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China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1728)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

For the year ended 31 December 2011:

- Turnover increased by approximately 79.8% to approximately RMB14,444 million
- Gross profit increased by approximately 90.9% to approximately RMB1,386 million
- Gross profit margin increased by 0.6 percentage point to 9.6%
- Net profit attributable to shareholders increased by approximately 89.9% to approximately RMB524 million
- Basic earnings per share increased by approximately 40.0% to RMB25.2 cents per share
- The Board did not recommend payment of a final dividend for the financial year ended 31 December 2011

Reference is made to the meeting of the board of directors (the “Board”) of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the “Company” or “ZhengTong” and together with its subsidiaries, the “Group”) held on 26 March 2012, the Board is pleased to announce the Group’s annual consolidated results for the year ended 31 December 2011 (the “Year under Review”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Expressed in RMB'000)

		For the year ended 31 December	
	Note	2011	2010
Turnover	3	14,443,927	8,034,249
Cost of sales		<u>(13,058,292)</u>	<u>(7,307,933)</u>
Gross profit		1,385,635	726,316
Other revenue	4	106,898	39,305
Other net income	4	13,169	7,300
Selling and distribution expenses		(329,845)	(191,993)
Administrative expenses		(319,979)	(175,557)
Profit from operations		855,878	405,371
Finance costs	5(a)	(128,173)	(56,146)
Share of profit of a jointly controlled entity		21,127	10,355
Gain on remeasurement of previously held equity interest in a jointly controlled entity		–	3,177
Gain on bargain purchase		–	<u>27,266</u>
Profit before taxation	5	748,832	390,023
Income tax	6(a)	(187,016)	(90,571)
Profit for the year		561,816	299,452
Other comprehensive income for the year:			
Exchange differences on translation of financial statements of foreign operations		7,174	1,030
Other comprehensive income for the year, net of tax		7,174	1,030
Total comprehensive income for the year		568,990	300,482

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)*For the year ended 31 December 2011**(Expressed in RMB'000)*

	<i>Note</i>	For the year ended 31 December	
		2011	2010
Profit attributable to:			
Shareholders of the Company		524,045	276,004
Non-controlling interests		37,771	23,448
		<hr/>	<hr/>
Profit for the year		561,816	299,452
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:			
Shareholders of the Company		531,219	277,034
Non-controlling interests		37,771	23,448
		<hr/>	<hr/>
Total comprehensive income for the year		568,990	300,482
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Earnings per share	8		
Basic and diluted (RMB cent)		25.2	18.0
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

At 31 December 2011

(Expressed in RMB'000)

		At 31 December	
	Note	2011	2010
Non-current assets			
Property, plant and equipment		984,188	404,424
Lease prepayments		176,453	117,864
Intangible assets		4,271,997	58,601
Goodwill		1,926,551	16,236
Interest in a jointly controlled entity		141,602	120,475
Deferred tax assets		21,270	4,530
		<u>7,522,061</u>	<u>722,130</u>
Current assets			
Inventories	10	3,244,023	748,733
Trade and other receivables	11	2,945,858	868,442
Pledged bank deposits		1,168,909	960,928
Time deposits		11,800	–
Cash and cash equivalents		1,096,771	3,432,060
		<u>8,467,361</u>	<u>6,010,163</u>
Current liabilities			
Loans and borrowings		4,220,370	721,292
Trade and other payables	12	4,156,397	1,847,037
Income tax payables	6(c)	305,935	73,053
		<u>8,682,702</u>	<u>2,641,382</u>
Net current (liabilities)/assets		<u>(215,341)</u>	<u>3,368,781</u>
Total assets less current liabilities		<u>7,306,720</u>	<u>4,090,911</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)*At 31 December 2011**(Expressed in RMB'000)*

	<i>Note</i>	At 31 December 2011	2010
Non-current liabilities			
Deferred tax liabilities		<u>984,801</u>	<u>17,920</u>
		<u>984,801</u>	<u>17,920</u>
NET ASSETS		<u>6,321,919</u>	<u>4,072,991</u>
Equity			
Share capital		187,959	171,420
Reserves		<u>6,022,445</u>	<u>3,843,363</u>
Equity attributable to shareholders of the Company		6,210,404	4,014,783
Non-controlling interests		<u>111,515</u>	<u>58,208</u>
TOTAL EQUITY		<u>6,321,919</u>	<u>4,072,991</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

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

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and the Group's interest in a jointly controlled entity.

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

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKIPCA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of the above are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the disclosures of the Group's financial instruments in the financial statements.

3 TURNOVER

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

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

	For the year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of motor vehicles	12,952,725	7,009,426
Sales of motor spare parts	242,579	127,821
Provision of maintenance services	804,801	473,694
Provision of logistics services	150,149	167,397
Sales of lubricant oil	293,673	255,911
	<hr/>	<hr/>
	14,443,927	8,034,249
	<hr/> <hr/>	<hr/> <hr/>

4 OTHER REVENUE AND NET INCOME

	For the year ended 31 December	
	2011 RMB'000	2010 RMB'000
Other revenue:		
Commission income	81,042	28,585
Interest income from bank deposits	24,520	8,874
Rental income	–	1,242
Others	1,336	604
	<u>106,898</u>	<u>39,305</u>
Other net income:		
Net gain on disposal of property, plant and equipment	9,750	6,590
Others	3,419	710
	<u>13,169</u>	<u>7,300</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Note	For the year ended 31 December	
		2011 RMB'000	2010 RMB'000
(a) Finance costs:			
Interest on loans and borrowings wholly repayable within 5 years		71,995	22,318
Other finance costs	(i)	56,178	33,828
		<u>128,173</u>	<u>56,146</u>
(b) Staff costs:			
Salaries, wages and other benefits		260,202	131,505
Contributions to defined contribution retirement plans	(ii)	17,730	7,846
Equity settled share-based payment expenses		15,488	5,944
		<u>293,420</u>	<u>145,295</u>

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

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

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
(c) Other items:		
Cost of inventories	12,891,630	7,160,227
Depreciation	58,281	42,737
Amortisation of lease prepayments	2,929	4,039
Amortisation of intangible assets	15,260	1,494
Operating lease charges	58,611	18,903
Net foreign exchange loss	10,029	7,038
	<u>10,029</u>	<u>7,038</u>

6 INCOME TAX

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current tax:		
Provision for income tax for the year	193,111	96,179
Deferred tax:		
Origination of temporary differences	(6,095)	(5,608)
	<u>187,016</u>	<u>90,571</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (iii) In accordance with the relevant PRC corporate income tax laws and its implementation rules, certain subsidiaries in Mainland China are entitled to tax concessions and tax relief whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation of the Group's subsidiaries in Mainland China is calculated using the applicable preferential income tax rates granted to these subsidiaries.

According to the PRC corporate income tax laws and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC enterprises.

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

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before taxation	748,832	390,023
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	187,208	97,506
Non-deductible expenses	8,523	6,772
Effect of tax concessions	(3,171)	(2,586)
Non-taxable income on:		
– Share of profits recognised under the equity method	(5,282)	(2,589)
– Gain on remeasurement of previously held equity interest in a jointly controlled entity	–	(794)
– Gain on bargain purchase	–	(6,817)
Others	(262)	(921)
Income tax	187,016	90,571

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Balance at beginning of the year	73,053	60,506
Acquisition of subsidiaries through business combinations	138,402	1,552
Provision for current income tax for the year	193,111	96,179
Payment during the year	(98,631)	(85,184)
Balance at the end of the year	305,935	73,053

7 DIVIDEND

The Company did not declare the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2011 was based on the profit attributable to shareholders of the Company for the year of RMB524,045,000 (2010: RMB276,004,000) and the weighted average number of shares in issue during the year ended 31 December 2011 of 2,078,904,110 (2010: 1,530,136,986).

Weighted average number of ordinary shares

	For the year ended 31 December	
	2011	2010
Issued ordinary shares at 1 January	2,000,000,000	1,500,000,000
Effect of shares issued on initial public offering	–	30,136,986
Effect of shares issued upon placing	78,904,110	–
Weighted average number of ordinary shares at 31 December	2,078,904,110	1,530,136,986

The pre-IPO employee share option scheme does not give rise to any dilution effect on the Company's earnings per share and there were no dilutive potential ordinary shares throughout the years ended 31 December 2011 and 2010, and therefore, the basic and diluted earnings per share are the same.

9 SEGMENT REPORTING

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

1 4S dealership business

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

2 Logistics business

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

3 Lubricant oil business

Lubricant oil business mainly includes trading of lubricant oil.

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

(a) Segment results, assets and liabilities

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

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.
- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.
- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.
- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business		Logistics and lubricant oil businesses		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	14,000,105	7,610,941	443,822	423,308	14,443,927	8,034,249
Inter-segment turnover	—	—	7,127	5,044	7,127	5,044
Reportable segment turnover	<u>14,000,105</u>	<u>7,610,941</u>	<u>450,949</u>	<u>428,352</u>	<u>14,451,054</u>	<u>8,039,293</u>
Reportable segment profit	<u>707,701</u>	<u>362,430</u>	<u>86,943</u>	<u>60,897</u>	<u>794,644</u>	<u>423,327</u>
Depreciation and amortisation for the year	72,246	43,450	4,224	4,820	76,470	48,270
Reportable segment assets	8,720,709	3,358,051	1,161,123	414,035	9,881,832	3,772,086
Additions to non-current segment assets during the year	729,524	230,236	697	12,382	730,221	242,618
Reportable segment liabilities	(8,489,035)	(2,396,624)	(642,530)	(280,816)	(9,131,565)	(2,677,440)
Interest in a jointly controlled entity	<u>—</u>	<u>—</u>	<u>141,602</u>	<u>120,475</u>	<u>141,602</u>	<u>120,475</u>

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Turnover:		
Reportable segment turnover	14,451,054	8,039,293
Elimination of inter-segment turnover	(7,127)	(5,044)
Consolidated turnover	<u>14,443,927</u>	<u>8,034,249</u>
Profit before taxation:		
Reportable segment profit	794,644	423,327
Unallocated head office expenses	(37,706)	(23,763)
Other revenue	106,898	39,305
Other net income	13,169	7,300
Finance costs	(128,173)	(56,146)
Consolidated profit before taxation	<u>748,832</u>	<u>390,023</u>

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Assets:		
Reportable segment assets	9,881,832	3,772,086
Intangible assets	4,271,997	58,601
Goodwill	1,926,551	16,236
Deferred tax assets	21,270	4,530
Unallocated head office assets	643,620	3,020,927
Elimination of inter-segment receivables	(755,848)	(140,087)
	<hr/>	<hr/>
Consolidated total assets	15,989,422	6,732,293
	<hr/> <hr/>	<hr/> <hr/>
Liabilities:		
Reportable segment liabilities	(9,131,565)	(2,677,440)
Non-trade payables due to related parties	–	(7,180)
Income tax payables	(305,935)	(73,053)
Deferred tax liabilities	(984,801)	(17,920)
Unallocated head office liabilities	(1,050)	(23,796)
Elimination of inter-segment payables	755,848	140,087
	<hr/>	<hr/>
Consolidated total liabilities	(9,667,503)	(2,659,302)
	<hr/> <hr/>	<hr/> <hr/>

(c) Geographic information

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

10 INVENTORIES

Inventories in the consolidated balance sheet comprise:

	The Group	
	At 31 December	
	2011	2010
	RMB'000	RMB'000
Motor vehicles	3,039,142	675,918
Automobile spare parts	199,173	69,609
Others	5,708	3,206
	<hr/>	<hr/>
	3,244,023	748,733
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2011, inventories carried at net realisable value amounted to approximately RMB3,141,000 (2010: Nil).

11 TRADE AND OTHER RECEIVABLES

	The Group At 31 December		The Company At 31 December	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade receivables	291,207	131,247	–	–
Bills receivable	7,887	4,409	–	–
	299,094	135,656	–	–
Prepayments	1,374,323	480,129	7,840	–
Deposit within an escrow account	300,000	–	300,000	–
Other receivables and deposits	972,159	252,657	215	581
Receivables due from third parties	2,945,576	868,442	308,055	581
Receivables due from subsidiaries	–	–	32,920	–
Receivables due from related parties	282	–	–	–
Trade and other receivables	2,945,858	868,442	340,975	581

All of the trade and other receivables are expected to be recovered within one year.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval, for which management has a credit policy in place and the exposure to the credit risks are monitored on an ongoing basis.

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

	The Group At 31 December	
	2011 RMB'000	2010 RMB'000
Current	279,644	133,608
Less than 1 month past due	–	–
1 to 3 months past due	7,201	1,525
3 to 12 months past due	10,055	523
1 year past due	2,194	–
Total amount past due	19,450	2,048
	299,094	135,656

12 TRADE AND OTHER PAYABLES

	The Group At 31 December		The Company At 31 December	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables	131,339	39,956	–	–
Bills payable	2,865,830	1,515,172	–	–
	2,997,169	1,555,128	–	–
Receipts in advance	543,644	159,364	–	–
Other payables and accruals	615,584	121,521	300,000	22,721
Payables due to third parties	4,156,397	1,836,013	300,000	22,721
Payables due to related parties	–	11,024	–	–
Trade and other payables	4,156,397	1,847,037	300,000	22,721

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

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

	The Group At 31 December	
	2011 RMB'000	2010 RMB'000
Due within 3 months	2,981,984	1,480,539
Due after 3 months but within 6 months	14,303	53,787
Due after 6 months but within 12 months	882	20,802
	2,997,169	1,555,128

13 CONTINGENT LIABILITIES

Financial guarantees issued

As at 31 December 2011, the Company has issued guarantees to certain banks in respect of banking facilities granted to certain subsidiaries which remain in force so long as the subsidiaries have drawn down under the banking facilities.

As at 31 December 2011, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at 31 December 2011 under the guarantees by the Company is the aggregate amount of the facilities drawn down by the subsidiaries of RMB974,763,000 (2010: Nil).

MARKET OVERVIEW

In 2011, the economy of China had maintained a steady and relatively rapid growth. The Chinese government adhered to the implementation of proactive fiscal policies and prudent monetary policies, constantly reinforcing and improving its macroeconomic regulation and control, as a result of which the national economy continued to proceed in the expected direction, thereby achieving a positive beginning for economic and social developments in the “Twelfth Five-Year” period. According to information released by the National Bureau of Statistics, the gross domestic product (GDP) of China for 2011 is increased by approximately 9.2% over the previous year.

According to the figures released by the China Association of Automobile Manufacturers (CAAM), during 2011, the rigid demand for passenger automobiles was prominent in China and the growth in the number of passenger automobiles manufactured and sold stayed steady. In 2011, the volume of passenger automobiles manufactured and sold totalled to 14.4853 million and 14.4724 million respectively, representing an increase of 4.23% and 5.19% over the previous year respectively. China’s passenger automobile market has returned to a rational growth from a rapid development, whereas premium and ultra premium branded automobiles maintained strong momentum in the passenger automobile market in China, with the sales volume far ahead of the average level in the passenger automobile market in China.

Based on the data published by manufacturers and other available information, the performance of the major premium brands operated by the Company in China for 2011 is as follows:

BMW	BMW group delivered a total of 232,586 BMW and MINI automobiles to customers in the PRC, representing an increase of approximately 37.6% as compared to 168,998 automobiles in 2010. Of which BMW brand sales accounted for 217,068 automobiles, representing a year-on-year growth of approximately 37%, and MINI brand sales accounted for 15,518 automobiles, representing a year-on-year growth of approximately 47.7%. China remained as one of the top three largest markets for BMW group worldwide.
Audi	Sales of Audi in the PRC (including Hong Kong) amounted to 313,036 automobiles, representing a year-on-year increase of approximately 37%. Of which, sales of automobiles manufactured locally in the PRC accounted for 252,000 automobiles, representing a year-on-year growth of approximately 29%, whereas total imports amounted to 57,888 automobiles (excluding Hong Kong), representing a year-on-year increase of approximately 89%. China has become the largest market for Audi worldwide.
Jaguar/Land Rover	Sales of Jaguar and Land Rover in the PRC amounted to 42,063 automobiles, representing a year-on-year increase of approximately 61%. Of which, total sales of Jaguar in the PRC amounted to 5,976 automobiles, representing a year-on-year increase of approximately 123%, whereas sales of Land Rover continued to set new records with a total of 36,087 automobiles throughout the year, representing a year-on-year increase of approximately 54%. Land Rover recorded exponential growth in sales for eight years in a row.

Volvo

Sales of Volvo in the PRC increased from 30,522 automobiles in 2010 to 47,150 automobiles in 2011, representing a year-on-year growth of approximately 54.5%. China has remained as one of the top three single markets for Volvo worldwide, and was the largest single market for Volvo in 2011 in terms of absolute sales growth.

BUSINESS REVIEW

Mergers and Acquisitions of the Group

During the year ended 31 December 2011, the Group entered into a series of mergers and acquisitions in order to expand the Group's operations and enhance the Group's competitive strength, the most important three of which were the acquisitions of 100% equity interest in Top Globe Limited, 100% equity interest in Lhasa Hong Jin Auto Trading Company Limited (拉薩弘進汽貿有限公司) and 100% equity interest in Acme Joy Group Limited.

Acquisition of 100% equity interest in Top Globe Limited

The acquisition of the entire issued share capital in Top Globe Limited was completed in December 2011. Top Globe Limited held a leading automobile dealership group in the PRC, consisting of premium brands including Land Rover, Jaguar, Volvo, Mercedes-Benz, Infiniti and Acura, and middle market brands including FAW Toyota, FAW Volkswagen, FAW Mazda and Ford, with 23 4S dealership stores and one repair store under construction in 10 cities of affluent coastal regions or top tier cities such as Shenzhen, Guangzhou, Fuzhou, Tianjin and Beijing, as well as rapidly developing inland regions such as Changsha.

The acquisition of the entire issued share capital in Top Globe Limited has further enhanced the brand portfolio and geographic coverage of the dealership network of the Group. In terms of brand portfolio, the Group became a top ranking dealer for premium brands including BMW, Audi, Land Rover, Jaguar and Volvo following the completion of the transaction and the number of premium and ultra premium brands operated by the Group has increased to 11, and the premium and ultra premium branded dealership stores operated by the Group increased to 43. BMW, Audi, Land Rover, Jaguar and Volvo are popular premium brands among Chinese consumers. All of the above mentioned brands have kept rapid increasing tendency in recent years, and maintained the leading status in Chinese premium branded automobile market (see details of the performance of BMW, Audi, Land Rover, Jaguar, Volvo and the other premium brands of 2011 in the Market Review section.)

In addition, the Company has further enhanced the geographic coverage of its dealership network, particularly in Guangdong province, which is a main automobile sales market in China. The acquisition of Top Globe Limited has enabled the Company to establish a leading position in Shenzhen as well as entering into new markets such as Tianjin, Fujian and Hainan, and thus expanded its geographic coverage in both affluent cities and rapidly developing regions.

Under the share purchase agreement dated 23 August 2011 (and supplemented by a supplemental agreement dated 29 November 2011) entered into by the Company and Exactwin Limited, it was agreed that no distribution of profits shall be made by 深圳市中汽南方投資集團有限公司 (SCAS Investment Group Co., Ltd.), the intermediate holding company of the operating entities of the acquired group, between 30 June 2011 and the completion date. In other words, the undistributed retained earnings of the acquired group from 30 June 2011 to the completion date are vested in the Group. Please refer to the announcement dated 29 August 2011 and the circular dated 2 December 2011 of the Company for further information.

If the acquisition of Top Globe Limited had occurred on 1 January 2011, the Directors estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2011 would have been RMB24,412,934,000 and RMB947,284,000 respectively.

Acquisition of 100% equity interest in Lhasa Hong Jin Auto Trading Company Limited (拉薩弘進汽貿有限公司)

The acquisition of 100% equity interest in Lhasa Hong Jin Auto Trading Company Limited (拉薩弘進汽貿有限公司) enables the Group to have one more Audi branded automobile 4S dealership store in Nanchang, Jiangxi Province, and further expanded the Group's operational scale and competitive advantages in Jiangxi Province. The Group's market share in Jiangxi Province was also further enlarged as a result. Please refer to the announcement of the Company dated 25 April 2011 for further information.

Acquisition of 100% equity interest in Acme Joy Group Limited

The acquisition of 100% equity interest in Acme Joy Group Limited added one Audi branded automobile 4S dealership store in Qingdao, Shandong Province to the Group, which is the Group's first premium branded dealership store located in Shandong Province. The acquisition expanded the geographical coverage of the Group's dealership distribution, and was the Group's first step to develop the market in Shandong Province, which eventually made the Group one of the core distributors of Audi brand. Please refer to the announcement of the Company dated 26 June 2011 for further information.

The above acquisitions completed by the Group during 2011 can help the Company to improve the brand portfolio and expand the dealership network substantially. The management believe the Group will seize the opportunities of the speedy growth of the premium and ultra premium brands market, maintain a leader position, make a leap forward in development and maximum return for its shareholders.

Efficient expansion of networks for greater economies of scale

In consideration of the strong demand in China's automobile market, particularly the premium and ultra premium branded automobile market, and the rising per capita purchasing power of consumer goods, the Group actively seized opportunities in the market and continuously expanded 4S dealership network by means of new establishment and acquisition in order to create a strategic national dealership network layout covering first-tier cities and economically fast-growing regions with focus on premium and ultra premium branded automobile 4S dealership business. As at 31 December 2011, the Group had 59 4S dealership stores in operation (including trial operation) across the country, an increase of 35 stores over the 24 4S dealership stores in operation as at 31 December 2010. At the same time, one Jaguar and Land Rover 4S store in Shantou and one BMW M centre (operating BMW M models) in Beijing were put in trial operation during 2011, and commenced operation in January and March 2012 respectively.

Currently, the Group had obtained 13 new dealership authorisations for premium and ultra premium brands, which include Lamborghini, Porsche, BMW, Audi, Benz, Volvo, Cadillac and Imported Volkswagen. In particular, 6 dealership stores are under construction, whereas the remaining 7 dealership stores are under active preparation for construction.

Optimising brand portfolio and adhering to a brand layout strategy focused on premium and ultra premium brands

To conform to the trend of premium and ultra premium brands as leaders of the general trend and to be closely in line with the immense market demand for premium and ultra premium branded automobiles, the Group adhered to and aggressively implemented the brand placement strategy with focusing on the most popular premium and ultra premium automobile brands in China and, by actively optimising brand portfolio, enhanced the position of premium and ultra premium branded automobile 4S dealership business in the Group's business structure.

As at 31 December 2011, the Group had a total of 20 automobile brands for its 4S dealership business, of which 11 brands were premium and ultra premium brands, namely BMW, MINI, Audi, Jaguar, Land Rover, Volvo, Imported Volkswagen, Mercedes, Infiniti, Acura and Porsche. As at 31 December 2011, the Group had a total of 59 4S automobile dealership stores in operation (including trial operation), out of which, a total of 43 stores were premium and ultra premium brand 4S automobile dealership stores, accounting for approximately 72.9% of the Group's total number of 4S automobile dealership stores in operation (including trial operation). The Group was ranked as a core distributor of five premium automobile brands, namely BMW, Audi, Jaguar, Land Rover and Volvo.

As at 31 December 2011, the number of brands covered by the Group's 4S automobile dealership stores are as follows:

	Number of brands		Growth
	As at 31 December 2011	As at 31 December 2010	
Ultra premium brands	1	1	0
Premium brands	10	3	7
Middle market brands	9	5	4
Total	<u>20</u>	<u>9</u>	<u>11</u>

As at 31 December 2011, details of the distribution of the brands owned by the Group's operating (including trial operation) 4S dealership stores are as follows:

		Number of operating 4S automobile dealership stores (including trial operation)		
		As at 31 December 2011	As at 31 December 2010	Growth
Ultra premium brands		1	1	0
	Porsche	1	1	0
Premium brands		42	13	29
	BMW	10	6	4
	BMW/MINI	5	4	1
	Audi	5	3	2
	Land Rover	1	0	1
	Jaguar/Land Rover	3	0	3
	Volvo	6	0	6
	Jaguar/Land Rover/Volvo	7	0	7
	Imported Volkswagen	2	0	2
	Benz	1	0	1
	Infiniti	1	0	1
	Acura	1	0	1
Middle market brands		16	10	6
	Dongfeng Nissan	5	5	0
	Dongfeng Honda	1	1	0
	Buick	2	2	0
	Chevrolet	1	1	0
	Beijing Hyundai	1	1	0
	Ford	1	0	1
	FAW Volkswagen	2	0	2
	FAW Toyota, Toyota	2	0	2
	FAW Mazda	1	0	1
		<hr/>	<hr/>	<hr/>
Total		59	24	35
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Emphasis on dealership network site selection with economically-developed and fast-growing regions as the focus of geographical layout

Whether expanding business outlets can effectively and directly drive the growth in the Company's automobile distribution and service performance, to a certain extent, depends on the rationality in the geographical outlet coverage. Therefore, when establishing new stores and acquiring business outlets, the Group placed emphasis on the consideration of various factors, including the economic development prospects, per capita consumption and the number of automobiles owned in the network coverage regions, striving to ensure the rationality in the geographical outlet location through scientific proof so as to ensure that network expansion can effectively drive the growth in the Company's operating results.

During 2011, the Group set up 4S automobile dealership store in 5 previously uncovered provinces, namely Shandong, Henan, Fujian, Hainan and Tianjin, and increased the number of 4S automobile dealership stores in 6 provinces, namely Hubei, Hunan, Jiangxi, Inner Mongolia, Guangdong and Beijing, thereby improving the extent of coverage in such regions. As such, the Group had dealership network coverage of 27 cities across 12 provinces as at 31 December 2011, covering the developed automobile market of affluent first-tier and capital cities, the fast-growing regions with a per capita GDP higher than the national average level and the central and western regions where automobile penetration is low, which is consistent with the Group's geographical network layout policy till now.

As at 31 December 2011, the geographical distribution of the Group's 4S automobile dealership stores is as follows:

Region	Province/municipality	Number of operating 4S automobile dealership stores (including trial operation)		Increases
		As at 31 December 2011	As at 31 December 2010	
Northern China	Beijing	6	1	5
	Tianjin	1	0	1
	Inner Mongolia	6	4	2
	Sub-total	<u>13</u>	<u>5</u>	<u>8</u>
Eastern China	Shandong	1	0	1
	Shanghai	4	4	0
	Jiangxi	4	1	3
	Fujian	1	0	1
	Sub-total	<u>10</u>	<u>5</u>	<u>5</u>
Central China	Henan	1	0	1
	Hubei	9	8	1
	Hunan	4	2	2
	Sub-total	<u>14</u>	<u>10</u>	<u>4</u>
Southern China	Guangdong	21	4	17
	Hainan	1	0	1
	Sub-total	<u>22</u>	<u>4</u>	<u>18</u>
Total		<u><u>59</u></u>	<u><u>24</u></u>	<u><u>35</u></u>

Achieving new record results through the coordinated development of business segments

The new automobile sales business segment achieved record-high results. The improvement of the results of the Group's new automobile sales business segment is mainly attributed to the enhanced management capability and better sales service quality and the cooperative ties with automobile suppliers. Being the core business of the Group, the automobile sales segment achieved particularly outstanding results in 2011. The Group sold a total of 40,114 new automobiles, of which sales of premium and ultra premium branded automobiles amounted to 21,380 automobiles. The new automobile sales business generated a turnover of approximately RMB12,953 million, representing an increase of approximately 84.8% over approximately RMB7,009 million in 2010 and accounting for approximately 89.7% of the Group's total revenue, contributing approximately RMB841 million to the Group's gross profit, an increase of approximately 123.7% over approximately RMB376 million in 2010.

Another important pillar of the Group's business segments, after-sales services maintained a relatively rapid growth. The Group has always adhered to the customer-oriented principle and is committed to provide all-rounded automobile solutions, actively developing a set of internal service standards higher than those of the after-sales services of automobile suppliers so as to obtain the trust of customers with high quality services. In 2011, the Group's after-sales services business generated turnover of approximately RMB1,047 million, representing an increase of approximately 73.9% over approximately RMB602 million in 2010, and recorded gross profit of approximately RMB457 million, representing an increase of approximately 72.5% over approximately RMB265 million in 2010.

The used automobile business emerged and moved rapidly into the development track. The Group fully utilised the recognition and customer base of its own extensive dealership network and actively pushed ahead the used automobile exchange business in each dealership outlet. In addition to marketing new automobiles, the Group also gained access to abundant used automobile resources. Besides, the Group established three used automobile operating centres in Inner Mongolia, Beijing and Hubei, thereby achieving the speedy development of used automobile business. In the meantime, the Group also attached great importance to the sustainable development of automobile accessory business and extended business. The Group established a central procurement centre and endeavour to provide customers with high quality automobile accessories at economical prices. In addition, the Company also actively expanded the automobile finance and insurance business with a view to generate more stable income to the Company.

Regarding businesses other than the distribution of automobiles in the Group, turnover from the logistics services business and lubricant oil trading business during the Year under Review amounted to approximately RMB444 million (2010: approximately RMB423 million).

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Turnover

For the year ended 31 December 2011, the Group had turnover of approximately RMB14,444 million, representing an increase of approximately 79.8% over the turnover of RMB8,034 million in 2010. The increase in turnover was mainly due to the Group's strategic focus on the premium and ultra premium branded automobile dealership business, which facilitated a substantial growth in turnover generated from premium and ultra premium branded automobile sales business during 2011.

Source of revenue	For the year ended 31 December			
	2011		2010	
	Revenue (RMB'000)	Contribution (%)	Revenue (RMB'000)	Contribution (%)
New automobile sales	12,952,725	89.7	7,009,426	87.2
After-sales services	1,047,380	7.3	601,515	7.5
Logistics and lubricant oil	443,822	3.0	423,308	5.3
Total	14,443,927	100.0	8,034,249	100.0

The Group generated revenue mainly from the sales of new automobiles and the provision of after-sales services. During the year, revenue from the sales of new automobiles amounted to approximately RMB12,953 million, representing an increase of approximately 84.8% over approximately RMB7,009 million in 2010; whereas revenue from the provision of after-sales services amounted to approximately RMB1,047 million, representing an increase of approximately 73.9% over approximately RMB602 million in 2010.

For the year ended 31 December 2011, revenue from new automobiles sales of premium and ultra premium branded automobiles was approximately RMB10,583 million, representing a substantial increase of approximately 120.4% over approximately RMB4,802 million in 2010. Such increase was primarily due to the overall growth of the premium and ultra premium branded automobile market in China and the continuous expansion of the scale of dealership business of the Group, especially the soaring sales recorded in the new dealership stores opened by the Group during the year and the existing established stores.

Source of revenue from new automobile sales	For the year ended 31 December			
	2011		2010	
	Revenue (RMB'000)	Contribution (%)	Revenue (RMB'000)	Contribution (%)
Premium and ultra premium branded automobiles	10,582,659	81.7	4,801,723	68.5
Middle market branded automobiles	2,370,066	18.3	2,207,703	31.5
Total	12,952,725	100.0	7,009,426	100.0

For the year ended 31 December 2011, revenue from the Group's logistics services business and lubricant oil trading business amounted to approximately RMB444 million, representing an increase of 5.0% over RMB423 million in 2010, which was due to the overall growth of the automobile market in China.

Cost of sales

For the year ended 31 December 2011, cost of sales amounted to approximately RMB13,058 million, representing an increase of approximately 78.7% over approximately RMB7,308 million in 2010. Such increase was substantially the same as the increase in sales turnover. Cost of sales for new automobiles rose by approximately 82.6% to approximately RMB12,112 million, as compared with approximately RMB6,633 million for the year 2010. The increase in cost of sales was also partially due to the increase in cost of sales for after-sales services, which rose from approximately RMB336 million to approximately RMB590 million, representing an increase of approximately 75.6%. Such increase was in line with the growth in the revenue generated from the provision of after-sales services.

In addition, the cost of sales for logistics services business and lubricant oil trading business was also up by approximately 5.0% to approximately RMB356 million, as compared with approximately RMB339 million for the year 2010. Such increase was in line with the growth in revenue generated from the logistics services business and lubricant oil trading business.

Gross profit

For the year ended 31 December 2011, the Group's gross profit was approximately RMB1,386 million, representing an increase of approximately 90.9% over approximately RMB726 million for the year 2010. Gross profit generated from 4S dealership business rose by approximately 102.2% to approximately RMB1,298 million, as compared with approximately RMB642 million for the year 2010. Gross profit from sales of new automobiles increased by approximately 123.7% from approximately RMB376 million in 2010 to approximately RMB841 million. In particular, gross profit generated from the sales of premium and ultra premium branded automobiles increased from approximately RMB322 million in 2010 to approximately RMB721 million representing a year-on-year growth of 123.9%; whereas gross profit generated from the provision of after-sales services increased by approximately 72.5% from approximately RMB265 million in 2010 to approximately RMB457 million. For the year ended 31 December 2011, the gross profit from the Group's logistics services business and lubricant oil trading business amounted to approximately RMB88 million, representing an increase of approximately 4.8% as compared to approximately RMB84 million for the year 2010.

Source of gross profit	For the year ended 31 December			
	2011		2010	
	Gross profit (RMB'000)	Contribution (%)	Gross profit (RMB'000)	Contribution (%)
New automobile sales	840,709	60.7	376,457	51.8
After-sales services	457,075	33.0	265,385	36.5
Logistics and lubricant oil	87,851	6.3	84,474	11.7
Total	1,385,635	100.0	726,316	100.0

Source of gross profit from sales of automobiles business	For the year ended 31 December			
	2011		2010	
	Gross profit (RMB'000)	Contribution (%)	Gross profit (RMB'000)	Contribution (%)
Premium and ultra premium branded automobiles	721,152	85.8	321,730	85.5
Middle market branded automobiles	119,557	14.2	54,727	14.5
Total	840,709	100.0	376,457	100.0

For the year ended 31 December 2011, the Group's gross profit margin was approximately 9.6%, representing an increase of approximately 0.6 percentage point as compared with approximately 9.0% for 2010. The gross profit margin for sales of new automobiles was approximately 6.5% (2010: approximately 5.4%). In particular, the gross profit margin for sales of new premium and ultra premium branded automobiles was approximately 6.8% (2010: approximately 6.7%). The gross profit margin for after-sales services was approximately 43.6% (2010: approximately 44.1%).

Selling and distribution expenses

For the year ended 31 December 2011, the Group's selling and distribution expenses amounted to approximately RMB330 million, representing an increase of approximately 71.9% over approximately RMB192 million for the year 2010. Such increase was mainly due to the Group's rapid expansion of branded automobile 4S dealership network by means of merger and acquisition and new establishment in 2011, resulting in corresponding increases in the salaries and wages of sales staff as well as the rental and general expenses of the branded automobile 4S dealership stores.

Administrative expenses

For the year ended 31 December 2011, the Group's administrative expenses amounted to approximately RMB320 million, representing an increase of approximately 81.8% over approximately RMB176 million for the year 2010. Such increase was primarily attributable to 1) the Group's rapid expansion of branded automobile 4S dealership network by means of mergers and acquisitions and new establishment in 2011, resulting in corresponding increases in the salaries and wages of management staff as well as various depreciation and lease expenses; and 2) the amortisation of dealerships.

Profit from operations

For the year ended 31 December 2011, the Group's profit from operations amounted to approximately RMB856 million, representing an increase of approximately 111.4%, as compared with approximately RMB405 million for the year 2010. The operating profit margin for 2011 is approximately 5.9%, an increase of approximately 0.9 percentage point over the operating margin of approximately 5.0% for 2010.

Income tax expenses

For the year ended 31 December 2011, the Group's income tax expenses amounted to approximately RMB187 million and the effective tax rate was approximately 25.0%.

Profit for the year

For the year ended 31 December 2011, the Group's profit was approximately RMB562 million, representing an increase of approximately 88.0% over approximately RMB299 million for the year 2010. The ratio of net profit margin for the year was approximately 3.9%, representing an increase of approximately 0.2 percentage point over the net profit margin of approximately 3.7% for 2010.

Final dividend

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

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liabilities or guarantees save as those assets pledged for loans and borrowings.

Current assets and current liabilities

As at 31 December 2011, the Group's current assets amounted to approximately RMB8,467 million, representing an increase of approximately RMB2,457 million as compared to current assets of approximately RMB6,010 million as at 31 December 2010. Such increase was primarily due to the completion of acquisition of 100% equity interest in Top Globe Limited during the year and inclusion of acquired assets upon consolidation.

As at 31 December 2011, the Group's current liabilities amounted to approximately RMB8,683 million, representing an increase of approximately RMB6,042 million as compared to current liabilities of approximately RMB2,641 million as at 31 December 2010. Such increase was mainly due to the completion of acquisition of 100% equity interest in Top Globe Limited during the year, resulting in increase in borrowings, as well as the inclusion of acquired liabilities upon consolidation.

Cash flow

As at 31 December 2011, the Group had cash and cash equivalents amounted to approximately RMB1,097 million, representing a decrease of approximately RMB2,335 million over approximately RMB3,432 million as at 31 December 2010, mainly due to a number of acquisition projects for the Group's expansion of dealership network.

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

The Group's primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and normal recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the Group's operating activities, bank loans and other financings. Looking into the future, the Group believes it can utilise the loans and borrowings and cash flow generated from operating activities to satisfy its liquidity needs.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed scenarios, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient cash and adequate committed lines of credit from major financial institutions to meet its liquidity requirements in the short and longer term.

For the year ended 31 December 2011, the Group had net cash outflow from operating activities of RMB60 million, which was mainly due to the increase in inventory as a result of the Group's bulk purchase of new automobiles driven by the strong market demand.

Capital expenditure and investment

The Group's capital expenditure includes expenses on property, plant and equipment and consideration paid for external investment. For the year ended 31 December 2011, the Group's capital expenditure and investment was approximately RMB6,700 million.

Inventory analysis

The Group's inventories included vehicles and automobile spare parts. The Group also monitors the inventories within its dealership network and, subject to the consent of automobile manufacturers, may also transfer automobiles from one dealership store to another to rebalance inventory levels. The Group utilises its information technology systems to manage its inventory.

As at 31 December 2011, the inventories of the Group increased by approximately 333.1% to approximately RMB3,244 million as compared to approximately RMB749 million as at 31 December 2010, which was primarily attributable to 1) new purchases to cope with the anticipated strong market demand; 2) inclusion of inventories of the acquired dealership stores into the Group as a result of a number of mergers and acquisitions for the expansion of dealership network; and 3) inventory expansion due to new purchases (especially premium branded automobiles) by new dealership stores opened in 2011.

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

	Year ended 31 December	
	(days)	
	2011	2010
Average inventory turnover days	<u>55.8</u>	<u>26.1</u>

The average inventory turnover days increased from 26.1 days in 2010 to 55.8 days in 2011, the increase is primarily because of the Group's completion of acquisition of 100% entire equity interest in Top Globe Limited in December 2011, resulting in the inclusion of inventory of its 4S dealership stores into the Group at the end of the reporting period where only a portion of the cost of sales was included into the Group. Given the average inventory turnover days based on the above calculation, the Directors consider that the inventory turnover days of the Group cannot be truly reflected. Excluding the financial impact of the inclusion of Top Globe Limited into the Group, the Directors estimates that the average inventory turnover days of the Group would be 35.6 days.

Exchange risks

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

Loans and borrowings

As at 31 December 2011, the Group's loans and borrowings amounted to RMB4,220 million (2010: approximately RMB721 million). The increase in loans and borrowings for the year was due to the increase in borrowings as a result of the acquisition of Top Globe Limited during the year and the increase in demand for working capital as a result of the substantial business expansion and growth.

Pledged assets of the Group

The Group has pledged its corporate assets as guarantee for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2011, the pledged assets of the Group amounted to approximately RMB3,882 million (2010: RMB1,429 million).

The Group's borrowings mainly include bills payable and interesting-bearing loans and borrowings. As at 31 December 2011, the Group had borrowings totalling approximately RMB7,086 million, including bills payable of approximately RMB2,866 million and loans and borrowings of approximately RMB4,220 million. Its percentage to assets is as follows:

	2011 <i>(RMB'000)</i>	2010 <i>(RMB'000)</i>	Change <i>(RMB'000)</i>
Total borrowings	7,086,200	2,236,464	4,849,736
Total assets	15,989,422	6,732,293	9,257,129
Total debt ratio: (Total borrowings to total assets)	44.3%	33.2%	11.1%

As at 31 December 2011, total borrowings to total assets increased by 11 percentage points over 2010, primarily as a result of the increase in borrowings as a result of the acquisition of Top Globe Limited during the year and the increase in demand for working capital as a result of the substantial business expansion and growth.

Investments held in foreign currency and hedging

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

Employees and remuneration policies

As at 31 December 2011, the Group had a total of 7,107 employees in China (2010: 3,103 employees).

The Group's employees are well educated. As at 31 December 2011, approximately 65.9% of its employees have university or associated university degrees. The Group offers competitive remuneration packages and welfare benefits to its employees. Capitalising on the advantages of its listing, the Group reduces the turnover rate and attracts more talents to join the Group by designing and implementing share option schemes. The Group also attaches much importance to its internal training system to explore potential talents and trained professionals. In view of this, the Group provides with its employees enriching training programmes featuring the training of professional skills such as targeted sales and repairs and maintenance for technical staff, as well as programmes featuring the training of management capabilities for senior management.

Future Prospects

With China being the world's largest automobile market, the Group expects that the strength of China's automobile sector will become more apparent going forward and the sector will enter a new phase of steady development. According to the CAAM's forecast, the number of automobiles sold in China will exceed 25 million units by 2015 and the sales of automobiles will continue to maintain good momentum going forward. The State's Twelfth Five-Year Plan has clearly put forward the necessity to learn from mature international experience in accelerating and improving relevant policies, regulations and systems in the "Twelfth Five-Year" period and adopting effective measures to foster the rapid and healthy development of the automobile distribution sector. Among which, specific goals, including "promoting the rational distribution of automobile sales networks", "actively cultivating the used automobile market" and "promoting and regulating the distribution of automobile accessories" are mentioned, all of which are related to the automobile dealership business being the core business of the Group, which is no doubt conducive to the Group's expansion of dealership network, enhancement of after-sales service capacity and exploration for new business models. The Group is greatly optimistic toward its future development prospects.

In terms of brand placement, despite that the Group is already a core dealer for BMW, Audi, Jaguar, Land Rover and Volvo, the Group will continue to optimise its brand portfolio through introducing more premium and ultra premium brands. The Group will adhere to the moderate expansion of dealership network in order to continuously achieve greater economies of scale in the Group's operations. In terms of expansion approach, the Group will mainly focus on new establishment but will not rule out the possibility of further acquisition when opportunities arise.

For geographical distribution, the Group will also continue to optimise the regional placement of dealership outlets on the basis of a balanced development. The Group will penetrate uncovered regions with huge economic growth potentials in a rational manner and enhance its profile and presence in covered regions by establishing new outlets, increasing publicity and improving service quality and other means, strategically penetrating first-tier cities while vigorously arranging the layout in economically fast-growing regions, hence giving gear to the continuous growth in business results through a rational geographical layout.

For after-sales services, the profit contribution from after-sales services of the Group during 2011 fell slightly, due to the addition of certain new stores of the Group during 2011, resulting in an average store age of less than 3 years for all dealership stores of the Group (excluding 4S dealership stores under Top Globe Limited), and the seasonal demand for after-sales services where it usually takes a few years to reflect on its performance. As at the end of 2011, according to the figures released by Traffic Management Bureau, Ministry of Public Security, the automobile ownership in China was approximately 106 million automobiles, representing an increase of approximately 17.73 million automobiles in the corresponding period of last year. The climbing automobile ownership in China generated tremendous market opportunities for the after-sales services business. The Group expects that, leverage on its expanding scale of operation, and the development of newly opened stores, the after-sales services performance of the Group will continue to grow in the future, thus increasing its overall revenue and profitability.

In addition, the Group will seize the favourable timing of the flourishing industry and make good use of its advantageous position as a large-sized dealer in enhancing management capability and service quality and maintaining cooperative ties with automobile suppliers with a view to achieve speedy and coordinated development among the business segment and enhance the Group's overall profitability in full swing. In 2012, the Group will strive to achieving steady growth of the new automobile business, enabling the breakthrough development of the after-sales services business, transforming the used automobile business and extended business such as automobile accessory into a new growth driver, and expanding the scale of the logistics and lubricant oil trading business.

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

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2011 have been reviewed by the audit committee of the Company (the "Audit Committee"), which comprises three independent non-executive directors, namely Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Mr. Zhang Yansheng and Mr. Tan Xiangyong.

FINAL DIVIDEND

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

CORPORATE GOVERNANCE

The Board believes that maintaining good corporate governance is crucial to increase investors' confidence and safeguard shareholders' interests. Throughout the year ended 31 December 2011, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules, except for the deviation from the code provision A.2.1. as follows:–

The Company has not yet appointed the Chairman of the Board and Mr. Wang Kunpeng, the Chief Executive Officer, usually chairs the meetings of the Board. In performing his role as chairman of the meetings, Mr. Wang Kunpeng provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. The Board considers that the current arrangement does not impair the balance of power and authority between the management of the Board and the management of the business of the Company.

Details of the Company's corporate governance practices are set out in the Corporate Governance Report in the 2011 Annual Report.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.zhengtongauto.com>) and the annual report for the year ended 31 December 2011 of the Company containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

For and on behalf of the Board of Directors of
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Kunpeng
Executive Director

26 March 2012

As at the date of this announcement, the Board comprises Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zubo, Mr. LIU Dongli, Mr. CHEN Tao and Mr. SHAO Yong Jun as Executive Directors; Mr. WANG Muqing as Non-Executive Director; and Dr. WONG Tin Yau, Kelvin, Mr. TAN Xiangyong and Mr. ZHANG Yansheng as Independent Non-Executive Directors.