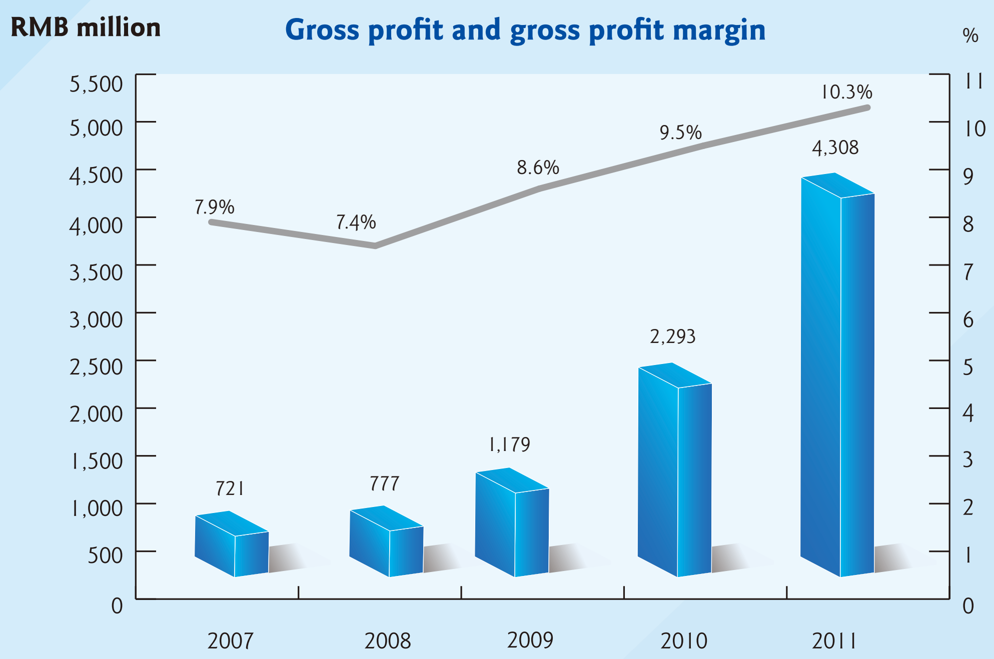
Auditors

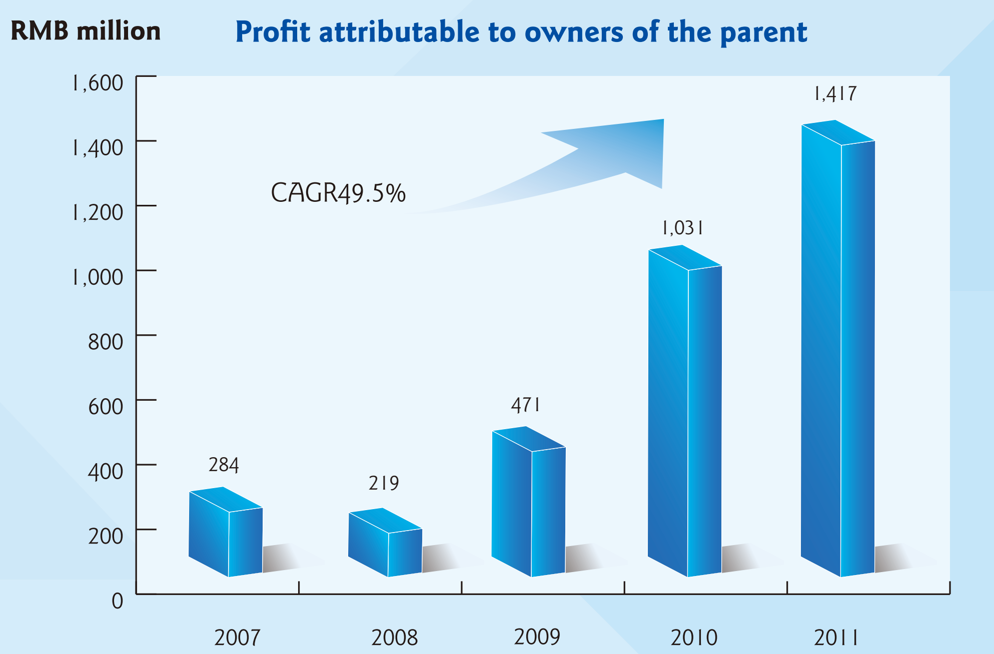
Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Financial Highlights






RMB million
Gross profit and gross profit margin
%
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
11
10
9
8
7
6
5
4
3
2
1
0
7.9%
7.4%
8.6%
9.5%
10.3%
721
777
1,179
2,293
4,308
2007
2008
2009
2010
2011


RMB million
Profit attributable to owners of the parent
1,600
1,400
1,200
1,000
800
600
400
200
0
CAGR49.5%
284
219
471
1,031
1,417
2007
2008
2009
2010
2011

Chairman's Statement

Dear honourable shareholders,

On behalf of the board of directors (the "Board") of Zhongsheng Group Holdings Limited ("Zhongsheng" or the "Company"), it is my pleasure to present the annual report of the Company and its subsidiaries (the "Group") for 2011.

By capitalizing on the continuous expansion of its dealership network, through both organic growth and acquisitions and the multiple brand portfolio advantages, the Group achieved outstanding results in various aspects in 2011. During the period under review, the Company achieved a revenue of RMB41,903.4 million, representing an increase of 74% from RMB24,042.9 million for the year of 2010. Profit reached RMB1,643.1 million, representing an increase of 52% from RMB1,082.4 million for the year of 2010. Earnings per share was RMB0.74 (2010: RMB0.56). Furthermore, the Group was selected by Forbes as "The 50 BEST Publicly Traded Companies in Asia-Pacific ("FAB50") in 2011". As the only automobile dealership enterprise in the Asia region to win the award, the Group's leading position in the automobile dealership industry was further established.

Due to the termination of the government's favourable tax concession policy towards small emission vehicles, growth of new car sales in China has started to slowdown in 2011, transforming from the two years of rapid growth in 2009 and 2010 to a period steady and sustainable growth. Furthermore, although the production and sales of Japanese made passenger vehicles were affected by the earthquake during the second quarter, with the joint efforts and coordination of manufacturers and parts suppliers, production of Japanese passenger vehicles resumed normal levels by the third quarter, with the sales figures bouncing back during the second half of the year. The accumulative vehicle sales in 2011 was over 160,000 cars, representing an increase of about 60%, of which about 35,000 cars were of luxury brands and 125,000 were of mid-to-high-end brands, an increase of approximately 110% and 50% respectively, and exceeding the 5.2% industry growth rate of passenger cars in China in 2011.

At the beginning of the year, the Ministry of Commerce of the PRC ("MOFCOM") issued guidelines on the 12th 5-year plan on the development of the automotive distribution industry (the "Guidelines"), emphasizing the further enhancement of the sales and services of the industry, and supporting qualified automotive distribution enterprises to merge and restructure cross-region operations, develop chain dealerships and forge 3–5 large automakers with an annual output of more than RMB100 billion. The Guidelines also directed enterprises to build convenient and effective automobile sales and service network, creating own service brands, develop sound dealership network and strengthen after-sales service, while at the same time, promoted the second-hand car market, by quickly establishing a reliable, systematic and effective second-hand car dealership network. The published Guidelines clearly stated the State's attention to and support of the automobile dealership industry, which reinforces the management's confidence in the Group's future sustained development.

The outstanding results we achieved during 2011 were attributed to the loyal services and contribution of all employees of the Group as well as the support and encouragement from all shareholders and business partners. On behalf of the Board, I wish to express my sincere gratitude to all our employees, shareholders and business partners.

Huang Yi
Chairman

Hong Kong, 26 March 2012

Chief Executive Officer's Statement

Huge growth potential with increasing demand for mid-to-high-end and luxury automobiles in China

Despite the rapid growth in the last few years, the penetration of automobile in China is still years behind other more mature and developed countries. As the country's economy continues to develop and the people's spending power continues to grow, the increasing market demand remains the constant driving force for the rapid growth of China's automobile industry. Benefiting from the government's favourable tax concession on consumption of low-emission automobiles, the passenger vehicle sales volume in China grew by 47% in 2009 and 34% in 2010, with the sales of low-emission automobiles achieving the most outstanding results. Car replacement and upgrade needs will provide golden opportunities for the growth in mid-to-high-end automobiles for the coming years. Furthermore, the multi-level nature and the large demand in China provide a very strong foundation for the luxury automobile market, making such continuous growth in China's automobile market predictable and foreseeable in the long run. We believe that there is a huge potential of future growth for the automobile market in China.

Significant after-sales business opportunities

A total of 18.5 million cars were sold in China in 2011, making China the world's biggest automobile market for the third consecutive year. Car ownership in China exceeded one hundred million by August 2011. The high new car sales and car ownership volumes indicate huge business opportunities and sustainable rapid growth for after-sales service market ancillary to the automobile industry. China's automobile after-sales market is currently unstructured and dispersed, with low degree of specialization and lacking economies of scale. As the leading automobile dealership group in China, we will utilise our large customer base and professional and standardized operating system on new car sales to further explore and develop the value chain of the automobile after-sales business. We believe that with more cars sold every year which brings in continuous supply to our customer base, the income and profit of after-sales service will represent an increasingly important proportion to the overall profitability of the 4S dealership, which could further enhance the dealership group's abilities to cope with cyclical fluctuations in new car sales, and help the dealership group to maintain a highly visible and sustainable growth.

Steady expansion of 4S dealership network

During the Reporting Period, the Group expanded its existing dealership network through both organic growth as well as strategic acquisitions to enhance and improve its market share and competitive advantages in several cities. In 2011, the Company has set up 18 new dealerships in Liaoning, Zhejiang, Fujian, Guangdong, Yunnan, Sichuan and Chongqing, including 10 luxury brand dealerships such as Mercedes-Benz, Audi, Lexus and imported Volkswagen. Furthermore, the Group also further expanded its dealership network through strategic acquisitions. We have successfully acquired 24 dealerships in Yunnan, Shandong, Guangdong, Zhejiang and Jiangsu in 2011, including luxury brands like Audi, Lexus and Infiniti, as well as mid-to-high-end brands like Toyota and Nissan. As at the date of this report, our 4S dealership network included a total of 140 dealerships, representing an addition of 42 dealerships from the date of 2010 Annual Report, covering 15 provinces and regions with almost 60 cities in China.

The network coverage of Zhongsheng Group's dealership network as of the date of this report:

	As of the date of this report	As of the date of 2010 Annual Report	Change
Northeastern region	**37**	34	+3
Northern region	**9**	8	+1
Eastern region	**36**	20	+16
Southern region	**26**	18	+8
Southwestern and Northwestern interior regions	**32**	18	+14
Total	**140**	98	+42

Further enhancement of brand portfolio

As the income level and living standard of Chinese customers keep increasing, their purchasing power and consumption needs also continuously grow up. The Group has been focusing on developing luxury and mid-to-high-end brand portfolio as our development strategy to meet customer demands. In 2011, we successfully introduced dealership of luxury automobile brands, Infiniti and imported Volkswagen, and we have obtained dealership authorization from Land Rover to further enhance our brand portfolio. Our brand portfolio currently includes luxury brands such as Mercedes-Benz, Lexus, Audi, Porsche, Lamborghini, imported Volkswagen and Infiniti, as well as mid-to-high-end brands such as Toyota, Nissan and Honda.

Continuous improvement of customer service

The Group has always strived to put customers first, to understand their needs and actively build a long-term and stable relationship with them. As a "one-stop automobile service provider", the Group provides customers with reliable after-sales services including repairs, maintenance, detailing services and automobile accessories and products. We believe that high quality and diversified services can greatly enhance customer satisfaction and customer loyalty. In addition, the continuing increase in the accumulative volume of new car sales and the high-level growth in the passenger vehicle penetration rate in China create great potential in our after-sales services business future growth.

Future Outlook

With a corporate motto of "Zhongsheng Group – Lifetime Partner", we place great emphasis on our service quality to provide premium service experience to our customers. We will continue to consolidate and improve our leadership position in the luxury and mid-to-high-end automobile dealership industry in China, by continuing to strengthen our core business in automobile distribution and explore value chain through continuously enlarged customer base. We will continue to look for outstanding and profitable automobile brands to expand our business scale through organic growth and acquisitions, so as to expand our dealership network and optimise our brand portfolio. The Group plans to focus on developing luxury automobile brands in the more mature market of the first and second tier cities, and continue integrating mid-to-high-end automobile brands in the third and fourth tier cities which have larger market capacity, so as to capture various business opportunities in different markets.

Moreover, the Group will continue to enhance its internal control and business integration to upgrade the enterprise core competitiveness in all aspects. We will utilise our unique ERP platform to further optimise our operation and process in order to achieve improvement in our management standards and lowering our costs. Looking ahead, we will endeavor to make Zhongsheng Group the leading enterprise in the automobile dealership industry, by further optimising our brand portfolio, expanding our dealership network and improving after-sales services to provide satisfactory return for our shareholders.

Li Guoqiang
Vice-Chairman and Chief Executive Officer

Hong Kong, 26 March, 2012

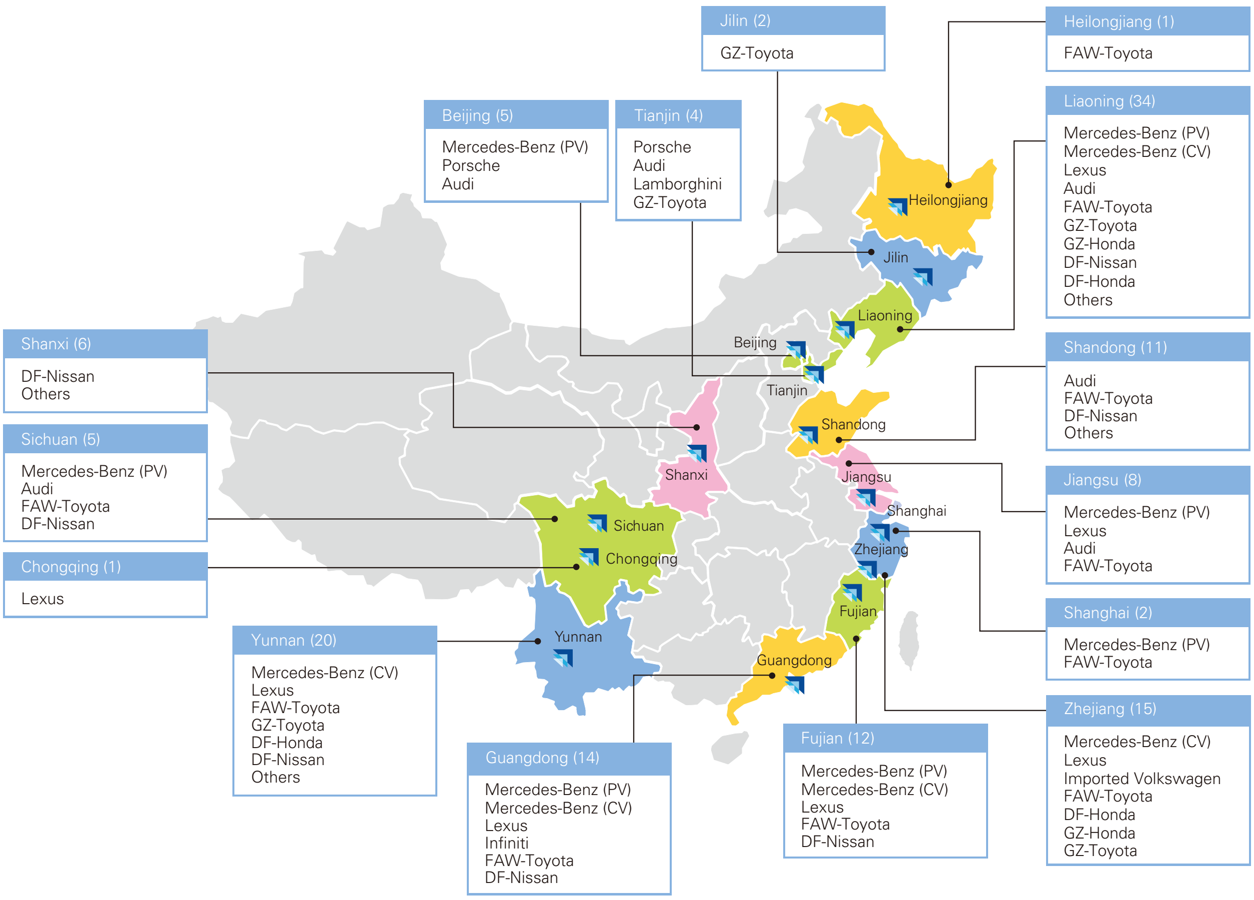
Management Discussion and Analysis

Management Discussion and Analysis

Overview

Our 4S dealerships are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern coastal regions of China, as well as inland areas in southwestern and northwestern regions of China. We have grown rapidly from 98 4S dealerships as of the date of 2010 Annual Report to 140 4S dealerships as of the date of this report.

The following map illustrates the geographic coverage of our 4s dealership network as of the date of this report:



We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche, Infiniti, Imported Volkswagen and Lamborghini, and mid-to-high-end automobile brands including Toyota, Nissan and Honda. We are the largest automobile dealership groups in China in terms of sales volume and number of 4S dealerships for Toyota, Lexus and Dongfeng Nissan.

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

Significant Accounting Judgements and Estimates

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

Financial Review

Revenue

Revenue for the year ended 31 December 2011 was RMB41,903.4 million, representing an increase of RMB17,860.5 million or 74.3% as compared to the corresponding period in 2010. This increase was primarily due to the increase in the number of our dealerships in operation and the new car sales and after-sales business of our existing dealerships continued to maintain a stable organic growth. Revenue from new car sales amounted to RMB38,239.5 million, representing an increase of RMB16,302.6 million or 74.3% as compared to the corresponding period in 2010. Revenue from after-sales business amounted to RMB3,663.9 million, representing an increase of RMB1,557.9 million or 74.0% as compared to the corresponding period in 2010. Our new car sales business generated a substantial portion of our revenue, accounting for 91.3% of our revenue for the year ended 31 December 2011 (2010: 91.2%).

For the year ended 31 December 2011, revenue from sales of luxury brand automobiles amounted to RMB19,155.5 million (2010: RMB8,210.3 million), accounting for 50.1% (2010: 37.4%) of our revenue from new car sales for the same period. Revenue from sales of mid-to-high-end brand automobiles amounted to RMB19,084.0 million (2010: RMB13,749.5 million), accounting for 49.9% (2010: 62.6%) of our revenue from new car sales. In terms of new car sales revenue, Toyota and Mercedes-Benz are our top-selling brands representing approximately 29% and 20% of our total new car sales revenue respectively (2010: 42% and 11% respectively).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2011 amounted to RMB37,595.2 million, representing an increase of RMB15,845.0 million or 72.8% as compared to the corresponding period in 2010. Cost attributable to our new car sales business amounted to RMB35,651.0 million for the year ended 31 December 2011, representing an increase of RMB14,976.6 million or 72.4% as compared to the corresponding period in 2010. Cost attributable to our after-sales business amounted to RMB1,944.2 million for the year ended 31 December 2011, representing an increase of RMB868.4 million or 80.7% as compared to the same period of 2010.

Gross Profit

Gross profit for the year ended 31 December 2011 amounted to RMB4,308.2 million, representing an increase of RMB2,015.5 million or 87.9% as compared to the corresponding period in 2010, of which the gross profit from new car sales business amounted to RMB2,588.5 million, representing an increase of RMB1,326.1 million or 105.0% as compared to the corresponding period in 2010. Gross profit from after-sales services was RMB1,719.7 million, representing an increase of RMB689.4 million or 66.9% as compared to the corresponding period of 2010. For the year ended 31 December 2011, the gross profit from after-sales services accounted for 39.9% of the total gross profit (2010: accounted for 44.9% of the total gross profit). Our gross profit margin for the year ended 31 December 2011 was 10.3% (2010: 9.5%), of which the gross profit margin of new car sales business was 6.8% (2010: 5.8%). Gross profit margin of after-sales services was 46.9% (2010: 48.9%). The increase in gross profit margin for the year ended 31 December 2011 was primarily due to our achievements in brand portfolio optimization, strengthening the internal management of our dealership and centralized procurement of automobile spare parts and accessory products at the group level to lower the cost.

Profit from Operations

Profit from operations for the year ended 31 December 2011 amounted to RMB2,733.5 million, representing an increase of RMB1,130.8 million or 70.6% as compared to the corresponding period in 2010. Our operating profit margin for the year ended 31 December 2011 was 6.5% (2010: 6.7%). Excluding the non-recurring gains arising from the disposal of land use rights, properties, plant and equipment and a subsidiary of RMB122.5 million in 2010, the recurring operating profit margin in 2010 was 6.2%. Our operating profit margin for 2011 has actually improved as compared to 2010.

Profit for the Year

Our profit for the year ended 31 December 2011 amounted to RMB1,643.1 million, representing an increase of RMB560.7 million or 51.8% as compared to the corresponding period in 2010. Our net profit margin for the year ended 31 December 2011 was 3.9% (2010: 4.5%). Excluding the non-recurring gains arising from the disposal of land use rights, properties, plant and equipment and a subsidiary of RMB122.5 million in 2010, the recurring profit margin in 2010 was 4.0%, which is about the same level as that of 2011.

Profit Attributable to Owners of the Parent

Our profit attributable to owners of our Company for the year ended 31 December 2011 was RMB1,417.3 million, representing an increase of RMB386.1 million or 37.4% as compared to the corresponding period in 2010.

Liquidity and Capital Resources

Cash Flow

Our cash is primarily used to pay for the purchase of new automobiles, spare parts and automobile accessories, repay our indebtedness, fund our working capital and normal operating expenses, establish new 4S dealerships and acquire other 4S dealerships. We finance our liquidity requirements through a combination of cash flows generated from our operating activities and financing activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of the proceeds from the global offering, bank loans and other borrowings, senior notes, cash flow generated from our operating activities and other funds raised from the capital markets from time to time.

Cash Flow Generated from Operating Activities

For the year ended 31 December 2011, our net cash generated from operating activities was RMB359.3 million, arising from operating profit of RMB3,085.5 million before working capital movement, deducting an increase in working capital of RMB2,364.3 million and payment of tax of RMB361.9 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2011, our net cash used in investing activities was RMB3,420.3 million, consisting primarily of purchases of property, plant and equipment of RMB1,727.1 million, purchases of land use rights of RMB533.7 million and acquisition of subsidiaries of RMB1,385.7 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB260.0 million.

Cash Flow Generated from Financing Activities

For the year ended 31 December 2011, our net cash generated from financing activities was RMB4,560.6 million, consisting of proceeds from bank loans and other borrowing of RMB15,638.4 million and net proceeds from issue of senior notes of RMB1,227.9 million, partially offset by repayment of bank loans and other borrowings of RMB11,365.4 million and interest paid for bank loans and other borrowings of RMB615.7 million.

Capital Expenditure and Investment

Our capital expenditures comprise expenditures on property, plant and equipment and land use rights. For the year ended 31 December 2011, our total capital expenditures were RMB2,019.4 million.

Inventory Analysis

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our 4S dealerships independently manages the orders for new automobiles and part of the after-sales products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our 4S dealership network. We manage our quotas and inventory levels through our ERP system. Our inventories increased by 84.8% from RMB3,453.0 million as at 31 December 2010 to RMB6,380.2 million as at 31 December 2011. The increase is primarily due to an increase in our sales resulting from the increased market demand during the year ended 31 December 2011, which facilitated an increase in our inventory of new automobiles by RMB2,730.6 million, or 86.2%, to RMB5,900.1 million as at 31 December 2011.

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

	Year ended 31 December	
	2011	2010
Average inventory turnover days	**44.9**	37.6

Our average inventory turnover days in 2011 increased to 44.9 days from 37.6 days in 2010, primarily due to the significant increase of new dealership stores, which not yet reached their optimal level of new car sales.

Bank Loans and Other Borrowings

Our bank loans and other borrowings as at 31 December 2011 were RMB10,046.5 million. Our bank loans and other borrowings were increased during the year to finance our expanded operations.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank loans and other borrowings and banking facilities which were used to finance our daily business operation. As at 31 December 2011, the pledged group's assets amounted to approximately RMB3.8 billion (2010: RMB2.4 billion).

Mergers and Acquisitions of the Group

During the year ended 31 December 2011 and till the date of this report, the Group entered into a series of mergers and acquisitions in order to expand our operations and enhance our competitive strength. The most important acquisition is the acquisition of 100% equity interest in Loong Wah Motors (Cayman) Co., Ltd., which added 14 4S dealerships to the Group's 4S dealership network and further expanded the Group's operational scale and competitive advantages in Zhejiang, Guangdong and Jiangsu.

Future Plans and the Expected Funding

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring acclaimed brands with potential. We aim to increase the number of our 4S dealerships to 180 in 2012 through new establishment and appropriate mergers and acquisitions. We currently plan to fund our future capital expenditure through various resources including but not limited to cash flows generated from our operating activities and borrowings from banks, and we currently have sufficient credit facilities granted by our banks.

Risk of Exposure to Exchange Rate Fluctuations and Related Hedging

Nearly all our businesses are conducted in mainland China and we conduct our business primarily in Renminbi. We make nearly all our procurement with Renminbi and nearly all our incomes are denominated in Renminbi as well. We do not expect any material impact on our business from the exchange rate fluctuations, and we currently do not engage in hedging activities designed or intended to manage the foreign exchange risks. However, we will consider arranging for proper financial instruments at appropriate times to avoid the currency risks when necessary.

Employees' Remuneration Policies and Training

As at 31 December 2011, the Group had a total of 16,079 employees. As at 31 December 2011, the total staff costs (including directors' remunerations) amounted to approximately RMB814.4 million.

The remuneration we paid to our staff mainly comprised wages, commissions, discretionary bonuses and contributions to defined contribution welfare schemes (including pension funds). The management determines the remuneration of the employees with reference to performance, experiences and industry practice.

Share option scheme were adopted to attract and retain eligible employees to contribute to the Group. Please refer to the section headed "Share Option Scheme" in the Report of Directors for details. In the future, we plan to provide various internal and external trainings for our senior management, general managers of our subsidiary 4S dealerships, middle-level executives as well as other employees, so as to improve the management capability and quality throughout the Group, growing more "Quality" employees into "Outstanding" ones.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2011.

Corporate Governance Practices of the Company

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognized as vital to the Group's success and to sustaining development of the Group. We are committed to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Company has applied the principles as set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The CG Code contained in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of corporate governance practices, as follows:

a) Code provisions, which listed issuers are expected to comply with or to give considered reasons for deviation.

b) Recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

During the year, the Company is in compliance with the mandatory code provisions of the CG Code.

The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

A. The Board

1. Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

2. Delegation of Management Function

The Board takes responsibility for all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of directors and other significant financial and operational matters.

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

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

3. Board Composition

The Board of the Company comprises the following directors:

Executive Directors:	Mr. HUANG Yi *(Chairman)* Mr. LI Guoqiang *(Vice-chairman and Chief Executive Officer)* Mr. DU Qingshan Mr. YU Guangming
Non-executive Director:	Mr. LENG Xuesong
Independent Non-executive Directors:	Mr. SHIGENO Tomihei Mr. NG Yuk Keung Mr. SHEN Jinjun

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

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

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive director at least one-third of the Board with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

4. Appointment and re-election of directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive directors or the Company. Each of the non-executive director and independent non-executive directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the articles of association.

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

According to Article 84 of the Company's articles of association, Mr. Huang Yi, Mr. Li Guoqiang and Mr. Du Qingshan retired at the annual general meeting held on 28 June 2011 and offered themselves for re-election at the same meeting. Meanwhile, the directors to be retired from office by rotation at the coming Annual General Meeting pursuant to the above Article shall be eligible for re-election as directors of the Company at the same meeting.

5. Induction and Continuing Development for Directors

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with developments in the legal and regulatory regime and the business and market environments to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged whenever necessary.

6. Board Meetings

Number of Meetings and Directors' Attendance

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Board met 9 times during the year ended 31 December 2011 for dealing the Company's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. HUANG Yi	8/9
Mr. LI Guoqiang	9/9
Mr. DU Qingshan	9/9
Mr. YU Guangming	6/9
Mr. LENG Xuesong	7/9
Mr. SHIGENO Tomihei	4/9
Mr. NG Yuk Keung	4/9
Mr. SHEN Jinjun	5/9

Practices and Conduct of Meetings

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

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

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

The senior management (including Chief Executive Officer and Chief Financial Officer) attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

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

B. Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Chairman of the Board is Mr. Huang Yi, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for the strategic management of the Group and for formulating the Group's overall corporate direction and focus. The Chief Executive Officer is Mr. Li Guoqiang, who is responsible for the overall management and operations of the Group. He is also responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman co-ordinate with the senior management to provide adequate, complete and reliable information to all directors for consideration and review.

C. Board Committees

The Board has established four committees, namely, the Remuneration Committee, Audit Committee, Nomination Committee and Compliance Committee, for overseeing particular aspects of the Company's affairs. All of these four committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

1. Remuneration Committee

The Remuneration Committee has been established with written terms of reference in compliance with paragraph B1 of the CG Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of two independent non-executive directors being Mr. Shigeno Tomihei and Mr. Shen Jinjun and one executive director being Mr. Li Guoqiang. The Remuneration Committee is chaired by Mr. Shigeno Tomihei, an independent non-executive director.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on our policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) making recommendations to the Board on determining the terms of the specific remuneration package of our directors and senior management; (iii) reviewing and approving performance – based remuneration by reference to corporate goals and objectives resolved by the directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and making recommendations to the Board on determining the annual remuneration packages of the executive directors and the senior management and other related matters.

The Remuneration Committee held 1 meeting during the year ended 31 December 2011 to review the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and senior management.

The attendance records of the Remuneration Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. SHIGENO Tomihei	1/1
Mr. SHEN Jinjun	1/1
Mr. LI Guoqiang	1/1

2. Audit Committee

The Audit Committee has been established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of two independent non-executive directors being Mr. Ng Yuk Keung and Mr. Shen Jinjun and one non-executive director being Mr. Leng Xuesong. The chairman of the Audit Committee is Mr. Ng Yuk Keung, who holds appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

The Audit Committee held 2 meetings during the year ended 31 December 2011 to review the financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management review and processes, and the re-appointment of the external auditors.

The attendance records of the Audit Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. NG Yuk Keung	2/2
Mr. SHEN Jinjun	2/2
Mr. LENG Xuesong	2/2

The Company's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee on 26 March 2012.

3. Nomination Committee

The Board has established a Nomination Committee. The current members of the Nomination Committee are Mr. Shen Jinjun, Mr. Huang Yi and Mr. Shigeno Tomihei. The Nomination Committee is chaired by Mr. Shen Jinjun. The primary function of the Nomination Committee is to make recommendations to our Board to fill vacancies on our Board.

The Nomination Committee held 1 meeting during the year ended 31 December 2011 to review the structure, size and composition of the Board regularly to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The attendance records of the Nomination Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. SHEN Jinjun	1/1
Mr. HUANG Yi	1/1
Mr. SHIGENO Tomihei	1/1

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

4. Compliance Committee

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

The Compliance Committee held 1 meeting during the year ended 31 December 2011. The attendance records of the Nomination Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. DU Qingshan	1/1
Mr. HUANG Yi	1/1
Mr. LI Guoqiang	1/1

D. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

The Company's employees, who are likely to be in possession of unpublished price-sensitive information of the Company, have also subjected to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company.

E. Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

F. External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 36 to 37.

The external auditors of the Company attended the annual general meeting held on 28 June 2011 to answer questions about the conduct of the audit, the preparation and content of the auditors' report and auditor independence.

During the year, the remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2011 amounted to RMB5,000,000.

G. Internal Controls

During the year, the Board has conducted a review of the effectiveness of the internal control system of the Company. The review has covered the financial, operational, compliance and risk management aspects of the Group.

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

H. Communications with Shareholders and Investors

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

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee and, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at www.zs-group.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

I. Shareholder Rights

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual directors. Meanwhile, the procedures for shareholder to (i) convene an extraordinary general meeting; (ii) direct their enquiries to the Board and (iii) put forward proposals at shareholders' meetings are available.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

J. Change in Directors' Information

Mr. Shen has become an independent non-executive director of Zhejiang Material Industrial Zhongda Yuantong Group Co., Ltd since August 2011.

K. Primary Contact Person

Mr. Ge Wenda and Ms. Yao Zhenchao are the primary contact persons of the Company for external service provider.

L. Going Concern

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's liability to continue as a going concern.

Directors and Senior Management

Directors

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

Name	Age	Position
HUANG Yi	49	Chairman and executive director
LI Guoqiang	48	Vice-chairman, executive director and chief executive officer
DU Qingshan	49	Executive director
YU Guangming	54	Executive director
LENG Xuesong	42	Non-executive director
SHIGENO Tomihei	59	Independent non-executive director
NG Yuk Keung	47	Independent non-executive director
SHEN Jinjun	54	Independent non-executive director

Executive Directors

HUANG Yi (黃毅), aged 49, is our Chairman and executive director. Mr. Huang is one of our two founders, and has been chairman of our Group since its inception in 1998. Mr. Huang has been serving as an executive director of our Board since 23 June 2008 and he is also a director of the various companies in the Group. Mr. Huang is responsible for the strategic management of our Group and for formulating our overall corporate direction and focus. Prior to founding our Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. ("China Resources Machinery"), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited ("China Automobile") as a director, and was responsible for China Automobile's procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, which is presently an indirect wholly-owned subsidiary of our Group. Mr. Huang is currently a council member of the Lexus China Dealer Council, as well as a council member of the National Dealer Advisory Council of FAW Toyota Motor Sales Co., Ltd. Mr. Huang has substantial senior management experience and more than 24 years' of experience and in – depth knowledge of the PRC automobile industry. He received a bachelor's degree in Economics from Xiamen University in 1983 and was awarded the title of "Economist" by MOFCOM in 1990, a work-related qualification title usually awarded to the government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experiences. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organization providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 48, is the other founder of our Group, and has been serving as our Group's Chief Executive Officer and vice-chairman since 1998 and as an executive director of our Board since 23 June 2008 and he is also a director of the various companies in the Group and Mr. Li is responsible for the overall management and operations of our Group. Mr. Li has served as deputy chairman and a member of standing committee for China Automobile Dealers Association since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("Aotong Repair & Assembly"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("Aotong Industry"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Holdings Co., Ltd., which is presently an indirect wholly-owned subsidiary of our Group. Mr. Li has substantial senior management experience and more than 22 years' of experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 49, has been serving as deputy general manager of our Group since 2007. Mr. Du has been an executive director of our Board since 23 June 2008. He is responsible for the financial planning, strategy and management of our Group, and oversees all the accountancy and financial aspects of our Group. Prior to joining our Group in 2007, Mr. Du was appointed by State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large PRC corporation, Dalian DHI.DCW Group Co., Ltd. ("Dalian DHI.DCW") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 22 years' experience in the areas of accountancy and finance. Mr. Du received a bachelor degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 54, has been serving as deputy general manager of our Group since 2004. Mr. Yu has been an executive director of our Board since 23 June 2008. He is responsible for the strategic business development of our Group as well as selecting and training middle-to-senior level managers of 4S dealerships of our Group. Since joining our Group in 2000, Mr. Yu has held numerous management positions in several of our principal subsidiaries, including Zhongsheng (Dalian) Holdings Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of our subsidiaries, implementing the strategic decisions of our Group and liaising with the automakers and customers regarding business relationship building. Prior to joining our Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to 1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, and was in charge of its overall management and operations during his tenure. Mr. Yu has more than 10 years' of relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree majoring in English from Shanghai International Studies University in 1985.

Non-executive Director

LENG Xuesong (冷雪松), aged 42, has been serving as a non-executive director of our Board since 1 August 2008. Mr. Leng is a managing director at General Atlantic LLC. He is based in Hong Kong, where he focuses on General Atlantic LLC's investment opportunities in North Asia. Prior to joining General Atlantic LLC, Mr. Leng served as a managing director at Warburg Pincus, an international private equity firm from 1999 to 2007. Mr. Leng also served as non-executive director of China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司), a company listed on the Stock Exchange (stock code: 1886) from July 2006 to August 2007. Mr. Leng is also the non-executive directors of two companies listed on the New York Stock Exchange, namely Wuxi Pharmatech (Cayman) Inc. (stock code: WX) and Soufun Holdings Ltd. (stock code: SFUN). Mr. Leng earned his master's degree in Business Administration from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor of International Industrial Trade degree from Shanghai Jiao Tong University in 1992.

Independent Non-executive Directors

SHIGENO Tomihei (茂野富平), aged 59, has been serving as an independent non-executive director of our Board since 1 August 2008. Prior to joining Minebea Shanghai in 2007, Mr. Shigeno worked for Nissan Motor Co., Ltd. ("Nissan Motor") from 1976 to 2006. Mr. Shigeno was part of the team which established Nissan Motor's Beijing office, and he served as its chief representative from 1991 to 1997. He was also chief representative of Nissan Motor's China operations from 2000 to 2003, specialising in sales and marketing, and was primarily responsible for developing Nissan Motor's distribution and service networks by establishing authorized distributors and automobile dealerships across the PRC. Mr. Shigeno was assigned by Nissan Motor to assist the president of Dongfeng Commercial Vehicle Company. Mr. Shigeno has over 33 years' of experience and in-depth knowledge of the automobile industry, sales and business management. He earned his bachelor's degree in Chinese language studies from Tokyo University of Foreign Studies in 1976.

NG Yuk Keung (吳育強), aged 47, has been serving as an independent non-executive director of our Board since 27 October 2009. Mr. Ng is the honorary adviser to China Huiyuan Juice Group (stock code: 1886), a company listed on the Stock Exchange. Mr. Ng serves as an executive director and chief financial officer in China NT Pharma Group Company Limited (中國泰凌醫藥集團有限公司) (stock code: 1011), a company listed on the Stock Exchange. Mr. Ng also serves as an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司) (stock code: 0631), Winsway Coking Coal Holdings Limited (永暉焦煤股份有限公司) (stock code: 1133) and Beijing Capital Land Ltd. (首創置業股份有限公司) (stock code: 2868). All of the Companies are listed on the Stock Exchange. Mr. Ng served as an independent non-executive director in Xinjiang Xinxin Mining Industry Co., Ltd. (新疆新鑫礦業股份有限公司) (stock code: 3833) from March 2007 to October 2011. Mr. Ng worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2004 to 2006, he was the deputy chief financial officer, a joint company secretary and the qualified accountant of Irico Electronics Group Company Limited (彩虹集團電子股份有限公司) (stock code: 0438), a company listed on the Stock Exchange. From 2006 to 2010, Mr Ng was a vice-president, the chief financial officer, the company secretary and the qualified accountant of China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司). Mr. Ng graduated from The University of Hong Kong with a Bachelor degree in Social Sciences in 1988 and a Master degree in Global Business Management and E-commerce in 2002. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

SHEN Jinjun (沈進軍), aged 54, has been serving as an independent non-executive director of our Board since 16 November 2009. Mr. Shen has become an independent non-executive director of Zhejiang Material Industrial Zhongda Yuantong Group Co., Ltd since August 2011. Mr. Shen has served as deputy chairman and secretary chief for China Automobile Dealers Association since 2005. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical section of the State Administration of Supplies, and the chief of the Automobile section and Electrical, Mechanical and Metallic section of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in formulations of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronic at the Beijing Open University in 1982.

Other Senior Management

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

Name	Age	Position
ZHANG Zhicheng	39	Vice-president
LIU Geng	42	Vice-president
HUANG Yunhui	43	Vice-president

ZHANG Zhicheng (張志誠), aged 39, currently serves as vice-president of our Group. Mr. Zhang joined our Group in 2003, and has held numerous management positions in several of our key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of our Group and liaising with the automakers regarding developing our brand automobile sales business. Mr. Zhang currently oversees the sales and management of our brand automobile sales business. Mr. Zhang has over 7 years' of relevant experience and in-depth expertise in the PRC automobile industry. Mr. Zhang received a master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2001 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

LIU Geng (劉耕), aged 42, joined our Group in 2000 and currently serves as vice-president of our Group's accessories businesses. Mr. Liu held management positions in two of our principal subsidiaries before being promoted to be our vice-president in 2009. Mr. Liu served as service manger of Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd. from 2000 to 2004, and as general manager of Dalian Yingbin Zhongsheng Toyota Automobile Sales & Services Co., Ltd. from 2004 to 2008, and he served as general manger of Dalian Zhongsheng Group Automobile Accessories Co., Ltd. from 2008 to 2009. Mr. Liu joined the PRC automobile industry since 1993 and has much experience and in-depth understanding of the PRC automobile industry. Mr. Liu earned a bachelor's degree in the automobile department of Harbin Institute of Technology in 1991.

HUANG Yunhui (黃雲輝), aged 43, joined our Group in August 2005 and currently serves as vice-president of our Group. Mr. Huang is primarily responsible for human resources and administration matters. Mr. Huang joined our Group in 2005, and served as the General Manager of Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., which is a significant subsidiary of our Group. He has accumulated experience in the operation and management of companies, and was promoted to the present position as vice-president of our Group in 2011. Mr. Huang has more than 20 years of career experiences in the automobile industry, and is well versed and professional in management, operation and business matters. Mr. Huang obtained a bachelor degree in pressure processing and industrial electrical automation from Wuhan Institute of Technology in 1990.

Company Secretaries

KAM Mei Ha Wendy (甘美霞), aged 44, was appointed as joint company secretary of the Company on 1 July 2010. She is a senior manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Kam has nearly 20 years of experience in corporate secretarial area.

MAK Sze Man (麥詩敏), aged 37, was appointed as joint company secretary of the Company on 1 July 2010. She is a manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms Mak has nearly 15 years of experience in corporate secretarial area.

Report of the Directors

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

Principal Activities

The Group's operations are conducted in the PRC through its subsidiaries in the PRC. The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the sale and service of motor vehicles. There were no significant changes in the nature of the Group's principal activities during the reporting period.

We are a leading national automobile dealership group in China. We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche, Infiniti and Lamborghini, and mid-to-high end automobile brands including Toyota, Nissan and Honda. Through our "One-stop Automobile Shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services.

Results

The results of the Group for the year ended 31 December 2011 are set out in the financial statements on pages 38 to 123 of this annual report.

Final Dividend

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting on 15 June 2012 (the "AGM") for the distribution of a final dividend of HK$0.16 per share for the year ended 31 December 2011 payable to the shareholders of the Company whose names are listed in the register of the Company on 25 June 2012, in an aggregate of HK$305.4 million (equivalent to RMB247.9 million). The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the AGM of the Company.

Capital

Details of the capital of the Group during the reporting period are set out in note 35 to the Financial Statements.

Reserves

Details of the movements in reserves of the Group during the reporting period are set out in the consolidated statement of changes in equity.

Distributable Reserves

As at 31 December 2011, the Company has distributable reserves of RMB5,056.4 million in total available for distribution, of which RMB247.9 million has been proposed as final dividend for the year.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 124 of this annual report.

Donations

The Company made a donation of RMB103,000 to various PRC charity projects or organizations for the year of 2011.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the reporting period are set out in note 14 to the Financial Statements.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group during the reporting period are set out in note 28 to the Financial Statements.

Contingent Liabilities

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

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of our directors, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules as at the date of this annual report.

Pre-emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors

The directors of the Company during the reporting period and up to the date of this annual report are:

Executive Directors

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(Vice-chairman and Chief Executive Officer)*
Mr. Du Qingshan
Mr. Yu Guangming

Non-executive Director

Mr. Leng Xuesong

Independent Non-executive Directors

Mr. Shigeno Tomihei
Mr. Ng Yuk Keung
Mr. Shen Jinjun

Pursuant to the articles of association of the Company, Mr. Yu Guangming, Mr. Leng Xuesong and Mr. Shigeno Tomihei shall retire from their offices by rotation at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election at the said meeting.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 27 of this annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive Directors or the Company. Each of the non-executive director and independent non-executive directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the articles of association.

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

Confirmation of Independence from the Independent Non-executive Directors

We have received from each of the independent non-executive directors, namely Mr. Shigeno Tomihei, Mr. Ng Yuk Keung and Mr. Shen Jinjun, the confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these directors. We consider that our independent non-executive directors have been independent from the date of their appointment to 31 December 2011 and remain so as of the date of this annual report.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules, were as follows:

Long positions in the Company's shares

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Deemed Interest/Interest of Controlled Company	273,699,004	14.34
	Founder of a discretionary trust/Beneficiary of A Trust	486,657,686	25.50
	Agreement to acquire interests	486,657,686	25.50
Mr. Li Guoqiang	Deemed Interest/Interest of Controlled Company	121,020,500	6.34
	Founder of a discretionary trust/Beneficiary of A Trust	486,657,686	25.50
	Agreement to acquire interests	639,336,190	33.50

Save as disclosed above, none of the directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at the end of the Reporting Period.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the followings are the persons, other than the directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position in the Shares and underlying shares of the Company

Name	Capacity/ Nature of Interest	Total Number of Ordinary Shares	Approximate percentage of shareholding (%)
General Atlantic Partners (Dalian), L.P. (Note 1)	Beneficial owner	125,756,769 (long position)	6.59
GAP (Bermuda) Limited (Note 1)	Deemed interest, interest of controlled company	155,648,919 (long position)	8.16
Blue Natural Development Ltd. (Note 2)	Beneficial owner and deemed interest, agreement to acquire interests	1,247,014,376 (long position)	65.34
Light Yield Ltd. (Note 3)	Beneficial owner and deemed interest, interest of controlled company and agreement to acquire interests	1,247,014,376 (long position)	65.34
Vest Sun Ltd. (Note 4)	Deemed interest, interest of controlled company and agreement to acquire interests	1,247,014,376 (long position)	65.34
Mountain Bright Limited (Note 5)	Beneficial owner and deemed interest, agreement to acquire interests	1,247,014,376 (long position)	65.34
RBC Trustees (CI) Limited	Deemed interest, interest of controlled company, trustee and agreement to acquire interests	1,247,014,376 (long position)	65.34
Vintage Star Limited (Note 6)	Beneficial owner and deemed interest, agreement to acquire interests	1,247,014,376 (long position)	65.34
The Capital Group Companies, Inc.	Deemed interest, interest of controlled company	95,593,000 (long position)	5.01

Notes:

1. The limited partners of General Atlantic Partners (Dalian), L.P. are General Atlantic Partners (Bermuda), L.P. ("GAP LP"), GapStar, LLC ("GapStar"), GAP Coinvestments III, LLC ("GAPCO III"), GAP Coinvestments IV, LLC ("GAPCOIV"), GAP Coinvestments CDA, L.P. ("GAPCO CDA") and GAPCO GmbH & Co. KG ("GAPCO KG"). The general partner of General Atlantic Partners (Dalian), L.P. is GAP (Bermuda) Limited ("GAP Bermuda Limited"). GAP Bermuda Limited is the general partner of General Atlantic GenPar (Bermuda), L.P. ("GAP Bermuda GenPar"), which is the general partner of GAP LP. GAP Bermuda GenPar is also the general partner of GAP-W International, LP., which directly owns 27,020,993 shares in the Company. General Atlantic LLC ("GA LLC") is the managing member of GAPCO III and GAPCO IV and the general partner of GAPCO CDA. There are 25 managing directors of GA LLC, including Mr. Leng Xuesong, one of the Company's directors. The managing directors of GA LLC are also the directors and executive officers of GAP Bermuda Limited. In addition, GAPCO Management GmbH ("GmbH Management") is the general partner of GAPCO KG. The managing directors of GA LLC make management and investment decisions relation to GAPCO KG and GmbH Management.

2. Blue Natural Development Limited is owned as to 62.3% by Light Yield Ltd. and as to 37.7% by Vest Sun Ltd.. Mr. Huang Yi and Mr. Li Guoqiang are directors of Blue Natural Development Ltd..

3. Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd..

4. Vest Sun Ltd. is wholly-owned by Mr. Li Guoqiang, who is also the sole director of Vest Sun Ltd..

5. Mountain Bright Limited is wholly owned by RBC Trustees (CI) Limited as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.

6. Vintage Star Limited is wholly owned by RBC Trustees (CI) Limited as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.

Save as disclosed above, as at the end of the Reporting Period, the directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Loan Agreement with Covenants relating to Specific Performance of the Controlling Shareholders

The Company issued RMB1,250,000,000 senior notes maturing in 2014 with a fixed interest rate of 4.75% per annum (the "Notes Issue") in April 2011. The Indenture to the Notes Issue provided that upon the occurrence of a change of control, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the offer at the date of repurchase.

A change of control under the Indenture includes, among others, any transaction that results in either: (1) the merger, amalgamation or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person; or (2) the Permitted Holders are the beneficial owners of less than 40% of the total voting power of the Voting Stock of the Company; or (3) either the Permitted Huang Holders or the Permitted Li Holders are the beneficial owners of less than 15% of the total voting power of the Voting Stock of the Company; or (4) any Person other than the Permitted Holders is the beneficial of more voting power of the Voting Stock of the Company than such total voting power held beneficially by the Permitted Holders; or (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or (6) the adoption of a plan relating to the liquidation or dissolution of the Company. Unless otherwise defined herein, capitalized terms have the same meaning as defined in the announcement published by the Company on 25 April 2011.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2011 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Directors and Controlling Shareholders' Interests in Competing Business

For the year ended 31 December 2011 and up to the date of this annual report, none of the directors and controlling shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd., Blue Natural Development Ltd., Mountain Bright Limited, RBC Trustees (CI) Limited and Vintage Star Limited) of the Company was interested in any business which competes or is likely to compete with the businesses of our Group.

We have received an annual written confirmation from our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, in respect of the compliance by and with the provisions of the non-competition deed entered into between the Company and our controlling shareholders (the "Non-competition Deed").

Our independent non-executive directors have reviewed the compliance with the Non-competition Deed during the financial year ended 31 December 2011 and up to the date of this annual report based on information and confirmation provided by or obtained from Controlling Shareholders, and were satisfied that our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

Connected Transactions

From 30 September 2011 to 2 March 2012, the Company has in succession acquired 100% equity interest in Loong Wah Motors (Cayman) Co., Ltd. ("Loong Wah"), among which, the acquisition of the remaining 20% equity interest made on 2 March 2012 constituted a connected transaction, which are in compliance with the disclosure requirements of Chapter 14A of the Listing Rules. Please refer to the announcement published by the Company on 4 March 2012, the circular published on 23 March 2012 and note 37(g) to the financial statement for details. Save for the above, during the reporting period, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Rule 14A.45 of the Listing Rules.

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of our Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2011 and up to the date of this annual report.

Directors' Remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to directors' duties, responsibilities and performance and the results of our Group.

Details of the directors' remuneration during the reporting period are set out in note 9 to the financial statements.

Retirement Schemes

Details of the retirement benefits plans of our Group are set out in note 31 to the financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period and up to the date of this annual report.

Share Option Scheme

The Share Option Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years on the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon of a grant of option is HK$1.00.

The Board may, at its absolute discretion, offer any employee, management member or director of the Company, or any of our subsidiaries and third party service providers the options to subscribe for shares on the terms set out in the Share Option Scheme. The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of approval of the Share Options Scheme. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the Shares. The Share Option Scheme does not contain any minimum period(s) for which a option must be held before it can be exercised. However, at the time of grant of the options, the Company may specify any such minimum period(s).

During the reporting period and up to the date of this annual report, no options have been granted pursuant to the Share Option Scheme.

Major Customers and Suppliers

During the reporting period, the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales. The respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 19.2% and 73.5%.

None of our directors or any of their associates or any shareholders (which to the best knowledge of our directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers and suppliers.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, or any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

Events After the Reporting Period

Details of the significant events after the reporting period of our Group are set out in note 46 to the Financial Statements.

Compliance with the Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Throughout the Reporting Period, the Company has complied with the mandatory code provisions in the CG Code.

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2011 have been audited by Ernst & Young, certified public accountants. Ernst & Young retired and a resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming AGM.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 11 June 2012 to Friday, 15 June 2012 (both days inclusive) and from Thursday, 21 June 2012 to Monday, 25 June 2012 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Friday, 8 June 2012. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Wednesday, 20 June 2012.

By order of the Board
Huang Yi
Chairman

Hong Kong, 26 March 2012

Independent Auditors' Report

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

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 123, which comprise the consolidated and company statements of financial position as at 31 December 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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

26 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5(a)	**41,903,414**	24,042,907
Cost of sales and services provided	6(b)	**(37,595,170)**	(21,750,181)
Gross profit		**4,308,244**	2,292,726
Other income and gains, net	5(b)	**367,362**	321,779
Selling and distribution costs		**(1,325,790)**	(693,372)
Administrative expenses		**(616,267)**	(318,414)
Profit from operations		**2,733,549**	1,602,719
Finance costs	7	**(549,375)**	(226,917)
Share of profits of jointly-controlled entities	19	**9,549**	8,195
Profit before tax	6	**2,193,723**	1,383,997
Tax	8	**(550,637)**	(301,624)
Profit for the year		**1,643,086**	1,082,373
Attributable to:			
Owners of the parent	13	**1,417,279**	1,031,190
Non-controlling interests		**225,807**	51,183
		1,643,086	1,082,373
		2011 RMB	2010 RMB
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– For profit for the year	12	**0.74**	0.56
Diluted			
– For profit for the year	12	**0.74**	0.56

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Profit for the year		**1,643,086**	1,082,373
Other comprehensive income			
Available-for-sale investments:			
Changes in fair value		**(4,219)**	2,981
Reclassification adjustments for gains included in the consolidated income statement			
– gain on disposal	*5(b)*	**(582)**	–
Income tax effect		**492**	(492)
Exchange differences on translation of foreign operations		**(59,601)**	(39,610)
Other comprehensive loss for the year, net of tax		**(63,910)**	(37,121)
Total comprehensive income for the year		**1,579,176**	1,045,252
Attributable to:			
Owners of the parent	*13*	**1,353,369**	994,069
Non-controlling interests		**225,807**	51,183
		1,579,176	1,045,252

Consolidated Statement of Financial Position

31 December 2011

		31 December	
		2011	2010
	Notes	**RMB'000**	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**3,886,831**	1,788,709
Land use rights	*15*	**1,084,623**	700,650
Prepayments	*16*	**861,837**	703,785
Intangible assets	*17*	**2,241,290**	1,382,349
Goodwill	*18*	**1,697,884**	790,947
Investments in jointly-controlled entities	*19*	**44,525**	46,894
Available-for-sale investments	*20*	**132,928**	178,294
Deferred tax assets	*32(b)*	**38,078**	8,785
Total non-current assets		**9,987,996**	5,600,413
CURRENT ASSETS			
Inventories	*21*	**6,380,195**	3,453,046
Trade receivables	*22*	**466,697**	284,951
Prepayments, deposits and other receivables	*23*	**4,631,948**	2,615,120
Amounts due from related parties	*44(b)(i)*	**4,369**	2,229
Financial assets at fair value through profit or loss	*24*	**49,749**	83,369
Pledged bank deposits	*25*	**1,664,888**	1,029,932
Cash in transit	*26*	**186,721**	140,852
Cash and cash equivalents	*27*	**4,487,819**	2,989,718
Total current assets		**17,872,386**	10,599,217
CURRENT LIABILITIES			
Bank loans and other borrowings	*28*	**10,016,585**	4,924,455
Senior notes, current portion	*33*	**11,518**	–
Trade and bills payables	*29*	**5,679,875**	2,984,507
Other payables and accruals	*30*	**1,505,078**	954,396
Amounts due to related parties	*44(b)(ii)*	**2,096**	10,026
Income tax payable	*32(a)*	**392,622**	188,161
Dividends payable		**5,718**	919
Total current liabilities		**17,613,492**	9,062,464
NET CURRENT ASSETS		**258,894**	1,536,753
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,246,890**	7,137,166

		31 December	
		2011	2010
	Notes	**RMB'000**	RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*32(b)*	**706,439**	422,597
Senior notes	*33*	**1,232,693**	–
Bank loans and other borrowings	*28*	**29,945**	–
Total non-current liabilities		**1,969,077**	422,597
NET ASSETS		**8,277,813**	6,714,569
EQUITY			
Equity attributable to owners of the parent			
Share capital	*35*	**168**	168
Reserves	*36*	**6,844,136**	5,742,660
Proposed final dividend	*11*	**247,929**	192,765
		7,092,233	5,935,593
Non-controlling interests		**1,185,580**	778,976
Total equity		**8,277,813**	6,714,569

Huang Yi
Director

Li Guoqiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Available-for-sale investment revalutation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	-	-	18,712	135,204	804,598	-	-	9,905	1,142,496	-	2,110,915	36,892	2,147,807
Issue of shares in connection with the Reorganisation	137	2,110,778	-	-	(2,110,915)	-	-	-	-	-	-	-	-
Issue of shares in connection with the Listing	27	2,687,718	-	-	-	-	-	-	-	-	2,687,745	-	2,687,745
Over-allotment of shares	4	377,384	-	-	-	-	-	-	-	-	377,388	-	377,388
Share issue expenses	-	(154,665)	-	-	-	-	-	-	-	-	(154,665)	-	(154,665)
Disposal of interest in a subsidiary to a non-controlling shareholder	-	-	-	-	364	-	-	-	-	-	364	1,636	2,000
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	-	-	-	-	690,184	690,184
Consideration for acquisition of non-controlling interests by the Group	-	-	-	-	(80,223)	-	-	-	-	-	(80,223)	-	(80,223)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(919)	(919)
Proposed final 2010 dividend	-	-	-	-	-	-	-	-	(192,765)	192,765	-	-	-
Transfer from retained profits	-	-	18,398	84,120	-	-	-	-	(102,518)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	2,489	(39,610)	1,031,190	-	994,069	51,183	1,045,252
At 31 December 2010	168	5,021,215	37,110	219,324	(1,386,176)	-	2,489	(29,705)	1,878,403	192,765	5,935,593	778,976	6,714,569
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	26,500	26,500
Disposal of interest in a subsidiary to non-controlling shareholders	-	-	-	-	-	(3,964)	-	-	-	-	(3,964)	11,314	7,350
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	-	-	-	-	149,477	149,477
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(6,494)	(6,494)
Final 2010 dividend declared	-	-	-	-	-	-	-	-	-	(192,765)	(192,765)	-	(192,765)
Proposed final 2011 dividend	-	(247,929)	-	-	-	-	-	-	-	247,929	-	-	-
Transfer from retained profits	-	-	-	126,334	-	-	-	-	(126,334)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	(4,309)	(59,601)	1,417,279	-	1,353,369	225,807	1,579,176
At 31 December 2011	168	4,773,286	37,110	345,658	(1,386,176)	(3,964)	(1,820)	(89,306)	3,169,348	247,929	7,092,233	1,185,580	8,277,813

* These reserve accounts comprise the consolidated reserves of RMB6,844,136,000 (2010: RMB5,742,660,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before tax		2,193,723	1,383,997
Adjustments for:			
– Share of profits of jointly-controlled entities	19(b)	(9,549)	(8,195)
– Depreciation and impairment of property, plant and equipment	14	256,204	109,508
– Amortisation of land use rights	15	18,251	9,223
– Amortisation of intangible assets	17	86,054	34,306
– Reversal for impairment of trade receivables and other receivables	6(c)	(26)	(485)
– Interest income	5(b)	(35,901)	(27,199)
– Net loss/(gain) on disposal of items of property, plant and equipment	5(b)	763	(69,685)
– Net loss on disposal of intangible assets	5(b)	533	–
– Net gain on disposal of land use rights		–	(46,009)
– Finance costs	7	549,375	226,917
– Fair value losses/(gains), net			
– Available-for-sale investments (transfer from equity on disposal)	5(b)	(582)	–
– Listed equity investments held for trading	5(b)	26,940	(4,066)
– Equity linked note	5(b)	2,783	(2,110)
– Dividend income from listed equity investment	5(b)	(1,517)	–
– Gain on disposal of available-for-sale investments	5(b)	(1,594)	–
– Gain on disposal of held-to-maturity investments		–	(299)
– Gain on disposal of a subsidiary		–	(6,789)
		3,085,457	1,599,114
Increase in pledged bank deposits		(339,371)	(647,003)
Increase in cash in transit		(33,982)	(96,310)
Increase in trade receivables		(113,045)	(135,817)
Increase in prepayments, deposits and other receivables		(1,225,617)	(627,021)
Increase in inventories		(2,131,568)	(1,763,407)
Increase in trade and bills payables		1,842,598	1,068,227
Decrease in other payables and accruals		(353,175)	(67,913)
Increase in amounts due from related parties – trade related		(2,140)	(1,673)
Decrease in amounts due to related parties – trade related		(7,930)	(12,902)
Cash generated from/(used in) operations		721,227	(684,705)
Tax paid		(361,878)	(170,975)
Net cash generated from/(used in) operating activities		359,349	(855,680)

	Notes	2011 RMB'000	2010 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(1,727,118)**	(627,251)
Proceeds from disposal of items of property, plant and equipment		**260,040**	103,422
Purchase of land use rights		**(533,660)**	(588,516)
Proceeds from disposal of land use rights		**54,465**	6,289
Purchase of intangible assets		**(8,572)**	(5,455)
Proceeds from disposal of available-for-sale investments		**33,775**	34,192
Prepayment for the potential acquisition of equity interests from third parties		**(131,258)**	(265,202)
Acquisition of subsidiaries		**(1,385,685)**	(604,570)
Increase in prepayments, deposits and other receivables		**(68,941)**	–
Proceeds from disposal of a subsidiary		**21,264**	15,757
Proceeds from disposal of equity interest in a subsidiary		**7,350**	2,000
Dividends received from listed equity investments		**1,517**	–
Dividends received from a jointly-controlled entity		**11,918**	–
Dividends received from a disposed subsidiary		**7,336**	–
Interest received		**37,269**	24,063
Purchase of financial assets at fair value through profit or loss		**–**	(206,541)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	127,898
Proceeds from disposal of held-to-maturity investments		**–**	5,582
Purchase of available-for-sale investments		**–**	(211,957)
Acquisition of non-controlling interests		**–**	(110,223)
Net cash used in investing activities		**(3,420,300)**	(2,300,512)
Financing activities			
Proceeds from bank loans and other borrowings		**15,638,367**	10,423,312
Repayment of bank loans and other borrowings		**(11,365,365)**	(7,943,442)
Increase in pledged bank deposits		**(78,097)**	–
Capital contribution from non-controlling shareholders of subsidiaries		**26,500**	–
Repayment of advances from the Controlling Shareholders		**–**	(1,308)
Net proceeds from issue of new shares in connection with the listing		**–**	2,910,468
Net proceeds from issue of senior notes	33	**1,227,873**	–
Interest paid for bank loans and other borrowings		**(615,684)**	(238,425)
Interest paid for senior notes	33	**(29,688)**	–
Capital element of finance lease rental payments		**(43,152)**	–
Dividends paid to the non-controlling shareholders		**(7,400)**	–
Dividends paid		**(192,765)**	–
Net cash generated from financing activities		**4,560,589**	5,150,605
Net increase in cash and cash equivalents		**1,499,638**	1,994,413
Cash and cash equivalents at beginning of year		**2,989,718**	1,030,960
Effect of foreign exchange rate changes, net		**(1,537)**	(35,655)
Cash and cash equivalents at end of year		**4,487,819**	2,989,718

Statement of Financial Position

31 December 2011

	Notes	31 December 2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	43	2,024,434	2,124,820
Amounts due from subsidiaries	43	3,724,485	2,620,685
Available-for-sale investments	20	132,828	178,094
Total non-current assets		5,881,747	4,923,599
CURRENT ASSETS			
Prepayments, deposits and other receivables		3,219	3,371
Financial assets at fair value through profit or loss	24	49,749	83,369
Cash and cash equivalents		12,563	133,785
Total current assets		65,531	220,525
CURRENT LIABILITIES			
Bank loans and other borrowings	28	87,451	–
Senior notes, current portion	33	11,518	–
Other payables and accruals		110	182
Amounts due to subsidiaries	43	–	14,692
Income tax payable		–	318
Total current liabilities		99,079	15,192
NET CURRENT ASSETS/(LIABILITIES)		(33,548)	205,333
TOTAL ASSETS LESS CURRENT LIABILITIES		5,848,199	5,128,932
NON-CURRENT LIABILITIES			
Deferred tax liabilities		–	2,073
Senior notes	33	1,232,693	–
NET ASSETS		4,615,506	5,126,859
EQUITY			
Share capital	35	168	168
Reserves	36	4,367,409	4,933,926
Proposed final dividend		247,929	192,765
Total equity		4,615,506	5,126,859

Huang Yi
Director

Li Guoqiang
Director

Notes to the Financial Statements

31 December 2011

1. Corporate Information

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 3504–12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Hong Kong Stock Exchange on 26 March 2010.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate Controlling Shareholders of the Company are Mr. Huang Yi and Mr. Li Guoqiang.

2.1 Basis of Presentation

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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

Details of the related party transactions, including the related comparative information are included in Note 44 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) (continued)

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 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]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]

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

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

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

HKFRS 9 issued in November 2009 is the first part of phase 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 Hong Kong Institute of Certified Public Accountants issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

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

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 1 January 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 1 January 2013.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

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 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

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 1 January 2013.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or 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/Company has unilateral control, directly or indirectly, over the joint venture;

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

2.4 Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

(c) an associate, if the Group/Company 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/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement 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 jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

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 income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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).

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. 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 values of property, plant and equipment are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	10–20 years	5%
Leasehold improvements	5 years	–
Plant and machinery	5–10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5 years	5%

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 and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

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

Software	3–5 years
Dealership agreements	20–40 years
Customer relationships	15 years
Favourable contracts	20 years
Club memberships	20–44 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor 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.

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 26 to 68 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 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 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, trade and other receivables, amounts due from related parties, and quoted and unquoted financial instruments.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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.

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 rate 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

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.

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced 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.

2.4 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 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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. 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, senior notes, amounts due to related parties, and bank loans and other borrowings.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

After initial recognition, bank loans and other 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.

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 a 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 option pricing models.

Inventories

Inventories are stated 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 to be incurred to completion and disposal.

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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 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 are 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Government grants

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

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 or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Vendor rebates

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

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

Employee benefits

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

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.61% and 9.95% 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 their respective functional currency. Foreign currency transactions recorded by the entities in the Group 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 statement are translated into RMB at the weighted average exchange rates for the year.

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

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

3. Significant Accounting Judgement 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 the 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.

Judgement

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets recognised was RMB38,078,000 (2010: RMB8,785,000) as at 31 December 2011. More details are given in Note 32(b).

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill was RMB1,697,884,000 (2010: RMB790,947,000) as at 31 December 2011. More details are given in Note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of 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. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

3. Significant Accounting Judgement and Estimates (continued)

Estimation uncertainty (continued)

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2011, no impairment losses have been recognised for available-for-sale financial assets.

Useful lives of intangible assets

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

4. Operating 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 over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customers' 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	38,239,543	21,936,868
Others	3,663,871	2,106,039
	41,903,414	24,042,907

(b) Other income and gains, net:

	2011 RMB'000	2010 RMB'000
Commission income	234,254	113,614
Advertisement support received from motor vehicle manufacturers	28,704	18,225
Rental income	10,957	782
Interest income	35,901	27,199
Government grants	7,481	4,783
Net (loss)/gain on disposal of property, plant and equipment	(763)	69,685
Net loss on disposal of intangible assets	(533)	–
Net gain on disposal of land use rights	–	46,009
Gain on disposal of a subsidiary	–	6,789
Gain on disposal of held-to-maturity investments	–	299
Gain on disposal of available-for-sale investments	1,594	–
Fair value (losses)/gains, net:		
Available-for-sale investments (transfer from equity on disposal)	582	–
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	(26,940)	4,066
– equity linked note	(2,783)	2,110
Dividend income from listed equity investments	1,517	–
Others	77,391	28,218
	367,362	321,779

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

		2011 RMB'000	2010 RMB'000
(a)	**Employee benefit expense (including directors' remuneration (Note 9)):**		
	Wages and salaries	**657,221**	399,516
	Pension scheme contributions	**104,004**	55,318
	Other welfare	**53,180**	27,966
		814,405	482,800
(b)	**Cost of sales and services provided:**		
	Cost of sales of motor vehicles	**35,650,976**	20,674,431
	Others	**1,944,194**	1,075,750
		37,595,170	21,750,181
(c)	**Other items:**		
	Depreciation and impairment of property, plant and equipment	**256,204**	109,508
	Amortisation of land use rights	**18,251**	9,223
	Amortisation of intangible assets	**86,054**	34,306
	Auditors' remuneration	**5,000**	5,000
	Lease expenses	**76,250**	33,325
	Advertisement expenses	**105,161**	83,796
	Office expenses	**113,751**	64,375
	Logistics expenses	**67,116**	36,821
	Business promotion expenses	**205,172**	73,787
	Reversal for impairment of trade receivables and other receivables	**(26)**	(485)
	Net loss/(gain) on disposal of property, plant and equipment	**763**	(69,685)
	Net loss on disposal of intangible assets	**533**	–
	Fair value losses/(gains), net:		
	Available-for-sale investments (transfer from equity on disposal)	**(582)**	–
	Financial assets at fair value through profit or loss		
	– listed equity investments held for trading	**26,940**	(4,066)
	– equity linked note	**2,783**	(2,110)
	Dividend income from listed equity investments	**(1,517)**	–
	Gain on disposal of available-for-sale investments	**(1,594)**	–
	Net gain on disposal of land use rights	**–**	(46,009)
	Gain on disposal of a subsidiary	**–**	(6,789)
	Gain on disposal of held-to-maturity investments	**–**	(299)

7. Finance Costs

	2011 RMB'000	2010 RMB'000
Interest expense on bank borrowings wholly repayable within five years	495,180	212,487
Interest expense on senior notes	46,026	–
Interest expense on other borrowings	57,229	25,938
Interest expense on finance leases	3,761	–
Less: Interest capitalised	(52,821)	(11,508)
	549,375	226,917

8. Tax

(a) Tax in the consolidated income statement represents:

	2011 RMB'000	2010 RMB'000
Current Mainland China corporate income tax	566,138	297,200
Current Hong Kong corporate income tax	201	1,924
Deferred tax (Note 32 (b))	(15,702)	2,500
	550,637	301,624

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, income, gain or appreciation shall apply to the Company or its operations.

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

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax ("CIT") Law of the People's Republic of China, the income tax rates for both domestic and foreign investment enterprises in Mainland China are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

8. Tax (continued)

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

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

	2011 RMB'000	2010 RMB'000
Profit before tax	**2,193,723**	1,383,997
Tax at the statutory tax rate (25%)	**548,431**	345,999
Tax effect of non-deductible expenses	**13,994**	3,564
Income not subject to tax	**(10,182)**	(28,494)
Profits attributable to jointly-controlled entities	**(2,387)**	(2,049)
Lower tax rates for specific provinces or enacted by local authority	**(4,304)**	(17,396)
Tax losses not recognised	**5,085**	–
Tax charge	**550,637**	301,624

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:

	Group	
	2011 RMB'000	2010 RMB'000
Fees	**624**	648
Other emoluments:		
Salaries, allowances and other benefits	**10,857**	8,173
Discretionary bonuses	**–**	–
Contributions to defined contribution retirements schemes	**177**	155
	11,034	8,328
	11,658	8,976

9. Directors' Remuneration (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000
– Mr. Shigeno Tomihei	208	216
– Mr. Ng Yuk Keung	208	216
– Mr. Shen Jinjun	208	216
	624	648

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Executive directors and a non-executive director

	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
2011					
Executive directors:					
– Mr. Li Guoqiang	–	5,070	–	59	5,129
– Mr. Huang Yi	–	2,160	–	10	2,170
– Mr. Du Qingshan	–	1,820	–	48	1,868
– Mr. Yu Guangming	–	1,807	–	60	1,867
Non-executive director:					
– Mr. Leng Xuesong	–	–	–	–	–
	–	10,857	–	177	11,034
2010					
Executive directors:					
– Mr. Li Guoqiang	–	3,158	–	51	3,209
– Mr. Huang Yi	–	2,251	–	10	2,261
– Mr. Du Qingshan	–	1,385	–	39	1,424
– Mr. Yu Guangming	–	1,379	–	55	1,434
Non-executive director:					
– Mr. Leng Xuesong	–	–	–	–	–
	–	8,173	–	155	8,328

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

10. Five Highest Paid Individuals

The five highest paid employees during the year included four (2010: four) directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining one (2010: one) non-director, highest paid employee for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, bonuses, allowances and benefits in kind	1,820	1,385
Pension scheme contributions	48	39
	1,868	1,424

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

	Number of employees	
	2011	2010
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	1	–
	1	1

11. Dividends

	2011 RMB'000	2010 RMB'000
Proposed final – HK$0.16 (approximately RMB0.13) (2010: HK$0.12) per ordinary share	247,929	192,765

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,908,481,295 (2010: 1,828,281,202) in issue during the year.

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.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (continued)

The calculations of basic and diluted earnings per share are based on:

Earnings

	2011 **RMB'000**	2010 RMB'000
Profit attributable to ordinary equity holders of the parent	**1,417,279**	1,031,190

Shares

	2011	2010
Weighted average number of ordinary shares in issue during the year	**1,908,481,295**	1,828,281,202

Earnings per share

	2011 **RMB**	2010 RMB
Basic	**0.74**	0.56
Diluted	**0.74**	0.56

13. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB36,853,000 (2010: a profit of RMB9,609,000) which has been dealt with in the financial statements of the Company (Note 36).

14. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2011	1,182,703	170,108	162,645	137,623	416,422	156,259	2,225,760
Exchange realignment	–	(36)	–	(10)	(94)	–	(140)
Additions	166,765	30,824	85,560	70,699	646,567	884,497	1,884,912
Acquisition of subsidiaries (Note 37)	567,844	12,192	50,606	43,275	87,014	60,943	821,874
Transfer	573,985	2,570	2,212	7,803	–	(586,570)	–
Disposals	(10,328)	(1,788)	(3,407)	(3,017)	(255,182)	–	(273,722)
At 31 December 2011	2,480,969	213,870	297,616	256,373	894,727	515,129	4,658,684
Accumulated depreciation and impairment:							
At 1 January 2011	182,306	43,131	57,744	63,092	90,778	–	437,051
Exchange realignment	–	(25)	–	(6)	(49)	–	(80)
Depreciation and impairment provided during the year	71,785	25,306	19,006	28,077	112,030	–	256,204
Acquisition of subsidiaries (Note 37)	73,112	2,891	17,087	22,899	24,582	–	140,571
Disposals	(2,001)	(317)	(2,733)	(1,380)	(55,462)	–	(61,893)
At 31 December 2011	325,202	70,986	91,104	112,682	171,879	–	771,853
Net book amount:							
At 31 December 2011	2,155,767	142,884	206,512	143,691	722,848	515,129	3,886,831
Cost:							
At 1 January 2010	665,285	16,813	90,402	73,860	128,134	116,222	1,090,716
Exchange realignment	–	(26)	–	(7)	(64)	–	(97)
Additions	43,157	14,881	31,045	35,688	222,239	289,161	636,171
Acquisition of subsidiaries	272,684	143,759	41,424	33,521	124,725	7,171	623,284
Transfer	252,047	–	3,756	463	–	(256,266)	–
Disposals	(50,470)	(5,319)	(1,672)	(5,040)	(58,097)	(29)	(120,627)
Disposal of a subsidiary	–	–	(2,310)	(862)	(515)	–	(3,687)
At 31 December 2010	1,182,703	170,108	162,645	137,623	416,422	156,259	2,225,760
Accumulated depreciation and impairment:							
At 1 January 2010	121,549	8,146	35,503	35,869	51,270	–	252,337
Exchange realignment	–	(3)	–	(1)	(10)	–	(14)
Depreciation and impairment provided during the year	42,045	8,269	10,396	15,240	33,558	–	109,508
Acquisition of subsidiaries	30,489	26,773	14,836	16,425	25,248	–	113,771
Disposals	(11,777)	(54)	(1,460)	(4,038)	(19,141)	–	(36,470)
Disposal of a subsidiary	–	–	(1,531)	(403)	(147)	–	(2,081)
At 31 December 2010	182,306	43,131	57,744	63,092	90,778	–	437,051
Net book amount:							
At 31 December 2010	1,000,397	126,977	104,901	74,531	325,644	156,259	1,788,709

14. Property, Plant and Equipment (continued)

As at 31 December 2011, the application for the property ownership certificates of certain buildings with a net book amount of approximately RMB1,485,236,000 (2010: RMB550,211,000) was still in progress.

As at 31 December 2011, certain of the Group's buildings with an aggregate net book amount of approximately RMB249,980,000 (2010: RMB89,734,000) were pledged as security for the Group's bank loans (Note 28(b)).

15. Land Use Rights

	2011 **RMB'000**	2010 RMB'000
Cost:		
At the beginning of the year	**736,902**	447,579
Additions	**134,512**	222,719
Acquisition of subsidiaries (Note 37)	**276,835**	82,547
Disposals	**–**	(15,943)
At the end of the year	**1,148,249**	736,902
Amortisation:		
At the beginning of the year	**36,252**	24,680
Charge for the year	**18,251**	9,223
Acquisition of subsidiaries (Note 37)	**9,123**	3,547
Disposals	**–**	(1,198)
At the end of the year	**63,626**	36,252
Net book value:		
At the end of the year	**1,084,623**	700,650

15. Land Use Rights (continued)

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 24 to 68 years.

As at 31 December 2011, certain of the Group's land use rights with an aggregate net book value of approximately RMB150,961,000 (2010: RMB87,165,000) were pledged as security for the Group's bank loans (Note 28(b)).

As at 31 December 2011, the Group had yet to obtain the legal title of certain land use rights in Mainland China subject to certain administrative procedures to be completed by the Group and the local government authorities. The net book value of these land use rights as at 31 December 2011 amounted to RMB186,929,000 (2010: RMB173,401,000).

16. Prepayments

	2011	2010
	RMB'000	RMB'000
Prepaid lease for land	**98,077**	15,005
Prepayment for land use rights	**424,553**	350,277
Prepaid lease for buildings	**83,942**	33,101
Prepayments for potential acquisitions	**255,265**	305,402
	861,837	703,785

17. Intangible Assets

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Favourable contract RMB'000	Club memberships RMB'000	Total RMB'000
Cost:						
At 1 January 2011	20,629	1,091,725	323,321	2,890	2,474	1,441,039
Exchange realignment	(18)	–	–	–	(117)	(135)
Additions	8,572	–	–	–	–	8,572
Acquisition of subsidiaries (Note 37)	5,891	642,750	289,580	–	–	938,221
Disposals	(1,186)	–	–	–	–	(1,186)
At 31 December 2011	33,888	1,734,475	612,901	2,890	2,357	2,386,511
Accumulated amortisation:						
At 1 January 2011	7,006	41,390	10,197	40	57	58,690
Exchange realignment	(13)	–	–	–	(5)	(18)
Amortisation provided during the year	4,183	50,478	31,095	206	92	86,054
Acquisition of subsidiaries (Note 37)	1,148	–	–	–	–	1,148
Disposals	(653)	–	–	–	–	(653)
At 31 December 2011	11,671	91,868	41,292	246	144	145,221
Net book value:						
At 31 December 2011	22,217	1,642,607	571,609	2,644	2,213	2,241,290
Cost:						
At 1 January 2010	14,935	216,595	47,181	–	–	278,711
Exchange realignment	(14)	–	–	–	–	(14)
Additions	2,981	–	–	–	2,474	5,455
Acquisition of subsidiaries	2,786	876,280	276,650	2,890	–	1,158,606
Disposals	(31)	–	–	–	–	(31)
Disposal of a subsidiary	(28)	(1,150)	(510)	–	–	(1,688)
At 31 December 2010	20,629	1,091,725	323,321	2,890	2,474	1,441,039
Accumulated amortisation:						
At 1 January 2010	4,061	15,826	4,192	–	–	24,079
Exchange realignment	(9)	–	–	–	–	(9)
Amortisation provided during the year	2,487	25,628	6,094	40	57	34,306
Acquisition of subsidiaries	525	–	–	–	–	525
Disposals	(31)	–	–	–	–	(31)
Disposal of a subsidiary	(27)	(64)	(89)	–	–	(180)
At 31 December 2010	7,006	41,390	10,197	40	57	58,690
Net book value:						
At 31 December 2010	13,623	1,050,335	313,124	2,850	2,417	1,382,349

17. Intangible Assets (continued)

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement. The customer relationships are amortised over 15 years and the dealership agreements are amortised from 20 years to 40 years, which are management's best estimation of their useful lives.

18. Goodwill

	2011 RMB'000	2010 RMB'000
At the beginning of the year	790,947	200,492
Acquisition of subsidiaries (Note 37)	906,937	593,117
Disposal of a subsidiary	–	(2,662)
At the end of the year	1,697,884	790,947

Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five years. The discount rate applied to the cash flow projections beyond the one-year period is 17%.

Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Sale and service of motor vehicles revenue – the bases used to determine the future earnings of sale and service of motor vehicles are the historical sales and the average growth rate of similar 4S stores of the Group over the last two years.

Operating expenses – the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

19. Investments in Jointly-Controlled Entities

	2011 RMB'000	2010 RMB'000
Share of net assets	44,525	46,894

廈門中升豐田汽車銷售服務有限公司 (Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.) ("Xiamen Zhongsheng"), 中升泰克提汽車服務(大連)有限公司 (Zhongsheng Tacti Automobile Services (Dalian) Co., Ltd.) ("Zhongsheng Tacti") and 提愛希汽車用品商貿(上海)有限公司 (TAC Automobile Accessories Trading (Shanghai) Co., Ltd.) ("TAC") are jointly-controlled entities of the Group and are considered to be related parties of the Group.

19. Investments in Jointly-Controlled Entities (continued)

(a) Particulars of the jointly-controlled entities

Jointly-controlled entity	Place and date of registration	Authorised registered/ paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Xiamen Zhongsheng	Xiamen, the PRC, 2002	RMB12,000,000	50%	50%	50%	Sale and service of motor vehicles
Zhongsheng Tacti	Dalian, the PRC, 2009	RMB20,540,000	50%	50%	50%	Sale and service of motor vehicles
TAC	Shanghai, the PRC, 2011	RMB4,000,000	50%	50%	50%	Sale and service of accessories

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

Share of the jointly-controlled entities' assets and liabilities:

	2011 RMB'000	2010 RMB'000
Non-current assets	**1,185**	4,080
Current assets	**55,025**	66,262
Current liabilities	**(11,685)**	(23,448)
Net assets	**44,525**	46,894

Share of the jointly-controlled entities' results:

	2011 RMB'000	2010 RMB'000
Income	**276,600**	275,057
Expenses	**(263,877)**	(264,069)
Tax	**(3,174)**	(2,793)
Profit for the year	**9,549**	8,195

20. Available-for-sale investments

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**100**	200	**–**	–
Corporate bonds, at fair value	**132,828**	178,094	**132,828**	178,094
	132,928	178,294	**132,828**	178,094

The unlisted equity investment in Dalian Mingshi Cheyuan Exhibiting Co., Ltd. (an unlisted company with registered capital of RMB510,000) was designated as available-for-sale financial asset. The investment was stated at cost because the investments did not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate cannot be measured reliably.

The corporate bond investments are all listed bonds, with fixed payments amounting to United States dollars ("US dollars") 21,000,000. The bonds earn interest at rates ranging from 6.125% to 9.750% per annum.

As at 31 December 2011, certain of the Group's corporate bond investments with a carrying amount of approximately RMB59,145,000 (2010: Nil) were pledged as security for the Group's bank loans and other borrowings (Note 28(a)).

21. Inventories

	2011	2010
	RMB'000	RMB'000
Motor vehicles	**5,900,111**	3,169,476
Spare parts	**470,317**	276,636
Others	**9,767**	6,934
	6,380,195	3,453,046

As at 31 December 2011, certain of the Group's inventories with a carrying amount of approximately RMB899,556,000 (2010: RMB711,358,000) were pledged as security for the Group's bank loans and other borrowings (Note 28(b), 28(d)).

As at 31 December 2011, certain of the Group's inventories with a carrying amount of approximately RMB703,959,000 (2010: RMB502,918,000) were pledged as security for the Group's bills payable.

22. Trade Receivables

	2011 RMB'000	2010 RMB'000
Trade receivables	**466,888**	285,183
Impairment	**(191)**	(232)
	466,697	284,951

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

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2011 RMB'000	2010 RMB'000
Within 3 months	**433,202**	263,126
More than 3 months but less than 1 year	**28,831**	18,855
Over 1 year	**4,664**	2,970
	466,697	284,951

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**462,033**	281,981
Over one year past due	**4,664**	2,970
	466,697	284,951

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.

22. Trade Receivables (continued)

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

	2011 RMB'000	2010 RMB'000
At the beginning of the year	232	290
Impairment losses recognised	1	2
Acquisition of subsidiaries	–	138
Amounts written off as uncollectible	–	(16)
Impairment losses reversed	(42)	(182)
At the end of the year	191	232

23. Prepayments, Deposits and Other Receivables

	2011 RMB'000	2010 RMB'000
Prepayments and deposits to suppliers	2,362,361	1,680,213
Deposits paid for acquisition of land use rights	400,459	53,800
Advances to certain companies to be acquired	17,417	78,000
Vendor rebate receivables	1,200,823	389,113
VAT recoverable (i)	319,278	183,992
Receivables on disposal of a subsidiary	–	21,264
Receivables on disposal of property, plant and equipment	1,446	50,420
Receivables on disposal of land use rights	–	54,465
Interest receivables	2,714	3,371
Prepaid finance costs	63,275	–
Others	264,175	100,482
	4,631,948	2,615,120

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%.

23. Prepayments, Deposits and Other Receivables (continued)

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

	2011 RMB'000	2010 RMB'000
Prepayments, deposits and other receivables	4,631,978	2,615,135
Impairment	(30)	(15)
	4,631,948	2,615,120

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	2011 RMB'000	2010 RMB'000
At the beginning of the year	15	471
Impairment losses recognised	15	8
Amounts written off as uncollectible	–	(151)
Impairment losses reversed	–	(313)
At the end of the year	30	15

24. Financial Assets at Fair Value Through Profit or Loss

	Group and Company	
	2011 RMB'000	2010 RMB'000
Listed equity investments – Hong Kong (1)	49,749	40,113
Equity linked note (2)	–	43,256
	49,749	83,369

(1) The above equity investments at 31 December 2011 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

(2) The equity linked note was redeemed and converted to the ordinary H shares of China Life Insurance Co., Ltd. in January 2011. The equity investment was designated by the Group as financial assets at fair value through profit or loss upon initial recognition.

(3) As at 31 December 2011, certain of the Group's listed equity investments with a carrying amount of approximately RMB34,824,000 (2010: Nil) were pledged as security for the Group's bank loans and other borrowings (Note 28(a)).

25. Pledged Bank Deposits

	2011 RMB'000	2010 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	**1,664,888**	1,029,932

Pledged bank deposits earn interest at interest rates stipulated by the respective financial institutions.

All pledged bank deposits at the end of the reporting period are denominated in RMB.

26. Cash in Transit

	2011 RMB'000	2010 RMB'000
Cash in transit	**186,721**	140,852

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

27. Cash and Cash Equivalents

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**4,475,512**	2,670,952
Short term deposits	**12,307**	318,766
Cash and cash equivalents	**4,487,819**	2,989,718

As at 31 December 2011, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB30,391,000 (2010: RMB220,498,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

28. Bank Loans and Other Borrowings

Group

		2011			2010		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Finance lease payables (Note 34)		6–17	2012	10,599	–	–	–
Bank overdrafts							
– secured	*(a)*	2–5	on demand	102,793	–	–	–
Bank loans							
– secured	*(b)*	5–10	2012	1,833,974	4–9	2011	590,742
– entrusted		–	–	–	4–9	2011	20,000
– guaranteed	*(c)*	7–9	2012	396,063	4–9	2011	1,182,000
– unsecured		7–9	2012	7,318,966	4–9	2011	2,696,227
Other borrowings							
– secured	*(d)*	7–12	2012	305,979	5–8	2011	268,642
– unsecured		8–12	2012	34,704	5–8	2011	166,844
Current portion of long term bank loans							
– guaranteed		5–6	2012	5,027	–	–	–
– unsecured		7	2012	8,480	–	–	–
				10,016,585			4,924,455
Non-current							
Finance lease payables (Note 34)		6–17	2013–2014	3,836	–	–	–
Bank loans							
– secured	*(b)*	7	2013–2015	5,600	–	–	–
– guaranteed	*(c)*	5–6	2013–2014	9,269	–	–	–
– unsecured		7	2013–2014	11,240	–	–	–
				29,945			–
				10,046,530			4,924,455

28. Bank Loans and Other Borrowings (continued)

Company

	Note	2011 Effective interest rate (%)	2011 Maturity	2011 RMB'000	2010 Effective interest rate (%)	2010 Maturity	2010 RMB'000
Current							
Bank overdrafts							
– secured	*(a)*	**2–5**	**on demand**	**87,451**	–	–	–
				87,451			–

	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**9,665,303**	4,488,969	**87,451**	–
In the second year	**13,106**	–	**–**	–
In the third to fifth years	**13,003**	–	**–**	–
	9,691,412	4,488,969	**87,451**	–
Other borrowings repayable:				
Within one year	**340,683**	435,486	**–**	–
	340,683	435,486	**–**	–
Finance lease payables:				
Within one year	**10,599**	–	**–**	–
In the second year	**3,584**	–	**–**	–
In the third year	**252**	–	**–**	–
	14,435	–	**–**	–
	10,046,530	4,924,455	**87,451**	–

28. Bank Loans and Other Borrowings (continued)

Notes:

(a) As at 31 December, the Group had bank overdraft facilities amounted to RMB145,115,000 (2010: Nil), of which RMB102,793,000 (2010: Nil) had been utilised.

Certain of the Group's bank overdrafts amounted to RMB87,451,000 (2010: Nil) were secured by:

(i) mortgages over the Group's corporate bond investments, which had an aggregate carrying amount of approximately RMB59,145,000 (2010: Nil) as at 31 December 2011; and

(ii) mortgages over the Group's listed equity investments, which had an aggregate carrying amount of approximately RMB34,824,000 (2010: Nil) as at 31 December 2011.

Certain of the Group's bank overdrafts which amounted to RMB15,342,000 (2010: Nil) were guaranteed by a third party as at 31 December 2011.

(b) Certain of the Group's bank loans were secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB150,961,000 (2010: RMB87,165,000) as at 31 December 2011;

(ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB249,980,000 (2010: RMB89,734,000) as at 31 December 2011; and

(iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB638,569,000 (2010: RMB450,113,000) as at 31 December 2011.

(c) Certain of the Group's bank loans which amounted to RMB410,359,000 (2010: RMB55,000,000) were guaranteed by certain third parties as at 31 December 2011.

None of the Group's bank loans were guaranteed by the Controlling Shareholders as at 31 December 2011 (2010: RMB1,127,000,000).

(d) Certain of the Group's other borrowings were secured by mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB260,987,000 (2010: RMB261,245,000) as at 31 December 2011.

(e) Except for the bank overdrafts which were denominated in Hong Kong dollars, all bank loans and other borrowings were denominated in RMB.

29. Trade and Bills Payables

	2011 RMB'000	2010 RMB'000
Trade payables	**600,322**	269,480
Bills payable	**5,079,553**	2,715,027
Trade and bills payables	**5,679,875**	2,984,507

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

	2011 RMB'000	2010 RMB'000
Within 3 months	**3,258,824**	2,370,683
3 to 6 months	**2,165,436**	529,650
6 to 12 months	**251,715**	78,527
Over 12 months	**3,900**	5,647
	5,679,875	2,984,507

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

30. Other Payables and Accruals

	2011 RMB'000	2010 RMB'000
Payables for purchase of property, plant and equipment and land use rights	**187,692**	107,255
Advances and deposits from distributors	**93,794**	60,230
Advances from customers	**755,317**	649,624
Payables for purchase of equity interests from third parties	**249,124**	25,987
Staff payroll and welfare payables	**6,595**	25,675
Others	**212,556**	85,625
	1,505,078	954,396

31. Employee Retirement Benefits

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), the Company has participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (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 12% (2010: 7% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

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

32. Income Tax Payable and Deferred Tax

(a) The movements in income tax payable during the year are as follows:

	2011 **RMB'000**	2010 RMB'000
At the beginning of the year	**188,161**	60,012
Provision for current tax for the year	**566,339**	299,124
Current tax paid	**(361,878)**	(170,975)
At the end of the year	**392,622**	188,161

32. Income Tax Payable and Deferred Tax (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax assets:

	Losses available for offsetting against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	**7,512**	**1,273**	**8,785**
Deferred tax arising from acquisition of subsidiaries (Note 37)	**23,158**	**–**	**23,158**
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	**6,820**	**(685)**	**6,135**
At 31 December 2011	**37,490**	**588**	**38,078**
At 1 January 2010	4,208	324	4,532
Deferred tax arising from acquisition of subsidiaries	9,741	1,059	10,800
Deferred tax recognised in the consolidated income statement during the year	(6,437)	(110)	(6,547)
At 31 December 2010	7,512	1,273	8,785

32. Income Tax Payable and Deferred Tax (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

Deferred tax liabilities:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Change in the fair value of available-for-sale investments RMB'000	Change in the fair value of financial assets at fair value through profit or loss RMB'000	Capitalisation of interest expenses RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2011	364,847	492	1,581	2,877	52,800	422,597
Deferred tax arising from acquisition of subsidiaries (Note 37)	279,923	-	-	-	13,978	293,901
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	(21,812)	-	(1,581)	13,826	-	(9,567)
Deferred tax recognised in the consolidated statement of comprehensive income during the year	-	(492)	-	-	-	(492)
At 31 December 2011	622,958	-	-	16,703	66,778	706,439
At 1 January 2010	69,162	-	-	-	35,383	104,545
Deferred tax arising from acquisition of subsidiaries	304,567	-	-	-	17,417	321,984
Deferred tax recognised in the consolidated income statement during the year	(8,505)	-	1,581	2,877	-	(4,047)
Deferred tax recognised in the consolidated statement of comprehensive income during the year	-	492	-	-	-	492
Disposal of a subsidiary	(377)	-	-	-	-	(377)
At 31 December 2010	364,847	492	1,581	2,877	52,800	422,597

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

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with an aggregate amount of temporary differences of approximately RMB2,411,275,000 (2010: RMB967,490,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2011.

33. Senior Notes

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Non-current	**1,232,693**	–
Current	**11,518**	–
	1,244,211	–

At initial recognition, the senior notes in their original currency are as follows:

	RMB'000
Face value of the senior notes	1,250,000
Less: issuance cost	(22,127)
	1,227,873

The movements in the carrying amount of the senior notes during the year are as follows:

	2011	2010
	RMB'000	RMB'000
At the beginning of the year	**–**	–
Issuance of the senior notes	**1,227,873**	–
Add: interest expense (Note 7)	**46,026**	–
Less: payment of interest	**(29,688)**	–
At the end of the year	**1,244,211**	–

On 14 April 2011, the Company issued senior notes maturing on 21 April 2014, with an aggregate principal amount of RMB1,250,000,000 and a fixed interest rate of 4.75% per annum (the "senior notes"). The senior notes are in senior unsecured obligations of the Company guaranteed by existing subsidiaries not incorporated under the laws of the People's Republic of China.

Interest of the senior notes is payable semi-annually in arrears on 21 April and 21 October in each year commencing from 21 October 2011.

On 25 April 2011, the senior notes were listed on the Singapore Exchange Securities Trading Limited.

Interest expense on the senior notes is calculated using the effective interest rate method by applying the effective interest rate of 5.47%.

34. Finance Lease Payables

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 finance leases, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation to reflect the purchase and financing.

Assets held under capitalised finance leases were included in its equipment.

At the end of the reporting period, the total future minimum lease payments under leases and their present values are as follows:

	Minimum lease payments 2011 RMB'000	Minimum lease payments 2010 RMB'000	**Present value of minimum lease payments 2011 RMB'000**	Present value of minimum lease payments 2010 RMB'000
Amount payables:				
Within one year	**11,066**	–	**10,599**	–
In the second year	**3,880**	–	**3,584**	–
In the third to fifth years	**288**	–	**252**	–
Total minimum finance lease payments	**15,234**	–	**14,435**	–
Future finance charges	**(799)**	–		
Total net finance lease payables	**14,435**	–		
Portion classified as current liabilities (Note 28)	**10,599**	–		
Non-current portion (Note 28)	**3,836**	–		

35. Share Capital

Shares	**2011 HK$'000**	2010 HK$'000
Authorised:		
1,000,000,000,000 shares of HK$0.0001 each	**100,000**	100,000
Issued and fully paid:		
1,908,481,295 shares of HK$0.0001 each	**191**	191
Equivalent to RMB'000	**168**	168

36. Reserves

Group

(i) Discretionary reserve fund

Pursuant to the articles of association of certain subsidiaries of the Group registered in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China, the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 43 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4.

(iv) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(v) Other reserve

The other reserve of the Group represents the excess of the carrying amount of the non-controlling interests acquired over the consideration.

36. Reserves (continued)

Company

	Share premium RMB'000	Available-for-sale investments revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2011	**5,021,215**	**2,489**	**(161,768)**	**71,990**	**4,933,926**
Total comprehensive income for the year	**–**	**(4,309)**	**(277,426)**	**(36,853)**	**(318,588)**
Proposed final 2011 dividend	**(247,929)**	**–**	**–**	**–**	**(247,929)**
As at 31 December 2011	**4,773,286**	**(1,820)**	**(439,194)**	**35,137**	**4,367,409**
As at 1 January 2010	–	–	–	(124)	(124)
Issue of shares in connection with the Reorganisation and issue of new shares and over-allotment	5,021,215	–	–	–	5,021,215
Total comprehensive income for the year	–	2,489	(161,768)	264,879	105,600
Proposed final 2010 dividend	–	–	–	(192,765)	(192,765)
As at 31 December 2010	5,021,215	2,489	(161,768)	71,990	4,933,926

37. Business Combination – Acquisition of Subsidiaries

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired certain equity interests of a group of companies engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 January 2011 at a total consideration of RMB260,000,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid by the end of year of 2011.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets. The major subsidiaries of the acquired business and the respective equity interests acquired are set out as follows:

Company Name	Acquired equity interests %
New Wing Enterprises Limited	55%
Worldwide Channel International Limited	55%
大連英和汽車集團有限公司 (Dalian Yinghe Automobile Group Co., Ltd.)	55%
營口大通汽車銷售服務有限公司 (Yingkou Datong Automobile Sales & Services Co., Ltd.)	55%
延安英和汽車銷售服務有限公司 (Yan'an Yinghe Automobile Sales & Services Co., Ltd.)	55%
鐵嶺奧通汽車銷售服務有限公司 (Tieling Aotong Automobile Sales & Services Co., Ltd.)	55%
盤錦奧通汽車銷售服務有限公司 (Panjin Aotong Automobile Sales & Services Co., Ltd.)	55%
丹東英和汽車銷售服務有限公司 (Dandong Yinghe Automobile Sales & Services Co., Ltd.)	55%*80%
本溪英和汽車銷售服務有限公司 (Benxi Yinghe Automobile Sales & Services Co., Ltd.)	55%*78%
盤錦大通汽車銷售服務有限公司 (Panjin Datong Automobile Sales & Services Co., Ltd.)	55%*80%
盤錦慶通汽車銷售服務有限公司 (Panjin Qingtong Automobile Sales & Services Co., Ltd.)	55%
漢中英和汽車銷售服務有限公司 (Hanzhong Yinghe Automobile Sales & Services Co., Ltd.)	55%
鐵嶺英和汽車銷售服務有限公司 (Tieling Yinghe Automobile Sales & Services Co., Ltd.)	55%
西安慶通汽車銷售服務有限公司 (Xi'an Qingtong Automobile Sales & Services Co., Ltd.)	55%
咸陽英和汽車銷售服務有限公司 (Xianyang Yinghe Automobile Sales & Services Co., Ltd.)	55%
榆林英和汽車銷售服務有限公司 (Yulin Yinghe Automobile Sales & Services Co., Ltd.)	55%

37. Business Combination – Acquisition of Subsidiaries (continued)

(a) (continued)

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

	Notes	Recognised fair values on acquisition RMB'000
Property, plant and equipment	*14*	141,466
Land use rights	*15*	63,251
Prepayments		11,877
Intangible assets	*17*	203,253
Deferred tax assets	*32(b)*	2,135
Inventories		114,707
Trade receivables		17,582
Prepayments, deposits and other receivables		140,346
Cash in transit		1,736
Cash and cash equivalents		139,402
Trade and bills payables		(261,187)
Other payables and accruals		(255,719)
Income tax payable		(517)
Bank loans and other borrowings		(69,317)
Deferred tax liabilities	*32(b)*	(63,295)
Total identifiable net assets		185,720
Non-controlling interests arising from a business combination		(93,428)
Goodwill on acquisition	*18*	167,708
Total purchase consideration		260,000

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration	(260,000)
Cash consideration prepaid in prior years	174,395
Cash consideration paid	(85,605)
Cash and cash equivalents acquired	139,402
Net cash inflow	53,797
Cash consideration paid for acquisition of a shareholder's loan included in cash flows used in investing activities	(99,203)
	(45,406)

Since the acquisition which took place on 1 January 2011, the acquired business contributed RMB1,933,914,000 to the Group's revenue and RMB93,958,000 to the consolidated profit for the year ended 31 December 2011.

37. Business Combination – Acquisition of Subsidiaries (continued)

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Yunnan province, the Group acquired 70% of the equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 1 May 2011 at a total consideration of RMB126,560,000. The purchase consideration for the acquisition was in the form of cash, with RMB110,544,000 paid during the year.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets.

昆明凱成豐田汽車銷售服務有限公司(Kunming Kaicheng Toyota Automobile Sales & Services Co., Ltd.)

玉溪凱成豐田汽車銷售服務有限公司(Yuxi Kaicheng Toyota Automobile Sales & Services Co., Ltd.)

紅河凱成豐田汽車銷售服務有限公司 (Honghe Kaicheng Toyota Automobile Sales & Services Co., Ltd.)

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

	Notes	**Recognised fair values on acquisition** RMB'000
Property, plant and equipment	*14*	36,289
Intangible assets	*17*	112,350
Deferred tax assets	*32(b)*	1,905
Inventories		90,452
Trade receivables		5,070
Prepayments, deposits and other receivables		22,365
Cash in transit		1,704
Cash and cash equivalents		74,888
Trade and bills payables		(120,052)
Other payables and accruals		(46,630)
Bank loans and other borrowings		(60,000)
Deferred tax liabilities	*32(b)*	(28,088)
Total identifiable net assets		90,253
Non-controlling interests arising from a business combination		(27,076)
Goodwill on acquisition	*18*	63,383
Total purchase consideration		126,560

37. Business Combination – Acquisition of Subsidiaries (continued)

(b) (continued)

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration	(126,560)
Cash consideration to be paid	16,016
Cash consideration paid	(110,544)
Cash and cash equivalents acquired	74,888
Net cash outflow	(35,656)
Cash consideration paid for acquisition of two shareholders' loan included in cash flows used in investing activities	(11,511)
	(47,167)

Since the acquisition, the acquired business contributed RMB410,249,000 to the Group's revenue and RMB11,375,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB42,083,364,000 and RMB1,637,362,000, respectively.

(c) As part of the Group's plan to expand its motor vehicle sales and service business in Guangdong province, the Group acquired 80% of the equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 July 2011 at a total consideration of RMB127,480,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets.

汕頭高新區恒達汽車有限公司 (Shantou High-tech Zone Hengda Automobile Co., Ltd.)

揭陽市恒宇實業有限公司 (Jieyang Hengyu Industrial Co., Ltd.)

普寧市恒悦汽車有限公司 (Puning Hengyue Automobile Co., Ltd.)

37. Business Combination – Acquisition of Subsidiaries (continued)

(c) (continued)

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

	Notes	**Recognised fair values on acquisition** RMB'000
Property, plant and equipment	*14*	36,929
Intangible assets	*17*	76,860
Inventories		69,675
Trade receivables		4,737
Prepayments, deposits and other receivables		46,576
Pledged bank deposits		5,250
Cash in transit		394
Cash and cash equivalents		14,178
Trade and bills payables		(35,744)
Dividends payable		(5,705)
Other payables and accruals		(79,986)
Bank loans and other borrowings		(10,000)
Income tax payable		(34)
Deferred tax liabilities	*32(b)*	(23,235)
Total net identifiable assets		99,895
Non-controlling interests arising from a business combination		(19,979)
Goodwill on acquisition	*18*	47,564
Total purchase consideration		127,480

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration paid	(127,480)
Cash and cash equivalents acquired	14,178
Net cash outflow	(113,302)
Cash consideration paid for acquisition of a shareholder's loan included in cash flows used in investing activities	(20,596)
	(133,898)

Since the acquisition, the acquired business contributed RMB367,343,000 to the Group's revenue and RMB14,624,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB42,209,321,000 and RMB1,643,672,000, respectively.

37. Business Combination – Acquisition of Subsidiaries (continued)

(d) As part of the Group's plan to expand its motor vehicle sales and service business in Shandong province, the Group acquired 100% of the equity interests of 威海康利隆汽車銷售服務有限公司 (Weihai Kanglilong Automobile Sales & Services Co., Ltd.) and 威海威達汽車貿易有限公司 (Weihai Weida Automobile Trading Co., Ltd.), which are engaged in the motor vehicle sales and service business in Mainland China, from three third parties on 1 July 2011 at a total consideration of RMB172,150,000. The purchase consideration for the acquisition was in the form of cash, with RMB161,545,000 paid during the year.

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

	Notes	**Recognised fair values on acquisition** RMB'000
Property, plant and equipment	*14*	35,578
Land use rights	*15*	39,200
Intangible assets	*17*	70,243
Deferred tax assets	*32(b)*	1,519
Inventories		43,627
Trade receivables		1,512
Prepayments, deposits and other receivables		22,123
Pledged bank deposits		66,553
Cash in transit		84
Cash and cash equivalents		4,921
Trade and bills payables		(109,999)
Other payables and accruals		(55,409)
Bank loans and other borrowings		(24,000)
Deferred tax liabilities	*32(b)*	(19,361)
Total net identifiable assets		76,591
Goodwill on acquisition	*18*	95,559
Total purchase consideration		172,150

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration	(172,150)
Cash consideration to be paid	10,605
Cash consideration paid	(161,545)
Cash and cash equivalents acquired	4,921
Net cash outflow	(156,624)

37. Business Combination – Acquisition of Subsidiaries (continued)

(d) (continued)

Since the acquisition, the acquired business contributed RMB248,094,000 to the Group's revenue and RMB9,110,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB42,129,061,000 and RMB1,637,570,000, respectively.

(e) As part of the Group's plan to expand its motor vehicle sales and service business in Shandong province, the Group acquired 100% of the equity interests of 青島中升豐田汽車銷售服務有限公司 (Qingdao Zhongsheng Toyota Automobile Sales & Services Co., Ltd., formerly known as 青島華成豐田汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 1 August 2011 at a total consideration of RMB7,000,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid by the end of year of 2011.

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

	Notes	**Recognised fair values on acquisition** RMB'000
Property, plant and equipment	*14*	965
Cash and cash equivalents		2
Other payables and accruals		(28)
Total net identifiable assets		939
Goodwill on acquisition	*18*	6,061
Total purchase consideration		7,000

37. Business Combination – Acquisition of Subsidiaries (continued)

(e) (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(7,000)
Cash consideration prepaid in prior years	7,000
Cash consideration paid	–
Cash and cash equivalents acquired	2
Net cash inflow	2

Up to 31 December 2011, Qingdao Zhongsheng Toyota Automobile Sales & Services Co., Ltd. has not commenced its business.

(f) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 30 September 2011 at a total consideration of RMB171,060,000. The purchase consideration for the acquisition was in the form of cash, and with RMB143,607,000 paid during the year.

聯盛企業有限公司	(Able Link Enterprises Limited)
大明行有限公司	(Big Brilliant Limited)
鶴山愷晟管理諮詢有限公司	(Heshan Kaisheng Management Consulting Co., Ltd.)
鶴山市勝睿諮詢服務有限公司	(Heshan Shengrui Consulting Services Co., Ltd.)
昆明愷森企業管理諮詢有限公司	(Kunming Kaisen Enterprises Management Consulting Co., Ltd.)
雲南森華創業汽車服務有限公司	(Yunnan Senhua Chuangye Automobile Services Co., Ltd.)
雲南森華汽車貿易有限公司	(Yunnan Senhua Automobile Trading Co., Ltd.)
曲靖森華汽車銷售服務有限公司	(Qujing Senhua Automobile Sales & Services Co., Ltd.)
紅河森華汽車銷售服務有限公司	(Honghe Senhua Automobile Sales & Services Co., Ltd.)
曲靖森華創業汽車銷售服務有限公司	(Qujing Senhua Chuangye Automobile Sales & Services Co., Ltd.)
版納森華創業汽車銷售服務有限公司	(Banna Senhua Chuangye Automobile Sales & Services Co., Ltd.)
雲南森迪汽車銷售服務有限公司	(Yunnan Sendi Automobile Sales & Services Co., Ltd.)
曲靖森華興業汽車銷售服務有限公司	(Qujing Senhua Xingye Automobile Sales & Services Co., Ltd.)

37. Business Combination – Acquisition of Subsidiaries (continued)

(f) (continued)

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

	Notes	Recognised fair values on acquisition RMB'000
Property, plant and equipment	*14*	56,899
Land use rights	*15*	6,467
Intangible assets	*17*	87,938
Deferred tax assets	*32(b)*	5,299
Inventories		115,097
Trade receivables		10,981
Prepayments, deposits and other receivables		92,732
Pledged bank deposits		134,437
Cash in transit		2,918
Cash and cash equivalents		12,435
Trade and bills payables		(271,814)
Other payables and accruals		(134,606)
Bank loans and other borrowings		(25,200)
Income tax payable		(90)
Deferred tax liabilities	*32(b)*	(24,278)
Total net identifiable assets		69,215
Goodwill on acquisition	*18*	101,845
Total purchase consideration		171,060

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration	(171,060)
Cash consideration to be paid	27,453
Cash consideration paid	(143,607)
Cash and cash equivalents acquired	12,435
Net cash outflow	(131,172)
Cash consideration paid for acquisition of a shareholder's loan included in cash flows used in investing activities	(11,300)
	(142,472)

37. Business Combination – Acquisition of Subsidiaries (continued)

(f) (continued)

Since the acquisition, the acquired business contributed RMB303,194,000 to the Group's revenue and RMB15,364,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB42,667,928,000 and RMB1,625,989,000, respectively.

(g) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired equity interests of the following companies engaged in the motor vehicle sales and service business in Mainland China, from four third parties on 30 September 2011 at a total consideration of RMB1,126,517,000. The purchase consideration for the acquisition was in the form of cash, and with RMB934,077,000 paid during the year.

The Group has elected to measure the non-controlling interests in these subsidiaries at the non-controlling interests' proportionate share of the subsidiaries' identifiable net assets.

Company Name	Acquired equity interests %
龍華汽車(開曼)有限公司 (Loong Wah Motors (Cayman) Co., Ltd.)	100%
香港龍華汽車有限公司 (Loong Wah Motors Ltd.)	100%
寧波龍華豐田汽車銷售有限公司 (Ningbo Loong Wah Toyota Automobile Sales Co., Ltd.)	100%
寧波龍華豐田汽車服務有限公司 (Ningbo Loong Wah Toyota Automobile Services Co., Ltd.)	100%
舟山龍華豐田汽車銷售服務有限公司 (Zhoushan Loong Wah Toyota Automobile Sales & Services Co., Ltd.)	100%
寧波龍華汽車用品有限公司 (Ningbo Loong Wah Automobile Accessories Co., Ltd.)	100%
寧波龍華汽車服務有限公司 (Ningbo Loong Wah Automobile Services Co., Ltd.)	100%
舟山龍華汽車銷售服務有限公司 (Zhoushan Loong Wah Automobile Sales & Services Co., Ltd.)	100%
深圳龍華雷克薩斯汽車有限公司 (Shenzhen Loong Wah Lexus Automobile Co., Ltd.)	100%
東莞龍華英菲尼迪汽車銷售服務有限公司 (Dongguan Loong Wah Infiniti Automobile Sales & Services Co., Ltd.)	100%*80%
惠州龍華雷克薩斯汽車服務有限公司 (Huizhou Loong Wah Lexus Automobile Services Co., Ltd.)	100%
佛山市順德區龍華雷克薩斯汽車銷售有限公司 (Foshan Shunde Loong Wah Lexus Automobile Sales Co., Ltd.)	100%
寧波龍華雷克薩斯汽車服務有限公司 (Ningbo Loong Wah Lexus Automobile Services Co., Ltd.)	100%
昆山龍華雷克薩斯汽車銷售服務有限公司 (Kunshan Loong Wah Automobile Sales & Services Co., Ltd.)	100%
寧海龍華世紀汽車銷售服務有限公司 (Ninghai Loong Wah Century Automobile Sales & Services Co., Ltd.)	100%
嵊州龍華豐田汽車銷售服務有限公司 (Shengzhou Loong Wah Toyota Automobile Sales & Services Co., Ltd.)	100%

37. Business Combination – Acquisition of Subsidiaries (continued)

(g) (continued)

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

	Notes	Recognised fair values on acquisition RMB'000
Property, plant and equipment	*14*	373,177
Land use rights	*15*	158,794
Prepayments		1,773
Intangible assets	*17*	386,429
Deferred tax assets	*32(b)*	12,300
Inventories		362,023
Trade receivables		28,778
Prepayments, deposits and other receivables		279,400
Pledged bank deposits		11,248
Cash in transit		5,051
Cash and cash equivalents		97,334
Trade and bills payables		(53,974)
Other payables and accruals		(167,417)
Bank loans and other borrowings		(646,121)
Income tax payable		(2,457)
Deferred tax liabilities	*32(b)*	(135,644)
Total net identifiable assets		710,694
Non-controlling interests arising from a business combination		(8,994)
Goodwill on acquisition	*18*	424,817
Total purchase consideration		1,126,517

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration	(1,126,517)
Cash consideration to be paid	192,440
Cash consideration paid	(934,077)
Cash and cash equivalents acquired	97,334
Net cash outflow	(836,743)

37. Business Combination – Acquisition of Subsidiaries (continued)

(g) (continued)

Since the acquisition, the acquired business contributed RMB1,030,998,000 to the Group's revenue and RMB78,910,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB44,199,964,000 and RMB1,616,806,000, respectively.

38. 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

2011

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	49,749	–	–	49,749
Available-for-sale investments	–	132,928	–	132,928
Trade receivables	–	–	466,697	466,697
Financial assets included in prepayments, deposits and other receivables	–	–	1,486,575	1,486,575
Amounts due from related parties	–	–	4,369	4,369
Pledged bank deposits	–	–	1,664,888	1,664,888
Cash in transit	–	–	186,721	186,721
Cash and cash equivalents	–	–	4,487,819	4,487,819
	49,749	132,928	8,297,069	8,479,746

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	5,679,875
Financial liabilities included in other payables and accruals	655,967
Amounts due to related parties	2,096
Bank loans and other borrowings	10,046,530
Senior notes	1,244,211
	17,628,679

38. Financial Instruments by Category (continued)

Group (continued)

2010

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	83,369	–	–	83,369
Available-for-sale investments	–	178,294	–	178,294
Trade receivables	–	–	284,951	284,951
Financial assets included in prepayments, deposits and other receivables	–	–	697,115	697,115
Amounts due from related parties	–	–	2,229	2,229
Pledged bank deposits	–	–	1,029,932	1,029,932
Cash in transit	–	–	140,852	140,852
Cash and cash equivalents	–	–	2,989,718	2,989,718
	83,369	178,294	5,144,797	5,406,460

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,984,507
Financial liabilities included in other payables and accruals	244,542
Amounts due to related parties	10,026
Bank loans and other borrowings	4,924,455
	8,163,530

38. Financial Instruments by Category (continued)

Company

2011

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	49,749	–	–	49,749
Available-for-sale investments	–	132,828	–	132,828
Financial assets included in prepayments, deposits and other receivables	–	–	3,219	3,219
Amounts due from subsidiaries	–	–	3,724,485	3,724,485
Cash and cash equivalents	–	–	12,563	12,563
	49,749	132,828	3,740,267	3,922,844

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	110
Bank loans and other borrowings	87,451
Senior notes	1,244,211
	1,331,772

38. Financial Instruments by Category (continued)

Company (continued)

2010

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	83,369	–	–	83,369
Available-for-sale investments	–	178,094	–	178,094
Financial assets included in prepayments, deposits and other receivables	–	–	3,371	3,371
Amounts due from subsidiaries	–	–	2,365,415	2,365,415
Cash and cash equivalents	–	–	133,785	133,785
	83,369	178,094	2,502,571	2,764,034

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	182
Amounts due to subsidiaries	14,692
	14,874

39. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at the end of the reporting period, the Group and the Company held the following financial instruments measured at fair value:

Assets measured at fair value:

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments, at fair value	132,828	–	–	132,828
Financial assets at fair value through profit or loss:				
Listed equity investments – Hong Kong	49,749	–	–	49,749
	182,577	–	–	182,577

As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments, at fair value	178,094	–	–	178,094
Financial assets at fair value through profit or loss:				
Listed equity investments – Hong Kong	40,113	–	–	40,113
Equity linked note	–	43,256	–	43,256
	218,207	43,256	–	261,463

During the years of 2011 and 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010, respectively.

40. Contingent Liabilities

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

41. Commitments

(a) Capital commitments

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

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for land use rights and buildings	**117,669**	171,619
Contracted, but not provided for potential acquisitions	**585,289**	85,605
	702,958	257,224

(b) Operating lease commitments

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

	2011		2010	
	Properties RMB'000	**Land RMB'000**	Properties RMB'000	Land RMB'000
Within one year	**52,134**	**32,855**	42,772	11,024
After one year but within five years	**226,694**	**144,391**	138,765	49,499
After five years	**174,901**	**309,111**	151,820	148,439
	453,729	**486,357**	333,357	208,962

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

42. Pledge of Assets

Details of the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in Note 14, Note 15, Note 20, Note 21, Note 24 and Note 25 to the financial statements.

43. Investments in Subsidiaries

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**2,024,434**	2,124,820

The amounts due from and due to subsidiaries included in the Company's non-current assets and current liabilities of RMB3,724,485,000 (2010: RMB2,620,685,000) and Nil (2010: RMB14,692,000), respectively, are unsecured, interest-free and had no fixed repayment terms.

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
中升(大連)集團有限公司 (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB700,000,000	–	100%	Investment holding
大連中升豐田汽車銷售服務有限公司 (Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US$8,000,000	–	100%	Sale and service of motor vehicles
大連中升匯迪汽車銷售服務有限公司 (Dalian Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	–	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司 (Kunming Zhongsheng Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司 (Kunming Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
福州中升豐田汽車銷售有限公司 (Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd.)	Fuzhou, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of motor vehicles
大連中升之星汽車銷售服務有限公司 (Dalian Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2005	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles

43. Investments in Subsidiaries (continued)

Company name	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
廣州中升凌志汽車銷售服務有限公司 (Guangzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司 (Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US$17,500,000	–	100%	Sale and service of motor vehicles
成都中道成豐田汽車銷售服務有限公司 (Chengdu Zhongdaocheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2003	Registered and paid-in capital of RMB10,000,000	–	90%	Sale and service of motor vehicles
泉州隆星汽車銷售服務有限公司 (Quanzhou Longxing Automobile Sales & Services Co., Ltd.)	Quanzhou, the PRC 2006	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
Zhongsheng Holdings Co., Ltd.	HK 1996	Registered and paid-in capital of HK$32,000,000	–	100%	Investment holding
HOKURYO (Hong Kong) Co., Ltd.	HK 1997	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
大連新盛榮新實業有限公司 (Dalian Xinshengrong New Industrial Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB200,000,000	–	100%	Investment holding
大連新盛榮汽車銷售服務有限公司 (Dalian Xinshengrong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
成都中升豐田汽車銷售服務有限公司 (Chengdu Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC 2008	Registered and paid-in capital of RMB10,000,000	–	80%	Sale and service of motor vehicles
SUPER CHARM Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
BILLION GREAT Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding

43. Investments in Subsidiaries (continued)

Company name	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
大連裕增實業有限公司 (Dalian Yuzeng Industrial Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB30,000,000	–	100%	Investment holding
煙台中升匯迪汽車銷售服務有限公司 (Yantai Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2002	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
OLYMPIA WELL Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
佛山中升之星汽車銷售服務有限公司 (Foshan Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
常熟華星汽車銷售服務有限公司 (Changshu Huaxing Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
無錫國信汽車銷售服務有限公司 (Wuxi Guoxin Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
中升(中國)企業管理有限公司 (Zhongsheng (China) Enterprise Management Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of US$40,000,000	–	100%	Enterprise management
北京百得利汽車進出口集團有限公司 * (Beijing Betterlife Automobile Import & Export Group Co., Ltd.)	Beijing, the PRC 1998	Registered and paid-in capital of RMB60,000,000	–	50%	Sale and service of motor vehicles
北京百得利汽車銷售有限公司 * (Beijing Betterlife Automobile Sales Co., Ltd.)	Beijing, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利汽車服務有限公司 * (Tianjin Betterlife Automobile Services Co., Ltd.)	Tianjin, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	50%	Sale and service of motor vehicles

43. Investments in Subsidiaries (continued)

Company name		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
北京百得利汽車貿易有限公司 (Beijing Betterlife Automobile Trading Co., Ltd.)	*	Beijing, the PRC 2004	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利之迪汽車銷售有限公司 (Tianjin Betterlife Zhidi Automobile Sales Co., Ltd.)	*	Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
北京百得利之星汽車銷售有限公司 (Beijing Betterlife Star Automobile Sales Co., Ltd.)	*	Beijing, the PRC 2008	Registered and paid-in capital of RMB40,000,000	–	50%	Sale and service of motor vehicles
Betterlife International Motor Co., Ltd.	*	HK 2010	Registered and paid-in capital of HK$10,000	–	50%	Investment holding
南京中升之星汽車銷售服務有限公司 (Nanjing Zhongsheng Star Automobile Sales & Services Co., Ltd.)		Nanjing, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
溫州中升雷克薩斯汽車銷售服務有限公司 (Wenzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)		Wenzhou, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
成都中升之星汽車銷售服務有限公司 (Chengdu Zhongsheng Star Automobile Sales & Services Co., Ltd.)		Chengdu, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
重慶中升雷克薩斯汽車銷售服務有限公司 (Chongqing Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)		Chongqing, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
WORLDWIDE CHANNEL INTERNATIONAL LIMITED		HK 2010	Registered and paid-in capital of HK$1	–	55%	Investment holding
大連英和汽車集團有限公司 (Dalian Yinghe Automobile Group Co., Ltd.)		Dalian, the PRC 2002	Registered and paid-in capital of RMB20,000,000	–	55%	Sale and service of motor vehicles
營口大通汽車銷售服務有限公司 (Yingkou Datong Automobile Sales & Services Co., Ltd.)		Yingkou, the PRC 2005	Registered and paid-in capital of RMB6,000,000	–	55%	Sale and service of motor vehicles

43. Investments in Subsidiaries (continued)

			Proportion of ownership interest		
Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Held by the Company %	Held by a subsidiary %	Principal activities
盤錦奧通汽車銷售服務有限公司 (Panjin Aotong Automobile Sales & Services Co., Ltd.)	Panjin, the PRC 2005	Registered and paid-in capital of RMB6,000,000	–	55%	Sale and service of motor vehicles
丹東英和汽車銷售服務有限公司 (Dandong Yinghe Automobile Sales & Services Co., Ltd.)	Dandong, the PRC 2008	Registered and paid-in capital of RMB6,000,000	–	44%	Sale and service of motor vehicles
本溪英和汽車銷售服務有限公司 (Benxi Yinghe Automobile Sales & Services Co., Ltd.)	Benxi, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	43%	Sale and service of motor vehicles
盤錦大通汽車銷售服務有限公司 (Panjin Datong Automobile Sales & Services Co., Ltd.)	Panjin, the PRC 2007	Registered and paid-in capital of RMB10,000,000	–	44%	Sale and service of motor vehicles
鐵嶺英和汽車銷售服務有限公司 (Tieling Yinghe Automobile Sales & Services Co., Ltd.)	Tieling, the PRC 2010	Registered and paid-in capital of RMB5,000,000	–	55%	Sale and service of motor vehicles
西安慶通汽車銷售服務有限公司 (Xi'an Qingtong Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of RMB10,000,000	–	55%	Sale and service of motor vehicles
咸陽英和汽車銷售服務有限公司 (Xianyang Yinghe Automobile Sales & Services Co., Ltd.)	Xianyang, the PRC 2010	Registered and paid-in capital of RMB5,000,000	–	55%	Sale and service of motor vehicles
昆明凱成豐田汽車銷售服務有限公司 (Kunming Kaicheng Toyota Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2001	Registered and paid-in capital of RMB10,000,000	–	70%	Sale and service of motor vehicles
紅河凱成豐田汽車銷售服務有限公司 (Honghe Kaicheng Toyota Automobile Sales & Services Co., Ltd.)	Honghe, the PRC 2008	Registered and paid-in capital of RMB25,000,000	–	70%	Sale and service of motor vehicles
汕頭高新區恒達汽車有限公司 (Shantou High-tech Zone Hengda Automobile Co., Ltd.)	Shantou, the PRC 2000	Registered and paid-in capital of RMB10,800,000	–	80%	Sale and service of motor vehicles

43. Investments in Subsidiaries (continued)

Company name	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
揭陽市恒宇實業有限公司 (Jieyang Hengyu Industrial Co., Ltd.)	Jieyang, the PRC 1998	Registered and paid-in capital of RMB10,800,000	–	80%	Sale and service of motor vehicles
威海威達汽車貿易有限公司 (Weihai Weida Automobile Trading Co., Ltd.)	Weihai, the PRC 2004	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
龍華汽車有限公司 (Loong Wah Motors Limited)	HK 1978	Registered and paid-in capital of HK$10,000,000	–	100%	Investment holding
寧波龍華豐田汽車服務有限公司 (Ningbo Loong Wah Toyota Automobile Services Co., Ltd.)	Ningbo, the PRC 1994	Registered and paid-in capital of US$2,700,000	–	100%	Sale and service of motor vehicles
深圳龍華雷克薩斯汽車有限公司 (Shenzhen Loong Wah Lexus Automobile Co., Ltd.)	Shenzhen, the PRC 2003	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
東莞龍華英菲尼迪汽車銷售服務有限公司 (Dongguan Loong Wah Infiniti Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC 2007	Registered and paid-in capital of RMB30,000,000	–	80%	Sale and service of motor vehicles
佛山市順德區龍華雷克薩斯汽車銷售有限公司 (Foshan Shunde Loong Wah Lexus Automobile Sales Co., Ltd.)	Foshan, the PRC 2008	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
寧波龍華雷克薩斯汽車服務有限公司 (Ningbo Loong Wah Lexus Automobile Services Co., Ltd.)	Ningbo, the PRC 2006	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
大明行有限公司 (Big Brilliant Limited)	HK 2011	Registered and paid-in capital of HK$10,000	–	100%	Investment holding

* These companies are accounted for as subsidiaries as the Group has the power to control their financial and operating policies.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

44. Related Party Transactions and Balances

Mr. Li Guoqiang and Mr. Huang Yi are collectively the Controlling Shareholders of the Group. They are also considered to be related parties of the Group.

(a) Transactions with related parties

The following transactions were carried out with related parties during the year:

	2011 RMB'000	2010 RMB'000
(i) Sales of goods to jointly-controlled entities:		
– Xiamen Zhongsheng	**21,704**	9,228
– Zhongsheng Tacti	**545**	672
	22,249	9,900
(ii) Purchase of goods from jointly-controlled entities:		
– Xiamen Zhongsheng	**15,695**	28,386
– Zhongsheng Tacti	**60,847**	124,803
	76,542	153,189

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

(iii) There was no bank loan guaranteed by the Controlling Shareholder at 31 December 2011 (2010: RMB1,127,000,000).

44. Related Party Transactions and Balances (continued)

(b) Balances with related parties

The Group had the following significant balances with its related parties at the end of the reporting period:

		2011 RMB'000	2010 RMB'000
(i)	Due from related parties:		
	Trade related		
	Jointly-controlled entities		
	– Xiamen Zhongsheng	**3,765**	1,646
	– Zhongsheng Tacti	**604**	583
		4,369	2,229
(ii)	Due to a related party:		
	Trade related		
	A jointly-controlled entity		
	– Zhongsheng Tacti	**2,096**	10,026
(iii)	Compensation of key management personnel of the Group:		
	Short term employee benefits	**15,609**	13,150
	Post-employee benefits	**303**	272
	Total compensation paid to key management personnel	**15,912**	13,422

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

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

45. Financial Risk Management Objectives and Policies

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

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

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (Note 25), and cash and cash equivalents (Note 27).

The Group's interest rate risk arises from its borrowings, details of which are set out in Note 28. Borrowings at variable rates expose the Group to the risk of changes on market interest rates.

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

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2011		
RMB	**15**	**(9,291)**
RMB	**(15)**	**9,291**
2010		
RMB	15	(5,041)
RMB	(15)	5,041

45. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

Most of the Group's assets and liabilities were denominated in RMB, except for certain cash and cash equivalents and bank loans and other borrowings denominated in HK dollars and US dollars as disclosed in Note 27 and Note 28, respectively.

The Group's assets and liabilities denominated in HK dollars and US dollars were mainly held by certain subsidiaries incorporated outside Mainland China who had HK dollars as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

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

Liquidity risk

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

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

	Year 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	102,793	4,846,156	5,341,178	1,420,840	–	11,710,967
Senior notes	–	–	59,375	1,339,063	–	1,398,438
Trade and bills payables	–	2,705,486	2,974,389	–	–	5,679,875
Other payables	–	470,877	185,090	–	–	655,967
Amounts due to related parties	2,096	–	–	–	–	2,096
	104,889	8,022,519	8,560,032	2,759,903	–	19,447,343

45. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

	Year 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	–	2,561,029	2,620,017	–	–	5,181,046
Trade and bills payables	–	2,370,683	613,824	–	–	2,984,507
Other payables	–	155,117	89,425	–	–	244,542
Amounts due to related parties	10,026	–	–	–	–	10,026
	10,026	5,086,829	3,323,266	–	–	8,420,121

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 31 December 2011.

45. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

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, senior notes, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents. The gearing ratios as at the end of the reporting period were as follows:

	2011 **RMB'000**	2010 RMB'000
Bank loans and other borrowings	**10,046,530**	4,924,455
Senior notes	**1,244,211**	–
Trade and bills payables	**5,679,875**	2,984,507
Other payables and accruals	**1,505,078**	954,396
Amounts due to related parties	**2,096**	10,026
Less: Cash and cash equivalents	**(4,487,819)**	(2,989,718)
Net debt	**13,989,971**	5,883,666
Equity attributable to owners of the parent	**7,092,233**	5,935,593
Gearing ratio	**66.4%**	49.8%

46. Events After the Reporting Period

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

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2012.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial information and financial statements is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**41,903,414**	24,042,907	13,722,185	10,548,577	9,103,134
Cost of sales and services provided	**(37,595,170)**	(21,750,181)	(12,542,762)	(9,771,214)	(8,382,066)
Gross profit	**4,308,244**	2,292,726	1,179,423	777,363	721,068
Other income and gains, net	**367,362**	321,779	69,203	33,412	27,361
Selling and distribution costs	**(1,325,790)**	(693,372)	(346,521)	(274,317)	(215,054)
Administrative expenses	**(616,267)**	(318,414)	(161,967)	(118,861)	(87,115)
Profit from operations	**2,733,549**	1,602,719	740,138	417,597	446,260
Finance costs	**(549,375)**	(226,917)	(80,688)	(104,443)	(50,744)
Share of profits of jointly – controlled entities	**9,549**	8,195	7,254	4,520	6,873
Profit before tax	**2,193,723**	1,383,997	666,704	317,674	402,389
Tax	**(550,637)**	(301,624)	(173,701)	(83,265)	(98,933)
Profit for the year	**1,643,086**	1,082,373	493,003	234,409	303,456
Attributable to:					
Owners of the parent	**1,417,279**	1,031,190	470,881	218,702	284,325
Non-controlling interests	**225,807**	51,183	22,122	15,707	19,131
	1,643,086	1,082,373	493,003	234,409	303,456
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**27,860,382**	16,199,630	5,504,464	4,170,559	2,949,136
TOTAL LIABILITIES	**(19,582,569)**	(9,485,061)	(3,356,657)	(2,484,788)	(2,142,485)
NON-CONTROLLING INTERESTS	**(1,185,580)**	(778,976)	(36,892)	(52,673)	(49,162)
	7,092,233	5,935,593	2,110,915	1,633,098	757,489