CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED

中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

ULTRA-PREMIUM AND PREMIUM BRANDS

ANNUAL REPORT 2012 年報


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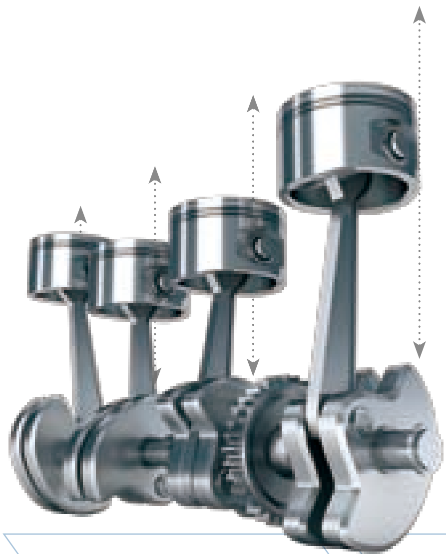
COMPANY PROFILE



China ZhengTong Auto Services Holdings Limited

China ZhengTong Auto Services Holdings Limited (the "Company" or "ZhengTong" or "ZhengTong Auto", and together with its subsidiaries the "Group" or "we") is the leading 4S dealership group in China focused on dealership of premium and ultra premium branded automobiles such as BMW, MINI, Audi, Jaguar, Land Rover, Volvo, Imported Volkswagen, Mercedes, Infiniti, Acura, Lamborghini and Porsche. The Group also operates dealership stores of middle market brands, such as Nissan, Hyundai and Honda.

We have developed forward-looking strategic network covering developed regions and fast growing provinces in China so as to lay down a solid foundation for rapid growth of the Group in the future. As at 31 December 2012, we operated 86 dealership outlets in 29 cities across 13 provinces nationwide not only covering the developed automobile market of some of the affluent first-tier and capital cities, but also effectively expanding to second and third-tier cities and regions with rapid growth and low automobile penetration.

The Group has endeavored to provide our customers the most superior automobile sales and after-sale services. The provision of comprehensive automobile solutions and the adoption of customer-oriented business model allow the Group to facilitate its long-term relationship with customers. To address growing demand in automobile market, we have also strengthened its after-sale services with an aim to deliver our customers high quality services in a rapid manner. The Group's automobile logistics and lubricant oil trading business has been complementary to our automobile dealership and after-sale services business. Meanwhile, the Group has been developing its derivative services, such as sales of accessories for automobiles, pre-owned automobile business, automobile financing and insurance agency, in order to optimize the scope of our business for achieving our goal of sustainable healthy growth.

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

FIVE YEARS' FINANCIAL SUMMARY

Results

	2008	2009	2010	2011	2012
(RMB'000)	(note 1)	(note 1)			
Turnover	3,045,591	4,981,174	8,034,249	14,443,927	27,649,440
Profit before taxation	48,428	198,099	390,023	748,832	915,111
Income tax	(12,950)	(48,277)	(90,571)	(187,016)	(281,520)
Profit for the year	35,478	149,822	299,452	561,816	633,591
Attributable					
Equity holders of the Company	33,805	145,854	276,004	524,045	604,467
Non-controlling interests	1,673	3,968	23,448	37,771	29,124
	35,478	149,822	299,452	561,816	633,591

Assets and Liabilities

	2008	2009	2010	2011	2012
(RMB'000)					
Total assets	1,441,837	2,508,749	6,732,293	15,989,422	16,942,232
Total liabilities	(1,342,070)	(2,049,084)	(2,659,302)	(9,667,503)	(10,141,645)
	99,767	459,665	4,072,991	6,321,919	6,800,587
Equity attributable to equity holders of the Company	90,594	444,024	4,014,783	6,210,404	6,708,738
Non-controlling interests	9,173	15,641	58,208	111,515	91,849
	99,767	459,665	4,072,991	6,321,919	6,800,587

Note:

1. The figures for two years ended 31 December 2009 have been extracted from the prospectus of the Company dated 29 November 2010 (the "Prospectus").

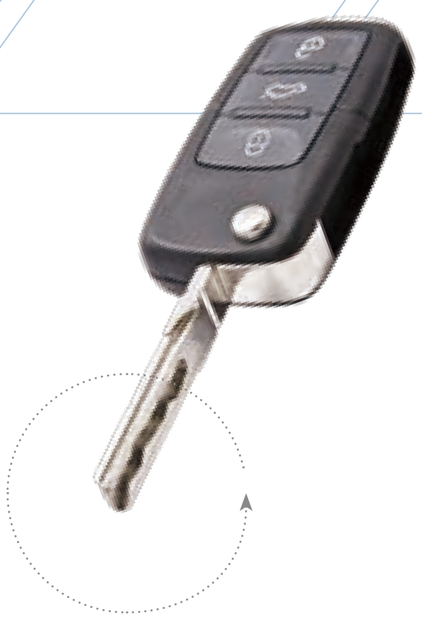
ENHANCING STRENGTHS

We will continue to enhance our strengths in operations of premium branded automobile business, expand our dealership network and optimize our premium branded automobile portfolio so as to consolidate our leading position in the premium branded automobile dealership market in China.

WANG Kunpeng
Chief Executive Officer and
Executive Director

EXPLOITING POTENTIALS

To make excellent return by exploiting huge potentials of after-sale services and derivative services business



Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual results of the Group for 2012.

2012 was an extraordinary year for China's automobile market. On the one hand, the volume of automobiles manufactured and sold in China hit a record high of 19 million, breaking another new world record and ranking the top in the world for the fourth consecutive year. Production volume of automobiles has exceeded 18 million for the third consecutive year, representing the automobile industry has entered its steady development stage. On the other hand, global economy has fluctuated considerably that the China's automobile market has been adversely affected, while increasing competition in automobile circulation industry has impelled auto manufacturers to expand their production capacity, and the increase in supply of new automobiles has constituted a supply-demand imbalance in a short period of time, adversely affecting gross profit of new automobile sales. Faced with such unprecedented and difficult circumstances, we have strengthened our operations management and enhanced operational efficiency in a calm and unruffled manner. Meanwhile, the development of after-sales services business as well as derivative services business will be regarded as our focus by which to maintain our leading position in China's premium and ultra premium automobile market, conserving resources to fulfill the strategic goals of the Company.

The Group has continued to forge ahead at full speed despite the slowdown in rapid growth of the China's automobile market. During the year ended 31 December 2012, the Group has achieved a relatively satisfactory operating results. In 2012, the Group recorded a total turnover of RMB27,649 million, representing an increase of 91.4% over RMB14,444 million in 2011. The Group's overall gross profit amounted to RMB2,452 million, representing an increase of 76.9% over RMB1,386 million in 2011. Profit for the year increased by 12.8% to RMB634 million, as compared to RMB562 million in 2011. Profit attributable to equity holders increased by 15.3% to RMB604 million, as compared to RMB524 million in 2011. Basic earnings per share amounted to RMB27.4 cents (2011: RMB25.2 cents).

ENHANCING OUR STRENGTHS IN OPERATIONS OF PREMIUM BRANDED AUTOMOBILE BUSINESS

As we have upheld the development strategy in focusing on premium branded automobiles, our strengths in operations of premium branded automobile business were enhanced extraordinarily in 2012. Revenue of sales of premium branded new automobiles was RMB21,834 million, accounting for 87.9% of total revenue of sales of new automobiles, and gross profit of sales of premium branded new automobiles was RMB1,300 million, accounting for 97.3% of gross profit of sales of new automobiles. Revenue of after-sales services for premium branded automobiles was RMB1,901 million, accounting for 82.0% of total revenue of after-sales services business, and gross profit of after-sales services for premium branded automobiles was RMB861 million, accounting for 82.5% of gross profit of after-sales services business. Our development strategy in focusing on premium branded automobiles has allowed us to be immune from recent fluctuation in automobile market, maintaining a rapid growth in our business.

ON-GOING OPTIMIZATION OF BRAND ARCHITECTURE WITH EXPANDING NETWORK

We initially completed brand architecture and dealership network design through progressive expansion in recent years. In 2012, our expansion was achieved via new establishment in a bid to continue optimizing our brand architecture and dealership network design. As at 31 December 2012, the Group had 86 dealership stores (70 4S stores and 16 showrooms), of which 70 were premium and ultra premium branded automobile stores, covering 29 cities in 13 provinces, municipalities and autonomous regions.

TAPPING HUGE OPPORTUNITIES IN AFTER-SALES SERVICES OF PREMIUM AND ULTRA PREMIUM BRANDED AUTOMOBILES

As after-sales services business is less affected by economic fluctuation, it could bring the Group steady revenue and relatively huge profit. With rapid development of China's automobile market coupled with upsurge in automobile ownership, rigid demand for after-sales services has been increasing, implying tremendous opportunities for expanding after-sales services. We, as always, adhere to our operational notion of "customer comes first" and deliver our customers after-sales services in a high-efficient and rapid manner by our quality customer service staff and elite technicians who have been provided quality training on a regular basis. We have acquired a large number of customers of premium and ultra premium branded automobiles over years of operations, we believe high quality after-sales services will consolidate our existing wide customer base as well as attract new customers, allowing it to become our new performance driver.

GRASPING OPPORTUNITIES TO DEVELOP DERIVATIVE SERVICES BUSINESS

While China's automobile market has been getting mature, our derivative services business has grown rapid. In respect of pre-owned automobile business, the demand for automobile upgrade and replacement has pushed ahead our pre-owned automobile exchange business, providing us huge resources of pre-owned automobiles. We have set up an assessment system and nationwide trading platform for pre-owned automobiles with an aim to support the development of pre-owned automobiles business in all aspects. In addition, we have achieved rapid growth in sales of accessories for automobiles with constant increase in revenue upon the adoption of centralized procurement model. As our key businesses for development, insurance agency and automobile financing have been getting on the right track on the support of well-known domestic insurance and financial institutions, expecting acceleration in development.

HIGHLY-EFFICIENT OPERATIONAL SYSTEM FOR NEWLY ESTABLISHED 4S STORES AND ACQUIRED 4S STORES

With continual expansion in our operations, we currently become one of the largest automobile dealers in China. As our business has been expanding, highly-efficient operations is the key to our success. As such, we have developed a highly-efficient operational system based on our experience in automobile dealership over years. The system will be applied to our newly established 4S stores and acquired 4S stores for highly-efficient operations as soon as possible. Meanwhile, we will consolidate resources of the Group for sharing and complementary purposes, maximizing economies of scale as well as investment returns.

OUTLOOK: CHALLENGES AND OPPORTUNITIES

In 2013, we are facing challenges and opportunities. The uncertainties in the market may be the hurdles to achieving satisfactory results, but constant growth in China's premium branded automobile market and huge development potentials in after-sales services as well as derivative services business will provide us opportunities to grow.

To keep up with the times, we will continue to expand our dealership network. By capitalizing the advantages of our nationwide dealership network, we will tap the opportunities brought about by constant growth in China's premium branded automobile market. The Group will fully tap huge opportunities in after-sales services and derivative services business for premium branded automobiles. By establishing brand awareness and consolidating market leader position in dealership and after-sales services for premium and ultra premium branded automobiles and highlighting our core competitiveness, the Group is well-prepared for rapid development.

APPRECIATION

The Group's remarkable results for 2012 were attributable to the efforts and dedication of all its staff and business partners. In this regard, I would like to thank the shareholders, business partners and customers on behalf of the Board for their long-term support and trust. At the same time, I would also like to express my heartfelt gratitude to the staff of the Group for their loyalty, efforts and contributions over the past year.

WANG Kunpeng
Chief Executive Officer and Executive Director
28 March 2013

ACHIEVING HEALTHY GROWTH

We will achieve healthy growth by focusing on premium and ultra premium branded automobiles as well as vigorously developing the after-sale services and derivative services business.


RANGE ROVER

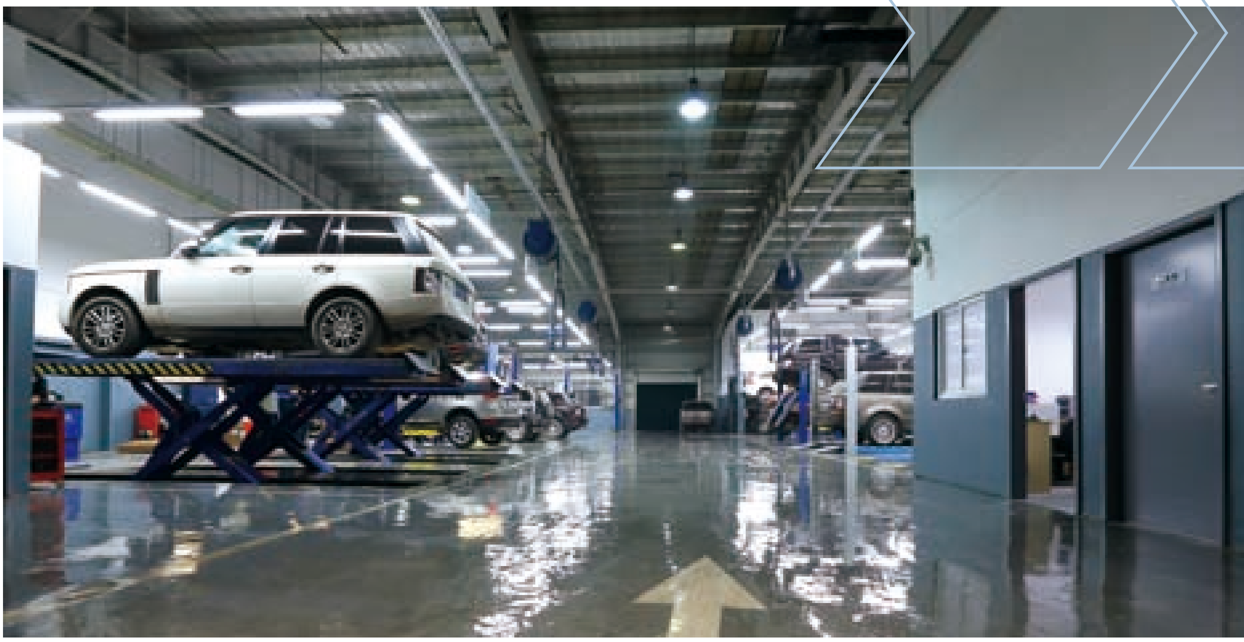
SHARING RETURN

To tap opportunities to expand premium branded automobiles business and share return with investors and shareholders

MARKET OVERVIEW

In 2012, China's rapid economic growth slowed down as affected by the global economic turmoil. According to the statistics released by the National Bureau of Statistics of China, in 2012, the gross domestic products (GDP) of China recorded a year-on-year growth rate of approximately 7.8%. According the China Association of Automobile Manufacturers, the volume of automobiles manufactured and sold in China totaled 19.2718 million and 19.3064 million respectively in 2012, representing a growth of 4.6% and 4.3% over the previous year respectively, indicating a slowdown in growth as compared with the past few years. Under such unfavorable market situation, the sales of the premium and ultra premium branded automobiles remained robust in Chinese market. In particular, The sales volume of Audi branded automobiles in China reached 402,888 (2011: 309,888) in 2012, representing a growth of 30.0% over the previous year, the sales volume of BMW and MINI branded automobiles in China totaled 326,444 (2011: 232,586) in 2012, representing a year-on-year growth of 40.4%, and the total sales volume of Jaguar and Land Rover branded automobiles in the China reached 73,347 (2011: 42,803) in 2012, representing a year-on-year growth of 71.4% and overtaking the United Kingdom as the largest single market of Jaguar and Land Rover branded automobiles for the first time. Given the slowdown in growth of global economy in 2012 coupled with increasing competition among brands, the gap between supply and demand of automobiles will not shrink in short term, putting price pressure on automobile market.

Private passenger vehicle ownership in the PRC continued to show strong signs of growth. According the National Bureau of Statistics of China, private passenger vehicle ownership, grew by 22.8% to 53.08 million as at the end of 2012. The strong growth in private passenger vehicle ownership has provided guaranty for maintaining rapid growth of the Company's after-sales services business.



To look at the PRC automobile market in a wide perspective, the continuously growing demand for premium and ultra premium branded automobiles will be expected to maintain impetus to drive sales in future. With increasing ownership of premium and ultra premium branded automobiles, demand for after-sales services will be boosted correspondingly, expecting to offer the Group, as a leading premium and ultra premium branded automobiles 4S dealership group in China, huge room for development.

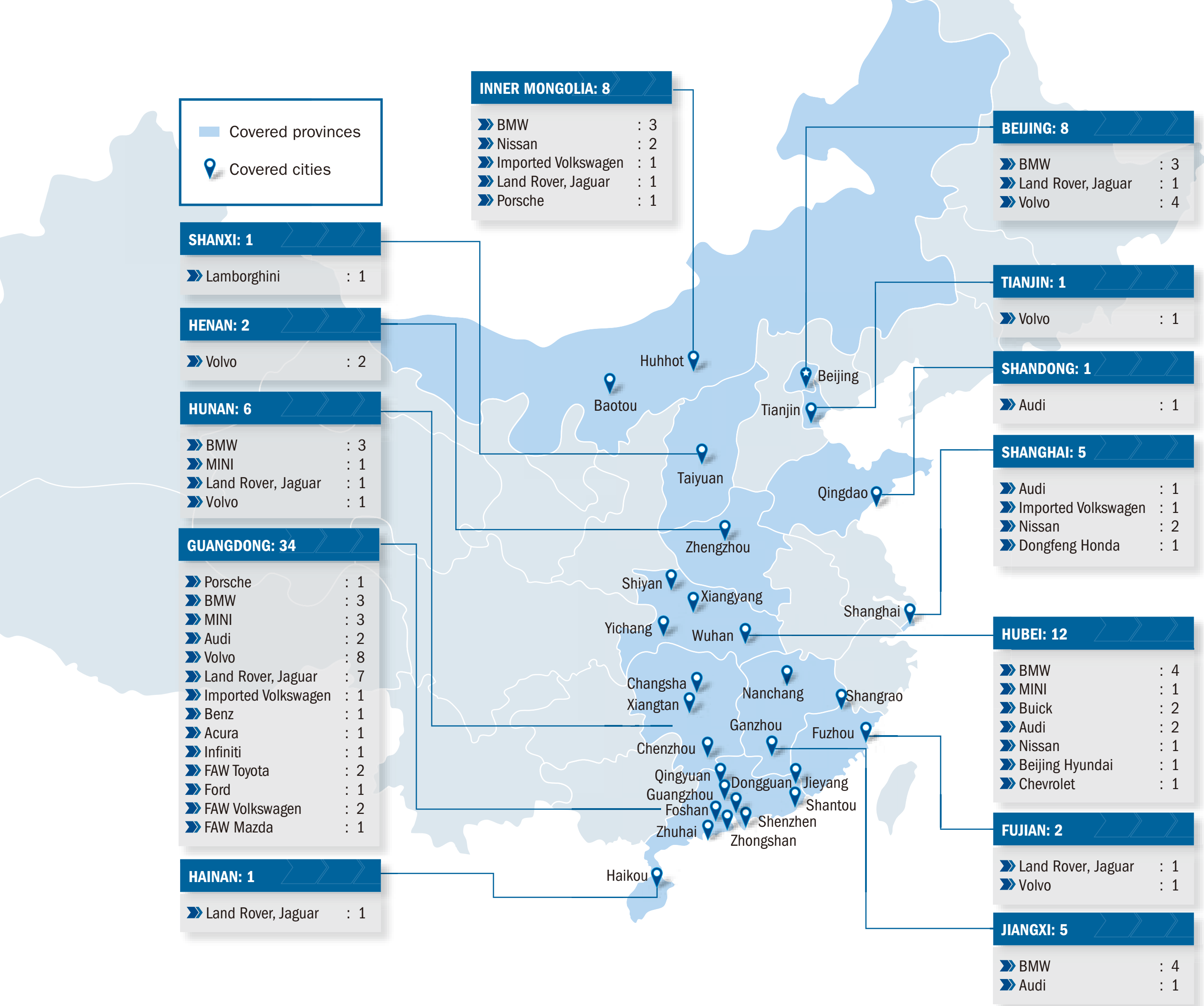
BUSINESS REVIEW

Sustained growth in sales of premium and ultra premium branded new automobiles

In spite of the impacts of global economic turmoil, sales volume of premium and ultra premium branded automobiles in China maintained a higher growth in 2012. As benefited from our strategy focusing on premium and ultra premium branded automobiles, the Group has achieved a satisfactory growth in its results. For the year ended 31 December 2012, sales of new automobiles was approximately RMB24,841 million, representing a year-on-year growth of approximately 91.8%. Revenue generated from sales of premium and ultra premium branded automobiles was approximately RMB21,834 million, up by 106.3% over the previous year, representing approximately 87.9% (2011: approximately 81.7%) of our total revenue generated from sales of new automobiles. In terms of sales volume, we sold 70,493 automobiles in total for the year ended 31 December 2012, representing a year-on-year growth of 75.7%, in which 45,810 automobiles were premium and ultra premium branded automobiles, up by 114.3%, representing 65.0% of total sales volume in 2012.

In 2012, the Group set up a Lamborghini 4S store, a Porsche 4S store, two Audi 4S stores, a Volvo 4S store, a Volvo show room, a Jaguar Land Rover show room, an Imported Volkswagen show room. As at 31 December 2012, the Group had 86 dealership outlets, including 70 4S stores and 16 showrooms, out of which 70 dealership outlets were engaged in premium and ultra premium branded automobiles. In addition, the Group also has 11 dealership stores in construction located in first tier cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, and second and third tier cities with potential for rapid development, such as Chengdu, Wuhan, Nanchang, Dongguan and Zhanjiang, involving brands like Jaguar/Land Rover, BMW, Benz, Cadillac, Acura and Imported Volkswagen.

Balanced Dealership Network



Total number of dealership outlets in operation in the PRC as at 31 December 2012: 86

Huge economic potential of after-sales services business is emerging

A great importance has been attached to our after-sales services business. As one of our development strategies, the Group has fully tapped huge economic potential of after-sales services business by enhancing our quality of after-sales services as well as building up our brand of after-sales services. With increasing number of our dealership stores as well as rising accumulative sales volume of new automobiles, we own an enormous number of after-sales service customers. With this advantage, the performance of our after-sales services business has been promising, bringing about stable revenue and profit for the Group.

For the year ended 31 December 2012, the Group's after-sales services business contributed turnover of approximately RMB2,317 million, up by approximately 121.3% from the turnover of approximately RMB1,047 million over the same period last year. Gross profit generated from the after-sales services increased from approximately RMB457 million in 2011 to approximately RMB1,044 million, representing a growth of 128.4%. We have adhered to our operational notion of "customer comes first" by improving the quality of its after-sales services and establishing new model of after-sales services, increasing the gross profit margin of after-sales services business from 43.6% in 2011 to 45.1%. The Group has endeavored to enhance customer satisfaction as well as optimize the structure of after-sales services business, leaving the after-sales services business room for further improvement of gross margin.

Revenue and gross profit of our after-sales services business have grown rapidly with increasing share of our total revenue and total gross profit. In 2012, revenue and gross profit attributable to after-sales services increased to 8.4% and 42.6% from 7.3% and 33.0% in 2011 respectively. After-sales services business has become a new core business of the Group in addition to sales of new automobiles, effectively securing the Group stable earnings.

In the past, our after-sales services were merely provided in 4S dealership stores. In order to further expand the after-sales services business and reduce operational costs, the Group intends to set up premium branded automobiles professional repair stores for the purpose of providing our customers professional and express after-sales services for premium and ultra premium branded automobiles. Currently, we have a Benz repair center and a BMW repair center under construction. Not only could the establishment of premium branded automobiles professional repair stores accelerate the expansion of geographical coverage of our after-sales services, but also effectively reduce the cost of after-sales services, consolidating the Group's leading position in after-sales services sector and fully tapping huge potential of our after-sales services business.

Further intensifying development of derivative services business

With further increases in vehicle market penetration and ownership in China, derivative services business of automobile industry will become our third core business following sales of automobiles and after-sales services. In 2012, our derivative services business made astonishing progress. We will continue to intensify the development and expansion of our derivative services business, generating greater income. In respect of sales of accessories for automobiles, we have expanded sales of automobile accessories and effectively reduced procurement costs depending on its dealership network upon the establishment of centralized procurement center. For pre-owned automobile business, we have increased the replacement rate of pre-owned automobiles and set up an advanced assessment system and trading platform for pre-owned automobiles with an aim to lay a concrete foundation of the development of pre-owned automobile business. For automobile financing and insurance agency, we have established cooperation relationship with well-known domestic financial and insurance institutions, providing favorable support to the rapid development of our automobile financing and insurance agency business. The derivative services business will provide the Group another impetus for development.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2012, the Group generated turnover of approximately RMB27,649 million, representing an increase of approximately 91.4% over the turnover of approximately RMB14,444 million in 2011. The increase in turnover was mainly due to the strong growth in the income from the Group's sales and after-sales business for premium and ultra premium branded automobiles after the acquisition of Top Globe Limited and its subsidiaries ("SCAS Group").

	For the year ended 31 December					
	2012		2011			
Source of turnover	Turnover (RMB'000)	Contribution (%)	Turnover (RMB'000)	Contribution (%)	Increase (RMB'000)	Percentage (%)
Sales of new automobiles	**24,841,035**	**89.8**	12,952,725	89.7	11,888,310	91.8
After-sales services	**2,317,172**	**8.4**	1,047,380	7.3	1,269,792	121.2
Logistics and lubricant oil	**491,233**	**1.8**	443,822	3.0	47,411	10.7
Total	**27,649,440**	**100.0**	14,443,927	100.0	13,205,513	

For the year ended 31 December 2012, sales revenue from premium and ultra premium branded new automobiles increased to RMB21,834 million, representing a growth of approximately 106.3% over RMB10,583 million in 2011, the sales revenue attributable to total sales of new automobiles increased to 87.9% from 81.7% in 2011; revenue from after-sales services of premium and ultra premium branded automobiles was approximately RMB1,901 million, representing a growth of approximately 136.1% as compared to RMB805 million in 2011, and accounted for 82.0% of the total revenue of after-sales services business.

Cost of sales

For the year ended 31 December 2012, cost of sales of the Group amounted to approximately RMB25,198 million, representing an increase by approximately RMB 12,140 million or approximately 93.0% from RMB13,058 million in 2011. Such increase was in line with the increase in turnover.

Gross Profit

For the year ended 31 December 2012, the Group's gross profit was approximately RMB2,452 million, representing an increase of approximately 76.9% over approximately RMB1,386 million in 2011. The gross profit for the sales of new automobiles in 2012 increased by 58.9% to approximately RMB1,336 million from approximately RMB841 million in 2011; the gross profit for the after-sales services in 2012 increased by 128.4% to approximately RMB1,044 million from approximately RMB457 million in 2011, accounting for 42.6% of our total gross profit as compared with 33.0% in 2011.

The gross profit for the sales of premium and ultra premium branded automobiles increased from approximately RMB721 million in 2011 to approximately RMB1,300 million, representing a growth of 80.3%, accounting for 97.3% for our total gross profit for sales of new automobiles as compared with 85.7% in 2011. The gross profit for the provision of after-sales services of premium and ultra premium branded automobiles was approximately RMB861 million, representing a growth of approximately 143.9% as compared to RMB353 million in 2011, accounting for 82.5% of the total gross profit of after-sales services business.

For the year ended 31 December 2012, the consolidated gross profit margin of the Group was approximately 8.9%, representing a decrease of approximately 0.7 percentage point as compared with approximately 9.6% for 2011. The gross profit margin for the sales of new automobiles was 5.4% (2011: 6.5%), among which, the gross profit margin for the sales of premium and ultra premium branded new automobiles was 6.0% (2011: 6.8%). The decrease in the gross profit margin for sales of new automobiles was mainly due to decrease in selling price of automobiles resulting from keen competition in the market. The gross profit margin for after-sales services was 45.1% (2011: 43.6%). The increase in the gross profit margin for the after-sales services business was due to the improvement in the operating efficiency of the Group's after-sales services and perfection of structure of the Group's after-sales services business, with further room for growth expected.

Selling and distribution expenses

For the year ended 31 December 2012, the Group's selling and distribution expenses amounted to approximately RMB694 million, representing an increase of approximately 110.3% over approximately RMB330 million for 2011. Such increase was primarily because of the expansion of the Group's dealership network as well as additional promotion and advertising needed in keen market competition.

Administrative expenses

For the year ended 31 December 2012, the Group's administrative expenses amounted to approximately RMB728 million, representing an increase of approximately 127.5% over approximately RMB320 million for 2011. Such increase was primarily due to the amortisation of intangible assets – car dealerships and the increase in staff remuneration, salary expenses as well as staff benefits resulting from the expansion of the Group's dealership network.

Profit from operations

For the year ended 31 December 2012, the Group's profit from operations amounted to approximately RMB1,300 million, representing an increase of approximately 51.9% as compared with approximately RMB856 million for 2011. The operating profit margin was approximately 4.7%, a decrease of approximately 1.2 percentage point over 5.9% in 2011.

Income tax expenses

For the year ended 31 December 2012, the Group's income tax expenses amounted to approximately RMB282 million and the effective tax rate was approximately 30.8%.

Profit for the year

For the year ended 31 December 2012, the Group's profit for the year was approximately RMB634 million, representing an increase of approximately 12.8% over approximately RMB562 million for 2011. During the year, net profit margin was 2.3%, down approximately 1.6 percentage points from 3.9% in 2011.

Final dividend

The Board did not recommend payment of a final dividend for the year ended 31 December 2012

Contingent liabilities

As at 31 December 2012, 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 2012, the Group's current assets amounted to approximately RMB8,836 million, representing an increase of RMB369 million as compared to current assets of approximately RMB8,467 million as at 31 December 2011. Such increase was primarily attributable to the increase in cash and bank deposits held by the Group to fulfill its operating requirements as our distribution network expands rapidly. As at 31 December 2012, the Group's current liabilities amounted to approximately RMB7,999 million, representing a decrease of approximately RMB684 million as compared to current liabilities of approximately RMB8,683 million as at 31 December 2011. Such decrease was mainly due to reduction of short-term borrowings resulting from the optimization of our debt structure.

Cash flow

As at 31 December 2012, the Group has cash and cash equivalents amounting to approximately RMB1,203 million, representing an increase of approximately RMB106 million over approximately RMB1,097 million as at 31 December 2011. The Group's transactions and monetary assets are principally conducted in RMB. 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 other businesses.

The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2012, the Group had net cash inflow of approximately RMB822 million in its operating activities. For the year ended 31 December 2011, the Group had net cash outflow from operating activities of approximately RMB60 million. The improvement in net cash inflow from the operating activities of the Group was mainly due to 1) adjustment of business structure by the Group and increase in ratio of after-sales services business with sufficient cash flow; 2) shrinkage in gap between our inventory level and market demand by continual optimization of inventory management.

Capital expenditure and investment

For the year ended 31 December 2012, the Group's capital expenditure and investment was approximately RMB1,271 million. Our capital expenditure includes primarily property, equipment, land use rights and construction costs of 4S stores.

Inventory

The Group's inventories included vehicles and automobile spare parts. Generally, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group also monitors the inventories within its whole dealership network and may also transfer automobiles from one dealership store to another to rebalance inventory levels. The Group utilizes its information technology systems to manage its inventory.

The inventories of the Group was approximately RMB3,270 million as at 31 December 2012, substantially flat when compared with RMB3,244 million as at 31 December 2011. In particular, greater decrease in inventories when compared with RMB4,334 million as at 30 June 2012 was due to better improvement in sales in the second half of 2012 over the first half of 2012 as well as the positive results achieved by the Group's efforts made on optimization of inventory management in the second half of the year.

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

	For the year ended 31 December (days)	
	2012	2011
Average inventory turnover days	47.2	55.8

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.

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2012, the Group's cash and bank deposits were approximately RMB2,501 million (including: restricted bank deposits of approximately RMB1,298 million and cash and cash equivalents), representing an increase of approximately RMB224 million, from approximately RMB2,277 million as at 31 December 2011. As at 31 December 2012, loans and borrowings of the Group amounted to approximately RMB4,899 million (31 December 2011: RMB4,220 million). As at 31 December 2012, net gearing ratio of the Group was 35.3% (31 December 2011: 30.7%). Net gearing ratio was calculated as loans and borrowings less cash and bank deposits divided by owner's equity.

Pledged assets of the Group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2012, the pledged assets of the Group amounted to approximately RMB2,628 million (31 December 2011: approximately RMB3,882 million).

Investments held in foreign currency and hedging

For the year ended 31 December 2012, the Group did not hold any investments denominated in foreign currencies. Furthermore, 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 2012, the Group had a total of 7,258 employees in Mainland China and Hong Kong (31 December 2011: 7,107 employees). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provides good working environment and diversified training program. The Company has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for their contribution to the Group.

OUTLOOK AND STRATEGIES

Faced with economic upheaval over the last year, the PRC government has taken on maintaining steady economic growth as its priority task goal. We believe the PRC government will implement loose monetary policy in a bid to sustain economic growth in a stable manner in 2013.

Being driven by the following favorable factors, the Group anticipates that China's premium automobile market will maintain rapid growth. Firstly, the current penetration of premium branded automobiles in China is much lower that the global average, providing room for the premium branded automobiles market to grow; secondly, with China's automobiles marketing getting mature, the growth in sales volume of premium branded automobiles will be bolstered by the demand for upgrade and replacement of automobiles; thirdly, expansion of product lines by premium branded automobiles manufacturers, progressive launch of entry level premium branded automobiles as well as expansion of domestic demand have promoted emerging affluent people who have buoyant demand for premium branded automobiles, in particular, entry level premium branded automobiles. We will capitalize its advantages of nationwide network to consolidate its position in first tier cities and expand into second and third tier cities so as to take up growth opportunities in premium branded automobiles market.

In addition, given China's automobile market getting mature, after-sales services business and derivative services business will overtake sales of new automobiles business becoming a major profit driver of automobile dealers in near future. As the Group has accumulated a large number of after-sales services customers from sales of new automobiles business over years, we are confident to tap such strategic opportunity to complete strategic transformation ahead of others by providing quality after-sales services to retain existing customers and attract new customers, in order to establish brand awareness and market leader position in the market of after-sales services for premium automobiles. Meanwhile, additional efforts will be made in developing derivative business, in particular sales of accessories for automobiles, pre-owned automobiles business, insurance agency business and automobile financing business, with an aim to further increase our profit.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2012.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has revised and renamed the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to Corporate Governance Code (the "New Code") effective 1 April 2012. The manners in which the principles and code provisions in the New Code applied and implemented are explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the New Code. The Board is of the view that throughout the year ended 31 December 2012, the Company has complied with the respective code provisions ("Code Provisions") of the Former Code and the New Code for the relevant periods in which they are in force, except for the deviations from code provisions A.2.1 and A.6.7 as follows:

Code Provision A.2.1

Under code provision A.2.1 of the New Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company has not appointed the chairman of the Board and Mr. Wang Kunpeng, the Chief Executive Officer, usually chairs 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.

Code Provision A.6.7

Under code provision A.6.7 of the New Code, the independent non-executive Directors and the non-executive Director should attend the general meetings of the Company. However, due to other commitments, non-executive Director and all independent non-executive Directors, were unable to attend the 2012 annual general meeting of the Company.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Securities Dealing Code and the Model Code throughout the year ended 31 December 2012.

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

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

BOARD OF DIRECTORS

Board Composition

The Board is currently made up of 8 members in total, with 4 executive Directors, 1 non-executive Director and 3 independent non-executive Directors.

The Board comprises the following Directors:

Executive Directors:

Mr. Wang Kunpeng *(Chief Executive Officer and member of the Remuneration Committee)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Chen Tao *(Vice President)*
Mr. Shao Yong Jun *(Vice President and member of the Nomination Committee)*

Non-executive Director:

Mr. Wang Muqing

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin *(Chairman of the Audit Committee and member of the Remuneration Committee)*
Mr. Tan Xiangyong
(Chairman of the Remuneration Committee and member of the Nomination Committee and the Audit Committee)
Mr. Zhang Yansheng *(Chairman of the Nomination Committee and member of the Audit Committee)*

The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The updated list of Directors (by category) identifying their role and function is also disclosed in the Company's website and the Exchange's website pursuant to the Listing Rules.

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

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. The proportion of the independent non-executive Directors was more than one-third of the Board.

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

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

Responsibilities

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

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

Delegation by the Board

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

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

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

The Company has arranged directors and officers liability and company reimbursement insurances for its directors and officers.

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 "Articles"). The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the Nomination Committee are set out in the "Board Committees" section below.

Save for Mr. Shao Yong Jun, each of the Directors is engaged on a service contract (for executive Director) or letter of appointment (for non-executive Director and independent non-executive Director) for a term of 3 years. The appointment may be terminated by giving 3 months' written notice. On appointment as Director of the Company on 18 August 2011, Mr. Shao Yong Jun entered into a service agreement with the Company commencing from 18 August 2011 and ending on 16 November 2013.

Pursuant to the Articles, at each annual general meeting ("AGM"), one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot, and shall be eligible to offer themselves for re-election. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company and shall, being eligible, be subject to re-election at such meeting.

Accordingly, Mr. Li Zhubo, Mr. Wang Muqing and Mr. Zhang Yansheng shall retire and being eligible, offer themselves for re-election at the forthcoming 2013 AGM.

The Company's circular dated 26 April 2013 to be sent to the shareholders contains detailed information of the Directors standing for re-election.

The Board recommended the re-appointment of the Directors standing for re-election at the forthcoming 2013 AGM of the Company.

Induction and Continuing Development of Directors

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

The existing Directors are continuously updated with developments in legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the year ended 31 December 2012, the Company held a total of 4 Board meetings, At the Board meetings, the Board reviewed and approved the final results for the year ended 31 December 2011 and interim results for the half year ended 30 June 2012 and other significant matters of the Company. The attendance records of each Director at the Board meetings are set out below:

Name of Director	Attendance/ Number of Meetings during the Tenure of Office
Mr. Wang Muqing	4/4
Mr. Wang Kunpeng	4/4
Mr. Li Zhubo	4/4
Mr. Liu Dongli (resigned on 1 June 2012)	1/4
Mr. Chen Tao	4/4
Mr. Shao Yong Jun	4/4
Dr. Wong Tin Yau, Kelvin	4/4
Mr. Tan Xiangyong	4/4
Mr. Zhang Yansheng	4/4

The Company has annual meeting schedules and draft agenda of each meeting of the Board and the Committees made available to Directors in advance, and serves notices of regular Board meetings at least 14 days before the meetings. For other Board and committee meetings, reasonable notices are given.

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

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

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

BOARD COMMITTEES

The Board has established three Committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the Company's website and are available to shareholders upon request. The Committees are provided with sufficient resources to discharge their duties and are required to report back to the Board on their decisions or recommendation. During the year ended 31 December 2012, one meeting of each of the Remuneration Committee and the Nomination Committee was held, and two meetings of the Audit Committee were held.

Remuneration Committee

The Remuneration Committee comprises three members, including executive Director: Mr. Wang Kunpeng; and independent non-executive Directors Dr. Wong Tin Yau, Kelvin and Mr. Tan Xiangyong. Mr. Tan Xiangyong is the chairman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives, and ensuring that no Director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2012, the Remuneration Committee has met once to review the remuneration policies and strategy, determine remuneration of executive Directors and senior management, review and discuss the restricted share award scheme.

The attendance record of the Remuneration Committee meeting is as follows:

Name of Director	Attendance/ Number of Meeting during the Tenure of Office
Mr. Tan Xiangyong	1/1
Mr. Wang Kunpeng	1/1
Dr. Wong Tin Yau, Kelvin	1/1

Nomination Committee

The Nomination Committee comprises three members, including executive Director Mr. Shao Yong Jun and independent non-executive Directors Mr. Zhang Yansheng and Mr. Tan Xiangyong. Mr. Zhang Yansheng is the chairman of the Nomination Committee.

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

During the year ended 31 December 2012, the Nomination Committee has met once to review the structure, size and composition of the Board to ensure the professional knowledge, skills and experience of the Board to cope with the business of the Company. The Nomination Committee has also reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessing their independence.

The attendance record of the Nomination Committee meeting is as follows:

Name of Director	Attendance/ Number of Meeting during the Tenure of Office
Mr. Zhang Yansheng	1/1
Mr. Liu Dongli (Note 1)	1/1
Mr. Shao Yong Jun (Note 2)	0/1
Mr. Tan Xiangyong	1/1

Note 1: Mr. Liu Dongli resigned as a member of the Nomination Committee with effect from 1 June 2012. During his tenure of office under the year of review, one Nomination Committee meeting was held.

Note 2: Mr. Shao Yong Jun was appointed as a member of the Nomination Committee with effect from 1 June 2012. During his tenure of office under the year of review, no Nomination Committee meeting was held.

Audit Committee

The Audit Committee comprises three members, of which all are independent non-executive Directors (including one independent non-executive Director with appropriate professional qualifications and accounting expertise), namely Dr. Wong Tin Yau, Kelvin, Mr. Tan Xiangyong and Mr. Zhang Yansheng. Dr. Wong Tin Yau, Kelvin is the chairman of the Audit Committee.

None of the committee members is a former partner of the Company's current external auditors.

The Audit Committee reviews financial information of the Group, monitors the independence, objectivity and effectiveness of the external audit and makes recommendations to the Board on the appointment, reappointment, removal and approve remuneration and terms of engagement of the Company's external auditor. The audit committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the internal audit function as well as arrangements for concerns about possible improprieties in financial reporting, internal control or other matters raised by employees of the Company ("whistle blowing").

The Audit Committee reviews the annual report and accounts, interim report of the Group before submission to the Board for approval.

During the year ended 31 December 2012, there were two Audit Committee meetings held. The Audit Committee has performed the following work during the year: (i) reviewing the annual results for the year ended 31 December 2011 and interim results for the half year ended 30 June 2012; (ii) reviewing the financial reporting procedures and compliance procedures, the report of internal audit on internal control procedures and risk management system; and (iii) reviewing the re-election of external auditors.

The attendance records of Audit Committee meetings are as follows:

Name of Director	Attendance/ Number of Meetings during the Tenure of Office
Dr. Wong Tin Yau, Kelvin	2/2
Mr. Zhang Yansheng	2/2
Mr. Tan Xiangyong	2/2

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

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

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

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

(a) to develop and review the Group's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management of the Group;

(c) to review and monitor the Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group;

(e) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports;

During the year under review, the Board approved the terms of reference of the Board and the revised terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, the shareholder communication policy, shareholder enquiry procedures and special request procedures.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about its reporting responsibilities for the financial statements is set out in the Section headed "Independent Auditor's Report" on page 50.

The remuneration charged by the Company's auditors, KPMG, during the year ended 31 December 2012 is set out below:

Category of Services	**Fee Paid/ Payable RMB**
Audit Service	**6,400,000**
Non-audit Services	**–**
Total	**6,400,000**

INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective internal controls to safeguard shareholders' investments and the Company assets.

The Board is committed to conduct at least annually a review of the effectiveness of the internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board, through the Audit Committee, has conducted a review on the internal control system of the Company and its subsidiaries for the year ended 31 December 2012. Such review covered the areas of finance, operation, supervision and risk management of the Group. The Board confirmed that the internal control system of the Company is sound and effective.

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

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

The Company has received an annual confirmation from the Covenantors in respect of their compliance with the terms of the Non-Compete Undertakings and that they have not engaged, nor been interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year ended 31 December 2012.

The independent non-executive Directors have reviewed the said undertakings and are of the view that the Covenantors have complied with the Non-Compete Undertakings during the year ended 31 December 2012.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

The Company continues to maintain a high level of investor access through a range of investor relations activities including conference calls, one-to-one meetings, roadshows, conferences and site visits. The Company also regularly meets with institutional investors from overseas and Mainland China. These meetings enable the Company to update investors on major developments and strategies of the Group.

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

COMPANY SECRETARY

For the period between 30 March 2012 and 31 December 2012, Ms. Cheng Pik Yuk has been appointed as company secretary of the Company. Ms. Cheng is a corporate services director of Tricor Services Limited. As Ms. Cheng is not an employee of the Group, the Company has assigned the compliance director of the Company as her primary corporate contact person.

To fulfill the requirement under Rule 3.28 of the Listing Rules, the Company has appointed Ms. Luo Xiao Jing as company secretary of the Company with effect from 18 January 2013. As an employee of the Company, the company secretary supports the Board, ensures good information flow within the Board and the Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors.

SHAREHOLDER RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirement under Paragraph O of the New Code:

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

1. One or more Shareholders ("Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written resolution, to require an EGM to be called by the Directors for the transaction of any business specified in such requisition.

2. Such requisition shall be made in writing to the Directors at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong or at Email: ir@zhengtongauto.com.

3. The EGM shall be held within two months after the deposit of such requisition.

4. If the Directors fail to proceed to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at shareholders' meetings

1. A shareholder of the Company should lodge a written notice of his/her proposal ("Proposal") with his/her detailed contact information at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong.

2. The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the board of directors of the Company will be asked to include the Proposal in the agenda for the general meeting.

3. The notice period to be given to all the shareholders of the Company for consideration of the proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution of the Company;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

Procedures for Shareholders to Direct Enquiries to the Company

For matters in relation to the Board, the shareholders of the Company can contact the Company at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong or at Email: ir@zhengtongauto.com.

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered shareholders of the Company can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Articles of Association during the year under review. A copy of the latest consolidated version of the Memorandum of Association and Articles of Association is posted on the websites of the Company and the Stock Exchange.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

DIRECTORS

Executive Directors

Mr. WANG Kunpeng (王昆鵬先生), aged 41, a bachelor's degree holder in professional vehicle engineering of Jilin University of Technology. Mr. Wang has been an executive Director and a member of the Remuneration Committee of the Company since 20 July 2010. He has held several senior management positions with the Group and its major subsidiaries after joining the Group in 2006. Mr. Wang is the chief executive officer of the Group, responsible for the overall management and operations of the Company, as well as the mergers and acquisitions business and network development business of the Company. Before joining the Group, Mr. Wang held several positions in FAW-Volkswagen Sales Company Ltd. (一汽大眾銷售有限責任公司), a company engaged in distribution-related activities with respect of Volkswagen automobiles, from 1997 to 2006, where his primary responsibilities included the management of sales of, after-sales services for, and logistics services relating to Audi and Volkswagen branded automobiles.

Mr. LI Zhubo (李著波先生), aged 43, Executive Master of Business Administration from Wuhan University. Mr. Li has been an executive Director of the Company since 20 July 2010. He joined the Group in 1999 and is currently the chief financial officer of the Group, responsible for financial planning and management and oversees all the financial aspects of the Company. Before joining the Group, Mr. Li has engaged in financial management in automobile dealership industry with approximately 20 years of experience in financial management in automobile dealership industry.

Mr. CHEN Tao (陳弢先生), aged 42, a bachelor's degree holder in professional machinery design and manufacture of Zhejiang University. Mr. Chen has been a non-executive Director of the Company since 7 August 2010 and is re-designated as an executive Director on 12 March 2011. Mr. Chen was a member of the Audit Committee of the Company from 17 November 2010 to 12 March 2011. He joined the Group in 2009 and is currently the vice president of the Group, responsible for the Company's strategic planning and information systems planning. Before joining the Group, Mr. Chen has engaged in corporate management consulting with over 17 years of experience in corporate management consulting.

Mr. SHAO Yongjun Yong Jun (邵永駿先生), aged 38, Executive Master of Business Administration from Shanghai Jiao Tong University. Mr. Shao has been an executive Director of the Company since 18 August 2011 and a member of the Nomination Committee of the Company since 1 June 2012. He has been the vice president of the Company since July 2011, responsible for investor relations and logistic services business. Before joining the Group, Mr. Shao engaged in management of logistics business in relation to automobile industry between 2004 and 2011, and an auditor of KPMG China between 1997 and 2003.

Non-executive Director

Mr. WANG Muqing (王木清先生), aged 62, is the founder of the Group and has served as a non-executive Director since 9 July 2010. Mr. Wang Muqing is also the controlling shareholder of the Company. Prior to founding the Group in 1999, Mr. Wang Muqing held various positions from 1970 to 1998 in the Shiyan Representative Office of Hubei Industrial Building Group Installation Engineering Co., Ltd. (湖北省工業建築集團安裝工程有限公司十堰辦事處), which engaged in the business of the installation and commission of equipment. As he had an opportunity to meet with some of the manufacturers and/or distributors of automobiles, he became interested in establishing his own business in the automobile industry. He thus established an automobile trading business in 1996 with an initial registered capital amounted to RMB688,000. The management responsibility of such enterprise was then entrusted with other family members of Mr. Wang Muqing, and to date, he has not actively participate in the management of any 4S dealership business.

Independent Non-executive Directors

Mr. TAN Xiangyong (譚向勇先生), aged 55, has served as an independent non-executive Director since 17 November 2010. Mr. Tan is also the Chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee of the Company. Mr. Tan has been the president of Beijing Technology and Business University since March 2008. Mr. Tan also holds several senior management positions in various associations and public bodies including vice chairman of the China Agricultural Economics Institution since 1999 and a general vice president of China Commercial and Economic Association since 2011. Mr. Tan has also held several positions in various educational institutions, including Beijing Agricultural University (which became China Agricultural University in September 1995) from August 1982 to October 2005, where he was a professor and dean of the Economics and Management School from 1995 to 1997 and the executive vice dean of the postgraduate school from 1997 to 1998 and the vice president of the China Agricultural University from 1998 to 2005. Mr. Tan was also the president of Beijing Wuzi University from 2005 to 2008 and the vice chairman of the China Logistic and Supply Association from 2007 to 2010. Mr. Tan received a bachelor's degree in agricultural economics in 1982, a master's degree in agricultural economics and administration in 1988 and a doctor's degree in agricultural economics and management in 1995 from Beijing Agricultural University. Mr. Tan is an expert entitled to special subsidy from the State Council of the PRC. Mr. Tan was recognized as a Beijing Excellent Tutor and National Excellent Tutor in 1995.

Mr. ZHANG Yansheng (張燕生先生), aged 58, has served as an independent non-executive Director since 17 November 2010. Mr. Zhang is also the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. Mr. Zhang previously served as the Lecturer/Associate Professor of the Central University of Finance and Economics from 1984 to 1996. Mr. Zhang is a Ph.D. supervisor of Renmin University of China and Huazhong University of Science and Technology. He has also been an independent director of Hankou Bank since 2012. In addition, Mr. Zhang also serves in several senior management positions of various official bodies including as the head of the Institute for International Economic Research of National Development and Reform Commission from 1996 to 2012 and Secretary-General of the Academic Committee of National Development and Reform Commission since 2012. Mr. Zhang received a bachelor's degree in law from Sichuan Normal College (now become Sichuan Normal University) in 1981 and graduated from the graduate school of Huazhong University of Science and Technology with a master's degree in Economics. Mr. Zhang is an expert entitled to special subsidy from the State Council of the PRC.

Dr. WONG Tin Yau, Kelvin (黃天祐博士), aged 52, has served as an independent non-executive Director since 17 November 2010. Dr. Wong also serves as the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Dr. Wong is also an executive Director and deputy managing director of, the chairman of the corporate governance committee and a member of the executive committee of COSCO Pacific Limited 中遠太平洋有限公司 (stock code: 1199), where he is responsible for the work relating to capital markets and investor relations. Dr. Wong held various senior positions in several listed companies in Hong Kong before he joined COSCO Pacific Limited 中遠太平洋有限公司 in July 1996. In addition, Dr. Wong is the Chairman of The Hong Kong Institute of Directors, a non-executive Director of the Securities and Futures Commission ("SFC"), a member of Main Board and GEM Listing Committee of The Stock Exchange of Hong Kong Limited, a member of the Standing Committee on Company Law Reform and the Corruption Prevention Advisory Committee of Independent Commission Against Corruption, a member of the Appeal Board Panel (Town Planning), a member of the Board of Review (Inland Revenue Ordinance), a Director of Hong Kong Sports Institute Limited, a council member of the Hong Kong Management Association, a member of the OECD/World Bank Asian Corporate Governance Roundtable and a Council Advisor and past Chairman of Hong Kong Chinese Orchestra Limited. Dr. Wong obtained his Master of Business Administration degree from Andrews University in Michigan, the USA in 1992 and his Doctor of Business Administration degree from The Hong Kong Polytechnic University in 2007. Dr. Wong is currently an independent non-executive Director and chairman of the audit committee of China Metal International Holdings Inc. 勤美達國際控股有限公司 (stock code: 0319) and Xinjiang Goldwind Science & Technology Co., Ltd. 新疆金風科技股份有限公司 (stock code: 2208), an independent non-executive Director and chairman of the audit committee and the nomination committee of I.T Limited (stock code: 0999), and an independent non-executive Director of CIG Yangtze Ports PLC 中國基建港口有限公司 (stock code: 8233). All the aforementioned companies are listed on The Stock Exchange of Hong Kong Limited.

OTHER SENIOR MANAGEMENT

Mr. LI Wei (李禕先生), aged 40, a bachelor's degree holder in automobile engineering from Wuhan Automotive Polytechnic University 武漢汽車工業大學. Mr. Li joined the Group in 2004 and has held various senior managing positions in the headquarter and several major subsidiaries of the Group. He currently served as the chief operating officer of the Group, responsible for the operation, management and planning of all of the Group's dealership stores. Before joining the Group, Mr. Li has engaged in operation and management in automobile dealership industry with over 10 years of experience in management in automobile dealership industry. He is currently the vice chairman of China Auto Dealers Chamber of Commerce 全國工商聯汽車經銷商商會.

Mr. WANG Limin (王利民先生), aged 47, a doctoral degree holder in economics from Nankai University. Mr. Wang has been the vice president of the Group since February 2012, responsible for the operation of the dealership stores under Zhengtong Nanfang. Before joining the Group, Mr. Wang worked with SCAS group, responsible for operation and management with approximately 20 years of experience in management in automobile dealership industry.

DIRECTORS' REPORT

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in Cayman Islands with limited liability where its registered office is located in Cayman Islands and its operating headquarters is located in Beijing, the PRC.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 18 to the consolidated financial statements.

SUBSIDIARIES

Please refer to note 18 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2012 are set out in the consolidated financial statements.

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

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

PLANT, PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

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

MAJOR SUPPLIERS AND CUSTOMERS

The single largest customer and the top five customers in aggregate of the Group accounted for 1.29% and 1.98% of the Group's total sales for the year ended 31 December 2012 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 26.64% and 79.36% of the Group's total purchases for the year respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2012 had any interest in any of the five largest suppliers and customers disclosed above.

TRANSFER TO RESERVES

Total comprehensive income attributable to shareholders of the Company of RMB604.5 million (2011: RMB531.2 million) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

DIRECTORS

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

Executive Directors:

Mr. Wang Kunpeng *(Chief Executive Officer)*
Mr. Li Zhubo
Mr. Liu Dongli (Resigned on 1 June 2012)
Mr. Chen Tao
Mr. Shao Yong Jun

Non-Executive Director:

Mr. Wang Muqing

Independent Non-Executive Directors:

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

In accordance with the Articles, Mr. Li Zhubo, Mr. Wang Muqing and Mr. Zhang Yansheng shall retire and being eligible, offer themselves for re-election at the AGM. The Board proposed to re-appoint the directors standing for re-election at the forthcoming 2013 AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS INTERESTS OF DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

RESTRUCTURING

During the first half of 2012, the Group was in the process of restructuring some of its operating subsidiaries in the PRC (the "Restructuring"), which were controlled through Contractual Arrangements. Please refer to the Company's prospectus dated 29 November 2010 ("Prospectus") for the definition of the term of "Contractual Arrangements" and the detailed arrangements mentioned in such Prospectus.

At the time of the issue of the Prospectus in late 2010, the Group operated 22 automobile dealership stores (the "Original Dealership Stores"). Since the listing of the Company's shares on the Stock Exchange, the Group has operated and controlled 7 more dealership stores through Contractual Arrangement. These new dealership stores together with the Original Dealership Stores are referred to as the "PRC Operating Entities" below.

Prior to the Restructuring, the equity interests in the PRC Operating Entities were held by Hubei Shengze, a PRC company in which Mr. Wang Muqing (a director and one of the controlling shareholders) has about 70.4% equity interest.

Under the exclusive option agreements which form part of the Contractual Arrangements, in respect of each PRC Operating Entity, Rising Wave Development Limited ("Rising Wave") has been granted options (the "Options") (by the equity-holders of the relevant PRC Operating Entity, other than any independent third party(ies) which hold(s) minority interests therein) to acquire, directly or through one or more nominees, any part of the equity interest in the PRC Operating Entities at nil consideration or the minimum amount as permitted under the applicable PRC laws.

Since March 2012, Rising Wave has exercised the Options to acquire the equity interests in the PRC Operating Entities through its nominee, an indirect wholly-owned PRC subsidiary of the Company (the "Holding Subsidiary") at the minimum amount as permitted under the applicable PRC laws. During the first half of 2012, the transfers of the equity interests in 24 PRC Operating Entities to the Holding Subsidiary and the registrations with the relevant PRC authorities were completed. As of the date of this report, the transfers of the equity interests in all PRC Operating Entities (except one) were completed.

Hubei Shengze has separately undertaken to the Group that it shall bear the tax liabilities (if any) arising from or in connection with the above transfers. The Directors confirm that the Group has not incurred (nor will it incur) any material cost in connection with the Restructuring.

Upon completion of the Restructuring, the PRC Operating Entities will no longer be controlled by the Group through Contractual Arrangements, but through equity-ownership of the Group over the PRC Operating Entities.

CONTINUING CONNECTED TRANSACTIONS

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

(A) Contractual Arrangements

A series of contracts entered into by, among others, 武漢聖澤捷通物流有限公司 (Wuhan Shengze Jietong Logistics Co., Ltd.) ("Wuhan Jietong"), Rising Wave Development Limited ("Rising Wave"), both wholly-owned subsidiaries of the Company, Mr. Li Zhubo ("Mr. Li"), an executive Director, and 汕頭市宏祥物資有限公司 (Shantou Hongxiang Materials Co., Ltd.) ("Shantou Hongxiang"), serves the purpose of providing the Group with effective control over Shantou Hongxiang but not direct shareholding, and to effectively transfer the economic benefits and pass the risks associated therewith of Shantou Hongxiang of which are set out in note 35 to the consolidated financial statements to the Company) (the "Contractual Arrangements"). The Contractual Arrangements include:

1. Equity Pledge Agreements

Pursuant to one equity pledge agreement dated 17 November 2010 entered into between Wuhan Jietong as pledgee and Hubei Shengze Industry Co., Ltd. ("Hubei Shengze") (as the controlling shareholder of Shantou Hongxiang as pledgor, Hubei Shengze granted a continuing first priority security over all their direct equity interests in Shantou Hongxiang to Wuhan Jietong for guaranteeing the payment of the service fees under the relevant Exclusive Management and Consultation Services Agreements (as defined below).

2. Exclusive Option Agreements

Pursuant to one option agreement dated 17 November 2010 and entered into between Rising Wave and Hubei Shengze (as the controlling shareholder of Shantou Hongxiang), Rising Wave was granted options to acquire, directly or through one or more nominees, any part of the equity interest in Shantou Hongxiang at nil consideration or the minimum amount as permitted under the applicable PRC laws.

3. Exclusive Business Operation Agreements

Pursuant to one business operation agreement dated 17 November 2010 and entered into between Wuhan Jietong and Hubei Shengze (as the controlling shareholder of Shantou Hongxiang), Shantou Hongxiang has undertaken not to enter into any material business transaction without the prior written consent of Wuhan Jietong and to appoint individuals as nominated by Wuhan Jietong to be the directors and key management of Shantou Hongxiang.

4. Exclusive Management and Consultation Services Agreements

Pursuant to one management and consultation services agreement dated 17 November 2010 and entered into between Wuhan Jietong and Lin Limin, Wu Yihong (being the minority shareholders of Shantou Hongxiang) and Shantou Hongxiang, whereby Shantou Hongxiang has engaged Wuhan Jietong on an exclusive basis to provide consultation services and other supporting services in connection with the PRC Operating Entities' business services as permitted under the PRC laws.

5. Proxy Agreements

Pursuant to one proxy agreement dated 17 November 2010 and entered into between Wuhan Jietong, Mr. Li as chairman of Wuhan Jietong and an executive Director, and Hubei Sengze (as the controlling shareholder of Shantou Hongxiang), Mr. Li (or such other person being the chairman of Wuhan Jietong) is authorised to exercise the shareholders' rights in Shantou Hongxiang including attending shareholders' meeting and exercising voting rights according to the best interest and at the instructions of Wuhan Jietong; any person designated by Wuhan Jietong is authorised to enjoy and exercise the shareholders' rights in Shantou Hongxiang (in the event that Mr. Li shall cease to be the chairman of Wuhan Jietong); and any dividend and/or capital gain derived from the equity interests in Shantou Hongxiang shall be paid to Wuhan Jietong as soon as practicable and in any event no later than three days upon receipt of the payment or distribution.

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

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out from the date when the Contractual Arrangements became effective up to 31 December 2012 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, had been operated so that the profits generated by Shantou Hongxiang has been substantially retained by Wuhan Jietong; (ii) no dividends or other distributions had been made by Shantou Hongxiang to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) such are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders as a whole.

(B) Lease Agreements

(1) Relationship between the Group and its connected persons

The relevant connected persons as lessor, with whom some of the Group's PRC operating entities or Wuhan Jietong have entered into the lease agreements (collectively, the "Lease Agreements" and each a "Lease Agreement") as lessee, are as follows:

1. Hubei Shengze, which is held as to 70.4% by Mr. Wang Muqing thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

2. 內蒙古聖澤鼎傑汽車貿易有限公司 (Inner Mongolia Dingjie Automobile Trading Co., Ltd.) ("Inner Mongolia Dingjie Auto-trading"), being a company demerged from Inner Mongolia Dingjie and wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

3. 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.) ("Changsha Electronics"), being a company demerged from Changsha Ruibao and wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

4. 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.) ("Wuhan Jieyun"), being a company wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

5. 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.) ("Wuhan Jiezhong"), being a company wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules; and

6. 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) ("Beijing Development"), being a company held as to 90% by Hubei Shengze and 10% by 北京廣澤房地產開發有限公司 (Beijing Guangze Real Estate Development Co., Ltd.) ("Beijing Guangze") which is wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Under the Listing Rules, for so long as the above lessors remain as connected persons of the Company, the following transactions between the Group and the above lessors would constitute connected transactions for the Company.

(2) The Lease Arrangements

The Group has entered into the following non-exempt continuing connected transactions which are subject to the reporting and announcement requirements. The following Lease Agreements with respective lessors for leasing of the premises are necessary for the business operation of the Group in the PRC:

	Date of Agreement	Location	Lessor	Lessee	Monthly Rental in the year 2012	Term
1.	1 August 2010	4S Shop, No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	Hubei Shengze	Hubei Bocheng	RMB126,000	From 1 August 2010 to 31 July 2013 (Note 1)
2.	1 August 2010	4S Shop, No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	Hubei Shengze	Wuhan Kaitai	RMB176,000	From 1 August 2010 to 31 July 2013 (Note 1)
3.	30 September 2010	4S Shop, No. 40 Xingan North Road, Xincheng District, Huhhot City, Inner Mongolia Autonomous Region (Note 2)	Inner Mongolia Dingjie Auto-trading	Huhhot Qibao	RMB13,000	From 30 September 2010 to 29 September 2013 (Note 3)
4.	30 September 2010	4S Shop, No. 688 Changsha Avenue, Yuhua District, Changsha City, Hunan Province, the PRC	Changsha Electronics	Changsha Ruibao	RMB175,000	From 30 September 2010 to 29 September 2013 (Note 1)
5.	30 September 2010	4S Shop, No. 42 Xingan North Road, Xincheng District, Huhhot City, Inner Mongolia Autonomous Region, the PRC	Inner Mongolia Dingjie Auto-trading	Inner Mongolia Dingjie	RMB78,000	From 30 September 2010 to 29 September 2013 (Note 1)
6.	1 August 2010	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	Wuhan Jieyun	Wuhan Jietong	RMB525,000	From 1 August 2010 to 31 July 2013 (Note 1)
7.	1 August 2010	Lot 5C2, Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	Wuhan Jiezhong	Wuhan Jietong	RMB125,000	From 1 August 2010 to 31 July 2013 (Note 1)
8.	1 June 2010	4S Shop on Levels 1 to 3 and Basement 1 No. 59 West Third Ring South Road, Feng Tai District, Beijing City, the PRC	Beijing Development	Beijing Baozehang	RMB543,000	From 1 June 2010 to 31 May 2013 (Note 1)

Notes:

1. Option granted to renew for successive terms of no more than three years each up to 2020.

2. Pursuant to this Lease Agreement, the piece of land located at 呼和浩特市新城區興安北路40號, instead of the premises thereon, is leased to Huhhot Qibao as lessee. Huhhot Qibao is the owner of the premises located on the said piece of land.

3. Option granted to renew on similar terms of the agreement up to 2020.

The annual cap on the rental payable in respect of the lease under the Lease Agreements for each of years ended 31 December 2010 and 2011 and ending 31 December 2012 would not exceed approximately RMB11.5 million, RMB21.2 million and RMB21.2 million respectively (equivalent to approximately HK$13.1 million, HK$24.0 million and HK$24.0 million respectively). The aggregate amount paid by the Group to the relevant landlord in respect of the Lease Agreements during the year was approximately RMB20.2 million, which did not exceed the capped amount.

Purpose of the transactions

The premises leased by the Group under the above lease agreements nos. 1, 2, 4, 5 and 8 are for the purpose of the Group's operation of 4S businesses. The land leased by the Group under the above lease agreement no. 3 is also for the purpose of the Group's operation of 4S businesses. The premises leased by the Group under the above lease agreements nos. 6 and 7 are for the purpose of the Group's operation of logistics and storage businesses.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Group for the year ended 31 December 2012 which has reported to the board of Directors in a letter dated 28 March 2013.

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

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

(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and

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

RELATED PARTY TRANSACTIONS

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

SHARE OPTION SCHEMES

(A) SHARE OPTION SCHEME

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

Eligible participants of the Share Option Scheme include the following:

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

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

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

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

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

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

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

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

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

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange (the "General Scheme Limit"), i.e. 200,000,000 shares, representing 9.05% of the issued share capital of the Company as at the date of this report.

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

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

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

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

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

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

(B) Pre-IPO Share Option Scheme

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

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

Details of the movements in the Pre-IPO Share Option Scheme for the year ended 31 December 2012 are as follows:

Grantees	Date of grant	Exercise price per share (RMB)	Exercise period	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year (Note 1)	Lapsed during the year	Outstanding as at 31 December 2012
Directors								
Wang Kunpeng	10/8/2010	1.50	01/01/2012-10/08/2017	1,025,000	0	820,000	0	205,000
	10/8/2010	1.50	01/01/2013-10/08/2017	512,500	0	0	0	512,500
	10/8/2010	1.50	01/01/2014-10/08/2017	512,500	0	0	0	512,500
				2,050,000	0	820,000	0	1,230,000

Grantees	Date of grant	Exercise price per share	Exercise period	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2012
		(RMB)				(Note 1)		
Li Zhubo	10/8/2010	1.50	01/01/2012-10/08/2017	1,025,000	0	820,000	0	205,000
	10/8/2010	1.50	01/01/2013-10/08/2017	512,500	0	0	0	512,500
	10/8/2010	1.50	01/01/2014-10/08/2017	512,500	0	0	0	512,500
				2,050,000	0	820,000	0	1,230,000
Liu Dongli (Note 2)	10/8/2010	1.50	01/01/2012-10/08/2017	1,025,000	0	820,000	205,000	0
	10/8/2010	1.50	01/01/2013-10/08/2017	512,500	0	0	512,500	0
	10/8/2010	1.50	01/01/2014-10/08/2017	512,500	0	0	512,500	0
				2,050,000	0	820,000	1,230,000	0
Sub-total				6,150,000	0	2,460,000	1,230,000	2,460,000
Employees and former employees	10/8/2010	1.50	01/01/2012-10/08/2017	5,550,650	0	5,069,320	184,430	296,900
	10/8/2010	1.50	01/01/2013-10/08/2017	2,775,325	0	0	410,325	2,365,000
	10/8/2010	1.50	01/01/2014-10/08/2017	2,775,325	0	0	410,325	2,365,000
				11,101,300	0	5,069,320	1,064,580	4,967,400
	10/8/2010	2.00	01/04/2012-10/08/2017	1,005,700	0	504,720	45,280	455,700
	10/8/2010	2.00	01/04/2013-10/08/2017	502,850	0	0	33,350	469,500
	10/8/2010	2.00	01/04/2014-10/08/2017	502,850	0	0	33,350	469,500
				2,011,400	0	504,720	111,980	1,394,700
	10/8/2010	2.50	01/07/2012-10/08/2017	685,000	0	548,000	137,000	0
	10/8/2010	2.50	01/07/2013-10/08/2017	342,500	0	0	342,500	0
	10/8/2010	2.50	01/07/2014-10/08/2017	342,500	0	0	342,500	0
				1,370,000	0	548,000	822,000	0
	20/8/2010	2.50	01/07/2012-20/08/2017	911,400	0	82,400	741,800	87,200
	20/8/2010	2.50	01/07/2013-20/08/2017	455,700	0	0	399,700	56,000
	20/8/2010	2.50	01/07/2014-20/08/2017	455,700	0	0	399,700	56,000
				1,822,800	0	82,400	1,541,200	199,200
	17/11/2010	2.50	01/07/2012-17/11/2017	104,000	0	20,800	41,600	41,600
	17/11/2010	2.50	01/07/2013-17/11/2017	52,000	0	0	39,000	13,000
	17/11/2010	2.50	01/07/2014-17/11/2017	52,000	0	0	39,000	13,000
				208,000	0	20,800	119,600	67,600
Sub-total				16,513,500	0	6,225,240	3,599,860	6,688,400
Total				22,663,500	0	8,685,240	4,829,860	9,148,400

Notes:

1. The weighted average closing price of the Company's shares immediately prior to the date of exercise of Pre-IPO Share Option Scheme during the period was HK$7.55.

2. Mr. Liu Dongli resigned as an executive director of the Company with effect from 1 June 2012. Pursuant to the Pre-IPO Share Option Scheme, Mr. Liu ceased to be eligible employee of the Company and his outstanding share options will lapse and not be exercisable on the date of his resignation.

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

As at 31 December 2012, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

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

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Settlor of The Grand Glory Trust	1,372,516,820 (Note 1)	62.14%
Wang Kunpeng	Beneficial Owner	1,230,000 (Note 2)	0.056%
Li Zhubo	Beneficial Owner	1,550,000 (Note 3)	0.070%

Notes:

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

2. These represent the maximum number of shares which may be allotted and issued to Mr. Wang Kunpeng upon the exercise of the options under a pre-initial public offering share option scheme ("Pre-IPO Share Options") granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

3. Mr. Li Zhubo has a total of 1,550,000 shares, among which 320,000 shares were purchased in the market, and the remaining 1,230,000 shares represent the maximum number of shares which may be allotted and issued to Mr. Li upon the exercise of the options under the Pre-IPO Share Options granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

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

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Wang Muqing	Joy Capital	Settlor of The Grand Glory Trust (Note 1)	100%
Wang Muqing	Shantou Hongxiang (Note 2)	Interest of controlled corporation (Note 3)	80%

Notes:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. This entity is one of the Group's operating entities in the PRC in which the Group does not have direct shareholding. By a series of contracts entered into by, among others, this entity and certain wholly-owned subsidiaries of the Company, the Group is given effective control over the financial and operational policies of this entity and is vested with the economic benefits and associated risks in connection with the operation and business of this entity. Details and effects of and rationale for these contracts or contracts of similar nature with respect to the operating entity of the Group in the PRC are set out in the section headed "Contractual Arrangements" of the prospectus dated 29 November 2010 published by the Company. By virtue of the legal rights and relationship created by these contracts, this entity constitutes a subsidiary of the Group and an associated corporation of the Company even though the Group does not have direct shareholding in it.

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

Save as disclosed above, as at 31 December 2012, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares of the Company:

Name of Shareholders	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,372,516,820	62.14%
Grand Glory	Interest of controlled corporation (Note 1)	1,372,516,820	62.14%
Value Partners Group Limited	Interest of controlled corporation (Note 2)	221,769,000	10.04%
Cheah Capital Management Limited	Interest of controlled corporation (Note 2)	221,769,000	10.04%
Cheah Cheng Hye	Founder of a discretionary trust (Note 2)	221,769,000	10.04%
Cheah Company Limited	Interest of controlled corporation (Note 2)	221,769,000	10.04%
Hang Seng Bank Trustee International Limited	Trustee (Note 2)	221,769,000	10.04%
To Hau Yin	Interest of spouse (Note 3)	221,769,000	10.04%

Notes:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. These shares are held by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Hong Kong Limited, a wholly-owned subsidiary of Value Partners Group Limited. Cheah Capital Management Limited is wholly-owned by Cheah Company Limited which is in turn wholly owned by Hang Seng Bank Trustee International Limited as the trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust.

3. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye and is deemed to be interested in the shares held by Mr. Cheah Cheng Hye.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received an annual confirmation from the controlling shareholders, Mr. Wang Muqing, Joy Capital and Grand Glory in respect of their compliance with the terms of the non-compete undertakings as described in the Prospectus and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2012.

The independent non-executive Directors have reviewed the said undertakings and are of the view that Mr. Wang Muqing, Joy Capital and Grand Glory have complied with the non-compete undertakings during the year 2012.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in note 24 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

The remuneration of the Directors of the Company are set out in note 8 to the consolidated financial statements.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2012, the Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules except for the deviations set out in the Corporate Governance Report contained in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code regarding securities transactions of the directors with standards no less exacting than that of the Model Code. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Dealing Code and the Model Code during 2012.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2012, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

AUDITORS

The consolidated financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in 2013.

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

On behalf of the Board

Wang Kunpeng
Chief Executive Officer and Executive Director
28 March 2013

INDEPENDENT AUDITOR'S REPORT

KPMG

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

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 52 to 121, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012 (Expressed in RMB'000)

	Note	For the year ended 31 December 2012	2011
Turnover	4	27,649,440	14,443,927
Cost of sales		(25,197,557)	(13,058,292)
Gross profit		2,451,883	1,385,635
Other revenue	5	223,747	106,898
Other net income	5	45,741	13,169
Selling and distribution expenses		(693,528)	(329,845)
Administrative expenses		(728,221)	(319,979)
Profit from operations		1,299,622	855,878
Finance costs	6(a)	(403,946)	(128,173)
Share of profit of a jointly controlled entity		19,435	21,127
Profit before taxation	6	915,111	748,832
Income tax	7(a)	(281,520)	(187,016)
Profit for the year		633,591	561,816
Other comprehensive income for the year:			
Exchange differences on translation of financial statements of foreign operations		12	7,174
Other comprehensive income for the year, net of tax		12	7,174
Total comprehensive income for the year		633,603	568,990
Profit attributable to:			
Shareholders of the Company		604,467	524,045
Non-controlling interests		29,124	37,771
Profit for the year		633,591	561,816
Total comprehensive income attributable to:			
Shareholders of the Company		604,479	531,219
Non-controlling interests		29,124	37,771
Total comprehensive income for the year		633,603	568,990
Earnings per share	12		
Basic (RMB cent)		27.4	25.2
Diluted (RMB cent)		27.3	25.2

The notes on pages 58 to 121 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2012 (Expressed in RMB'000)

	Note	At 31 December 2012	2011
Non-current assets			
Property, plant and equipment	14	1,645,646	984,188
Lease prepayments	15	299,604	176,453
Intangible assets	16	4,073,169	4,271,997
Goodwill	17	1,926,551	1,926,551
Interest in a jointly controlled entity	19	141,037	141,602
Deferred tax assets	28	20,240	21,270
		8,106,247	7,522,061
Current assets			
Inventories	20	3,269,552	3,244,023
Trade and other receivables	21	3,065,321	2,945,858
Pledged bank deposits	22	1,294,212	1,168,909
Time deposits		4,100	11,800
Cash and cash equivalents	23	1,202,800	1,096,771
		8,835,985	8,467,361
Current liabilities			
Loans and borrowings	24	3,694,077	4,220,370
Trade and other payables	25	3,909,473	4,156,397
Income tax payables	7(c)	394,964	305,935
		7,998,514	8,682,702
Net current assets/(liabilities)		837,471	(215,341)
Total assets less current liabilities		8,943,718	7,306,720
Non-current liabilities			
Loans and borrowings	24	1,204,874	–
Deferred tax liabilities	28	938,257	984,801
		2,143,131	984,801
NET ASSETS		6,800,587	6,321,919
Equity			
Share capital	29	188,666	187,959
Reserves		6,520,072	6,022,445
Equity attributable to shareholders of the Company		6,708,738	6,210,404
Non-controlling interests		91,849	111,515
TOTAL EQUITY		6,800,587	6,321,919

Approved and authorised for issue by the board of directors on 28 March 2013.

Wang Kunpeng
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 58 to 121 form part of these financial statements.

BALANCE SHEET

At 31 December 2012 (Expressed in RMB'000)

	Note	At 31 December 2012	2011
Non-current assets			
Property, plant and equipment	14	643	700
Investment in subsidiaries	18	6,630,559	5,582,599
		6,631,202	5,583,299
Current assets			
Trade and other receivables	21	162,639	340,975
Cash and cash equivalents	23	125,852	136,612
		288,491	477,587
Current liabilities			
Loans and borrowings	24	1,055,241	1,000,000
Trade and other payables	25	13,306	300,000
		1,068,547	1,300,000
Net current liabilities		(780,056)	(822,413)
Total assets less current liabilities		5,851,146	4,760,886
Non-current liabilities			
Loans and borrowings	24	1,204,874	–
		1,204,874	–
NET ASSETS		4,646,272	4,760,886
Equity			
Share capital	29	188,666	187,959
Reserves	30	4,457,606	4,572,927
TOTAL EQUITY		4,646,272	4,760,886

Approved and authorised for issue by the board of directors on 28 March 2013.

Wang Kunpeng
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 58 to 121 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012 (Expressed in RMB'000)

	Attributable to shareholders of the Company									
	Share capital (note 29)	Share premium (note 30(a))	Capital reserves (note 30(b))	PRC statutory reserves (note 30(c))	Exchange reserves (note 30(d))	Discretionary surplus reserves (note 30(e))	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2011	171,420	2,852,840	487,324	50,527	3,854	4,459	444,359	4,014,783	58,208	4,072,991
Capital contribution by the controlling shareholder of the Company	–	–	10,000	–	–	–	–	10,000	–	10,000
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	6,500	6,500
Issue of ordinary shares by placing, net of issuance costs (note 29(a)(i))	16,539	1,667,516	–	–	–	–	–	1,684,055	–	1,684,055
Acquisition of subsidiary with non-controlling interests	–	–	–	–	–	–	–	–	39,849	39,849
Acquisition of non-controlling interests in a subsidiary (note 30(b))	–	–	(45,141)	–	–	–	–	(45,141)	(14,859)	(60,000)
Total comprehensive income for the year	–	–	–	–	7,174	–	524,045	531,219	37,771	568,990
Equity settled share-based transactions	–	–	15,488	–	–	–	–	15,488	–	15,488
Dividends	–	–	–	–	–	–	–	–	(15,954)	(15,954)
Appropriation to reserves	–	–	–	42,780	–	–	(42,780)	–	–	–
Balance at 31 December 2011 and 1 January 2012	187,959	4,520,356	467,671	93,307	11,028	4,459	925,624	6,210,404	111,515	6,321,919
Shares issued pursuant to pre-IPO employee share option scheme (note 29(a)(ii))	707	24,551	(11,285)	–	–	–	–	13,973	–	13,973
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	300	300
Acquisition of non-controlling interests in a subsidiary (note 31)	–	–	(122,778)	–	–	–	–	(122,778)	(27,222)	(150,000)
Total comprehensive income for the year	–	–	–	–	12	–	604,467	604,479	29,124	633,603
Equity settled share-based transactions	–	–	2,660	–	–	–	–	2,660	–	2,660
Dividends	–	–	–	–	–	–	–	–	(21,868)	(21,868)
Appropriation to reserves	–	–	–	46,248	–	–	(46,248)	–	–	–
Balance at 31 December 2012	188,666	4,544,907	336,268	139,555	11,040	4,459	1,483,843	6,708,738	91,849	6,800,587

The notes on pages 58 to 121 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012 (Expressed in RMB'000)

		For the year ended 31 December	
	Note	2012	2011
Operating activities:			
Profit before taxation		915,111	748,832
Adjustments for:			
– Depreciation	6(c)	156,204	58,281
– Amortisation of lease prepayments	6(c)	7,928	2,929
– Amortisation of intangible assets	6(c)	198,828	15,260
– Net gain on disposal of property, plant and equipment	5	(32,400)	(9,750)
– Finance costs	6(a)	403,946	128,173
– Share of profit of a jointly controlled entity		(19,435)	(21,127)
– Interest income from bank deposits	5	(16,376)	(24,520)
– Equity settled share-based transactions	27	2,660	15,488
		1,616,466	913,566
Changes in working capital:			
– Increase in inventories		(25,529)	(583,891)
– Increase in trade and other receivables		(107,346)	(717,579)
– (Increase)/Decrease in pledged bank deposits		(125,303)	71,773
– (Decrease)/Increase in trade and other payables		(298,021)	354,664
Cash generated from operations		1,060,267	38,533
Income tax paid	7(c)	(238,005)	(98,631)
Net cash generated from/(used in) operating activities		822,262	(60,098)
Investing activities:			
Payment for purchase of property, plant and equipment		(969,990)	(413,995)
Proceeds from disposal of property, plant and equipment		204,829	40,408
Payment for purchase of lease prepayments		(131,079)	(44,729)
Net cash used in acquisition of subsidiaries		–	(6,005,470)
Decrease/(Increase) in time deposits		7,700	(11,800)
Dividends received from a jointly controlled entity		20,000	–
Interest received		16,376	24,520
Net cash used in investing activities		(852,164)	(6,411,066)

The notes on pages 58 to 121 form part of these financial statements.

For the year ended 31 December 2012 (Expressed in RMB'000)

		For the year ended 31 December	
	Note	2012	2011
Financing activities:			
Proceeds from loans and borrowings		9,980,793	4,235,660
Repayment of loans and borrowings		(9,302,212)	(1,592,487)
Net proceeds from issue of ordinary shares		–	1,684,055
Proceeds from shares issued under share option scheme		13,973	–
Acquisition of non-controlling interests in a subsidiary	31	(121,400)	(60,000)
Capital injection by non-controlling interests		300	6,500
Dividends paid to non-controlling interests		(21,868)	(15,954)
Interest paid		(413,570)	(128,173)
Net cash generated from financing activities		136,016	4,129,601
Net increase/(decrease) in cash and cash equivalents		106,114	(2,341,563)
Cash and cash equivalents at beginning of the year		1,096,771	3,432,060
Effect of foreign exchange rate changes		(85)	6,274
Cash and cash equivalents at end of the year	23	1,202,800	1,096,771
Supplemental disclosure of material non-cash transactions:			
Contribution by the controlling shareholder of the Company		–	8,173

The notes on pages 58 to 121 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in 4S dealership business, motor-related logistics business and lubricant oil trading business in the People's Republic of China (the "PRC").

In August 2011, the Group entered into a share purchase agreement with Exactwin Limited, an independent third party, to acquire 100% equity interest in Top Globe Limited at a total consideration of RMB5,500,000,000. Top Globe Limited and its subsidiaries are principally engaged in the business of automobile dealership and after-sales services. The acquisition was approved by the Company's shareholders at the extraordinary general meeting held on 22 December 2011 and was completed on the same date.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("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 3 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 2012 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations involving entities under common control

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

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

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

The comparative amounts in the consolidated financial statements are presented as if the combining entities or businesses had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is later.

(e) Jointly controlled entities

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

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

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Property, plant and equipment

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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

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

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

(h) Intangible assets (other than goodwill)

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

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

–	Car dealership	20 years
–	Favourable lease contracts	Over the unexpired term of lease, being 1-10 years

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Lease prepayments

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

(iii) Operating lease charges

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

(j) Impairment of assets

(i) Impairment of trade and other receivables

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(i) Impairment of trade and other receivables (continued)

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

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- investments in jointly controlled entities;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

(k) Inventories

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

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

(l) Trade and other receivables

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Interest-bearing borrowings

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

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

(n) Trade and other payables

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

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

(o) Cash and cash equivalents

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

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Share-based payments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Share-based payments (continued)

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

(q) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

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

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

  – the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles

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

(ii) Sales of motor spare parts

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

(iii) Maintenance services income

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

(iv) Logistics services income and other related services income

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

(v) Sales of lubricant oil

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

(vi) Commission income

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

(vii) Interest income

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

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

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

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

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

(u) Borrowing costs

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

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

(v) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

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

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) 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).

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

(w) Segment reporting

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 TURNOVER

The Group is mainly engaged in sales of motor vehicles, 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	
	2012 RMB'000	2011 RMB'000
Sales of motor vehicles	24,841,035	12,952,725
Sales of motor spare parts	394,995	242,579
Provision of maintenance services	1,922,177	804,801
Provision of logistics services	191,180	150,149
Sales of lubricant oil	300,053	293,673
	27,649,440	14,443,927

5 OTHER REVENUE AND NET INCOME

	For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Other revenue:		
Commission income	203,543	81,042
Interest income from bank deposits	16,376	24,520
Others	3,828	1,336
	223,747	106,898
Other net income:		
Net gain on disposal of property, plant and equipment	32,400	9,750
Others	13,341	3,419
	45,741	13,169

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Note	For the year ended 31 December 2012 RMB'000	2011 RMB'000
(a)	**Finance costs:**			
	Interest on loans and borrowings wholly repayable within 5 years		366,897	71,995
	Other finance costs	(i)	46,673	56,178
	Less: interest capitalised*		(9,624)	–
			403,946	128,173

* The borrowing costs have been capitalised at a rate of 5.88–8.50% per annum (2011: None).

		Note	2012 RMB'000	2011 RMB'000
(b)	**Staff costs:**			
	Salaries, wages and other benefits		490,108	260,202
	Contributions to defined contribution retirement plans	(ii)	31,238	17,730
	Equity settled share-based payment expenses	27	2,660	15,488
			524,006	293,420

(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 2012 RMB'000	2011 RMB'000
(c)	**Other items:**		
	Cost of inventories	24,933,004	12,891,630
	Depreciation	156,204	58,281
	Amortisation of lease prepayments	7,928	2,929
	Amortisation of intangible assets	198,828	15,260
	Operating lease charges	156,243	58,611
	Net foreign exchange loss	21,366	10,029
	Auditors' remuneration	6,400	6,400

7 INCOME TAX

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

	For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Current tax:		
Provision for income tax for the year	327,034	193,111
Deferred tax:		
Origination of temporary differences (note 28)	(45,514)	(6,095)
	281,520	187,016

(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) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25%.

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 companies, i.e. Rising Wave Development Limited ("Rising Wave") and Wealth Fame Holdings Limited ("Wealth Fame"), 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.

7 INCOME TAX (continued)

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

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before taxation	**915,111**	748,832
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**228,778**	187,208
Non-deductible expenses	**56,416**	8,523
Effect of tax concessions	**–**	(3,171)
Non-taxable income on:		
– Share of profits recognised under the equity method	**(4,859)**	(5,282)
Others	**1,185**	(262)
Income tax	**281,520**	187,016

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

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of the year	**305,935**	73,053
Acquisition of subsidiaries through business combinations	**–**	138,402
Provision for current income tax for the year	**327,034**	193,111
Payment during the year	**(238,005)**	(98,631)
Balance at the end of the year	**394,964**	305,935

8 DIRECTORS' REMUNERATION

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

Year ended 31 December 2012

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000 (note ii)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Executive directors						
Wang Kunpeng	–	874	561	482	16	1,933
Li Zhubo	–	780	502	482	33	1,797
Liu Dongli (note (i))	–	290	77	(941)	13	(561)
Chen Tao	–	505	329	24	33	891
Shao Yongjun	–	620	417	–	27	1,064
Non-executive director						
Wang Muqing	–	–	–	–	–	–
Independent non-executive directors						
Wong Tin Yau, Kelvin	243	–	–	–	–	243
Tan Xiangyong	243	–	–	–	–	243
Zhang Yansheng	243	–	–	–	–	243
	729	3,069	1,886	47	122	5,853

8 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2011

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Executive directors						
Wang Kunpeng	–	630	397	1,457	12	2,496
Li Zhubo	–	568	372	1,457	23	2,420
Cao Limin	–	348	117	1,457	11	1,933
Liu Dongli	–	564	376	1,457	30	2,427
Chen Tao	–	450	264	–	15	729
Shao Yongjun	–	315	136	–	6	457
Non-executive director						
Wang Muqing	–	–	–	–	–	–
Independent non-executive directors						
Wong Tin Yau, Kelvin	244	–	–	–	–	244
Tan Xiangyong	244	–	–	–	–	244
Zhang Yansheng	244	–	–	–	–	244
	732	2,875	1,662	5,828	97	11,194

Notes:

(i) Mr. Liu Dongli resigned as executive director on 1 June 2012.

(ii) It represents the estimated value of share options granted to the directors under the Company's pre-IPO employee share option plan. The value of these share options is measured according to the Company's accounting policies for share-based payment transactions as set out in note 2(p)(iii). Details are disclosed in note 27.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group during the year, three (2011: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2011: two) individuals are as follows:

	For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Salaries, allowance and benefits in kind	1,157	360
Discretionary bonuses	710	2,084
Contributions to retirement benefit schemes	33	6
Share-based payments	510	44
	2,410	2,494

The above two individuals' emoluments are within the band of HK$1,000,001 to HK$1,500,000 in 2012 (2011: HK$1,000,001 to HK$1,500,000).

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2012 includes a loss of RMB131,247,000 (2011: a loss of RMB19,324,000) which has been dealt with in the financial statements of the Company.

11 DIVIDEND

The Company did not declare the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the profit attributable to shareholders of the Company for the year of RMB604,467,000 (2011: RMB524,045,000) and the weighted average number of shares in issue during the year ended 31 December 2012 of 2,207,726,637 (2011: 2,078,904,110), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2012	2011
Issued ordinary shares at 1 January	2,200,000,000	2,000,000,000
Effect of shares issued upon placing (note 29(a)(i))	–	78,904,110
Effect of share options exercised (note 29(a)(ii))	7,726,637	–
Weighted average number of ordinary shares at 31 December	2,207,726,637	2,078,904,110

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2012 is based on the profit attributable to shareholders of the Company of RMB604,467,000 (2011: RMB524,045,000) and the weighted average number of ordinary shares of 2,214,602,045 (2011: 2,078,904,110) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme, calculated as follows:

Weighted average number of shares (diluted)

	For the year ended 31 December	
	2012	2011
Weighted average number of ordinary shares for the year ended 31 December	2,207,726,637	2,078,904,110
Effect of deemed issue of shares under the pre-IPO employee share option scheme	6,875,408	–
Weighted average number of ordinary shares at 31 December	2,214,602,045	2,078,904,110

13 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.

13 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

	4S dealership business Year ended 31 December		Logistics and lubricant oil businesses Year ended 31 December		Total Year ended 31 December	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Turnover from external customers	**27,158,207**	14,000,105	**491,233**	443,822	**27,649,440**	14,443,927
Inter-segment turnover	**–**	–	**7,537**	7,127	**7,537**	7,127
Reportable segment turnover	**27,158,207**	14,000,105	**498,770**	450,949	**27,656,977**	14,451,054
Reportable segment profit	**1,032,139**	707,701	**84,684**	86,943	**1,116,823**	794,644
Depreciation and amortisation for the year	**354,825**	72,246	**8,135**	4,224	**362,960**	76,470
Reportable segment assets	**9,951,346**	8,720,709	**1,505,431**	1,161,123	**11,456,777**	9,881,832
Additions to non-current segment assets during the year	**1,111,047**	729,524	**10,123**	697	**1,121,170**	730,221
Reportable segment liabilities	**(8,748,434)**	(8,489,035)	**(952,507)**	(642,530)	**(9,700,941)**	(9,131,565)
Interest in a jointly controlled entity	**–**	–	**141,037**	141,602	**141,037**	141,602

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

	For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Turnover:		
Reportable segment turnover	**27,656,977**	14,451,054
Elimination of inter-segment turnover	**(7,537)**	(7,127)
Consolidated turnover	**27,649,440**	14,443,927
Profit before taxation:		
Reportable segment profit	**1,116,823**	794,644
Unallocated head office expenses	**(67,254)**	(37,706)
Other revenue	**223,747**	106,898
Other net income	**45,741**	13,169
Finance costs	**(403,946)**	(128,173)
Consolidated profit before taxation	**915,111**	748,832

13 SEGMENT REPORTING (continued)

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

	At 31 December 2012 RMB'000	At 31 December 2011 RMB'000
Assets:		
Reportable segment assets	11,456,777	9,881,832
Intangible assets	4,073,169	4,271,997
Goodwill	1,926,551	1,926,551
Deferred tax assets	20,240	21,270
Unallocated head office assets	358,916	643,620
Elimination of inter-segment receivables	(893,421)	(755,848)
Consolidated total assets	16,942,232	15,989,422
Liabilities:		
Reportable segment liabilities	(9,700,941)	(9,131,565)
Income tax payables	(394,964)	(305,935)
Deferred tax liabilities	(938,257)	(984,801)
Unallocated head office liabilities	(904)	(1,050)
Elimination of inter-segment payables	893,421	755,848
Consolidated total liabilities	(10,141,645)	(9,667,503)

(c) Geographic information

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

14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2011	268,044	26,345	76,439	108,623	42,183	2,788	524,422
Acquisition of subsidiaries through business combinations	79,211	33,651	29,092	106,794	16,847	6,962	272,557
Additions	83,409	4,830	34,857	105,671	30,802	136,577	396,146
Transfer	74,413	4,071	860	–	–	(79,344)	–
Disposals	(54)	–	(491)	(38,878)	(4,011)	–	(43,434)
At 31 December 2011 and 1 January 2012	505,023	68,897	140,757	282,210	85,821	66,983	1,149,691
Additions	95,488	–	41,098	388,475	48,147	416,883	990,091
Transfer	177,134	26,954	5,127	–	13,278	(222,493)	–
Disposals	–	–	(812)	(207,329)	(1,645)	–	(209,786)
At 31 December 2012	777,645	95,851	186,170	463,356	145,601	261,373	1,929,996
Accumulated depreciation:							
At 1 January 2011	27,028	14,469	21,314	33,534	23,653	–	119,998
Charge for the year	12,785	4,091	8,550	25,145	7,710	–	58,281
Written back on disposals	(2)	–	(255)	(10,255)	(2,264)	–	(12,776)
At 31 December 2011 and 1 January 2012	39,811	18,560	29,609	48,424	29,099	–	165,503
Charge for the year	21,259	18,278	14,105	85,538	17,024	–	156,204
Written back on disposals	–	–	(528)	(35,637)	(1,192)	–	(37,357)
At 31 December 2012	61,070	36,838	43,186	98,325	44,931	–	284,350
Net book value:							
At 31 December 2012	716,575	59,013	142,984	365,031	100,670	261,373	1,645,646
At 31 December 2011	465,212	50,337	111,148	233,786	56,722	66,983	984,188

14 PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Leasehold improvements RMB'000	Office equipment and furniture RMB'000	Total RMB'000
Cost:			
At 1 January 2011	–	–	–
Additions	729	33	762
At 31 December 2011 and 1 January 2012	729	33	762
Additions	95	–	95
At 31 December 2012	**824**	**33**	**857**
Accumulated depreciation:			
At 1 January 2011	–	–	–
Charge for the year	61	1	62
At 31 December 2011 and 1 January 2012	61	1	62
Charge for the year	146	6	152
At 31 December 2012	**207**	**7**	**214**
Net book value:			
At 31 December 2012	**617**	**26**	**643**
At 31 December 2011	668	32	700

(a) The Group's buildings are located in the PRC. The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB93,603,376 as at 31 December 2012 (2011: RMB67,714,949). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2012.

(b) Property, plant and equipment with carrying amount of RMB41,245,000 are pledged against bank loans (see note 24) as at 31 December 2012 (2011: RMB77,003,000).

15 LEASE PREPAYMENTS

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Cost:		
At 1 January	189,226	127,708
Additions	131,079	44,729
Acquisition of subsidiaries through business combinations	–	16,789
At 31 December	320,305	189,226
Accumulated amortisation:		
At 1 January	(12,773)	(9,844)
Charge for the year	(7,928)	(2,929)
At 31 December	(20,701)	(12,773)
Net book value:		
At 31 December	299,604	176,453

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

Lease prepayments with carrying amount of RMB45,183,000 are pledged against bank loans (see note 24) as at 31 December 2012 (2011: RMB52,655,000).

16 INTANGIBLE ASSETS

	The Group				
	Car dealerships RMB'000	Favourable lease contracts RMB'000	Trademark RMB'000	Club debenture RMB'000	Total RMB'000
Cost:					
At 1 January 2011	59,732	–	–	363	60,095
Acquisition of subsidiaries through business combinations	3,829,020	36,904	362,732	–	4,228,656
At 31 December 2011 and 2012	3,888,752	36,904	362,732	363	4,288,751
Accumulated amortisation:					
At 1 January 2011	(1,494)	–	–	–	(1,494)
Charge for the year	(13,952)	(1,308)	–	–	(15,260)
At 31 December 2011 and 1 January 2012	(15,446)	(1,308)	–	–	(16,754)
Charge for the year	(194,438)	(4,390)	–	–	(198,828)
At 31 December 2012	**(209,884)**	**(5,698)**	**–**	**–**	**(215,582)**
Net book Value:					
At 31 December 2012	**3,678,868**	**31,206**	**362,732**	**363**	**4,073,169**
At 31 December 2011	3,873,306	35,596	362,732	363	4,271,997

The car dealerships arise from relationship with automobile manufacturers, with an estimated useful life of 20 years. The fair value of the car dealerships as at the respective acquisition dates was determined by using the multiple-period excess earning method.

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of comprehensive income.

17 GOODWILL

	The Group At 31 December 2012 RMB'000	The Group At 31 December 2011 RMB'000
At 1 January	**1,926,551**	16,236
Acquisition of subsidiaries through business combinations	**–**	1,910,315
At 31 December	**1,926,551**	1,926,551

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the operating segments as follow:

	The Group At 31 December 2012 RMB'000	The Group At 31 December 2011 RMB'000
4S dealership business	**1,926,551**	1,926,551

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are projected by using a steady growth rate of 3%. The discount rates applied to the cash flow projections beyond the one year period is 14%.

Key assumptions used for value in use calculations are the gross margins and growth rates of the sales and service of motor vehicles, based on past performance and its expectation for market development.

18 INVESTMENT IN SUBSIDIARIES

	The Company As at 31 December 2012 RMB'000	The Company As at 31 December 2011 RMB'000
Investment, at cost	**5,582,599**	5,582,599
Add: Amounts due from subsidiaries	**1,047,960**	–
	6,630,559	5,582,599

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

18 INVESTMENT IN SUBSIDIARIES (continued)

As of 31 December 2012, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Big Glory International Limited (浩榮國際有限公司)		British Virgin Islands ("BVI") 22 June 2006	US$100	100%	–	Investment holding
Top Globe Limited (同方有限公司)		British Virgin Islands ("BVI") 27 August 2007	US$1	100%	–	Investment holding
Acme Joy Group Limited		British Virgin Islands ("BVI") 28 April 2011	US$50,000	–	100%	Investment holding
Chang Jun Limited (昌駿有限公司)		British Virgin Islands ("BVI") 16 June 2011	US$100	–	100%	Investment holding
Silver Journey Global Limited		British Virgin Islands ("BVI") 6 July 2011	US$50,000	–	100%	Investment holding
Rising Wave Development Limited (升濤發展有限公司)		Hong Kong 21 April 2006	HK$100	–	100%	Investment holding
Wealth Fame Holdings Limited (佳名集團有限公司)		Hong Kong 19 July 2007	HK$1	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國)有限公司)		Hong Kong 10 November 2008	HK$10,000	–	100%	Investment holding
Wuhan Shengze Jietong Logistics Co., Ltd. (武漢聖澤捷通物流有限公司)	(i)	The PRC 22 November 2002	RMB399,539,000	–	100%	Provision of automobile related logistic services
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)		The PRC 21 April 1999	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(iii)	The PRC 25 September 2002	RMB15,000,000	–	50%	Distribution of lubricant oil
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎傑汽車銷售服務有限公司)		The PRC 12 December 2002	RMB55,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎傑汽車貿易有限公司)		The PRC 23 January 2003	RMB7,000,000	–	100%	Automobile dealership
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)		The PRC 30 May 2003	RMB20,000,000	–	100%	Automobile dealership
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)		The PRC 20 October 2003	RMB10,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)		The PRC 18 March 2004	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)		The PRC 26 May 2004	RMB70,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)		The PRC 18 June 2004	RMB19,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)		The PRC 8 November 2004	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)		The PRC 21 June 2005	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)		The PRC 24 June 2005	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)		The PRC 23 February 2006	RMB10,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)		The PRC 13 June 2006	RMB8,000,000	–	100%	Automobile dealership
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)		The PRC 6 September 2006	RMB6,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)		The PRC 31 January 2007	RMB15,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)		The PRC 2 June 2008	RMB29,000,000	–	100%	Automobile dealership
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)		The PRC 27 June 2008	RMB30,000,000	–	100%	Automobile dealership
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧滙汽車銷售服務有限公司)		The PRC 4 December 2008	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)		The PRC 20 April 2009	RMB30,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)		The PRC 6 July 2009	RMB10,000,000	–	100%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)		The PRC 6 August 2009	RMB26,000,000	–	100%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)		The PRC 16 October 2009	RMB90,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)		The PRC 27 October 2009	RMB20,000,000	–	100%	Automobile dealership
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)	(ii)	The PRC 12 July 2000	RMB5,000,000	–	80%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)		The PRC 2 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)		The PRC 3 December 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangyang Baoze Automobile Sales Services Co., Ltd. (襄陽寶澤汽車銷售服務有限公司)		The PRC 1 November 2010	RMB10,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)		The PRC 9 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ulanqab Dingsheng Automobile Sales Services Co., Ltd. (烏蘭察布市鼎盛汽車銷售服務有限公司)		The PRC 29 October 2010	RMB5,000,000	–	100%	Automobile dealership
Chengdu Baoze Automobile Sales Services Co., Ltd. (成都寶澤汽車銷售服務有限公司)		The PRC 17 November 2010	RMB10,000,000	–	100%	Automobile dealership
Wuhan Shengtong Investment Management Co., Ltd. (武漢升通投資管理有限公司)		The PRC 22 April 2011	RMB10,000,000	–	100%	Investment holding
Baotou Luze Automobile Sales Services Co., Ltd. (包頭市路澤汽車銷售服務有限公司)		The PRC 4 May 2011	RMB20,000,000	–	100%	Automobile dealership
Ganzhou Yizezhiye Co., Ltd. (贛州益澤置業有限公司)		The PRC 19 November 2010	RMB10,000,000	–	100%	Real Estate Development
Xiangtan Yizezhiye Co., Ltd. (湘潭益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real Estate Development
Shangrao Yizezhiye Co., Ltd. (上饒市益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real Estate Development
Ulanqab Yizezhiye Co., Ltd. (烏蘭察布市益澤置業有限公司)		The PRC 21 December 2010	RMB10,000,000	–	100%	Real Estate Development
Hubei Aoze Automobile Sales Services Co., Ltd. (湖北奧澤汽車銷售服務有限公司)		The PRC 25 May 2011	RMB20,000,000	–	100%	Automobile parts sales
Lhasa Jinsheng Automobile Sales Co., Ltd. (拉薩金勝汽貿有限公司)		The PRC 13 April 2011	RMB20,000,000	–	100%	Automobile parts sales
Qingdao Huacheng Automobile Services Co., Ltd. (青島華成汽車服務有限公司)		The PRC 8 March 2001	RMB8,800,000	–	100%	Automobile dealership
Shantou Lujie Automobile Sales Services Co., Ltd. (汕頭市路傑汽車銷售服務有限公司)		The PRC 2 September 2011	RMB10,000,000	–	75%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lhasa Hongjin Automobile Sales Co., Ltd. (拉薩弘進汽貿有限公司)		The PRC 12 April 2011	RMB15,000,000	–	100%	Automobile parts sales
Henan Jintangsheng Automobile Co., Ltd. (河南省錦堂盛汽車有限公司)		The PRC 7 May 2008	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Jiwo Automobile Sales Services Co., Ltd. (鄭州吉沃汽車銷售服務有限公司)		The PRC 3 June 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd. (正通汽車投資控股(武漢)有限公司)	(i)	The PRC 29 March 2011	RMB600,000,000	–	100%	Investment holding
Chengdu Qibao Automobile Sales Services Co., Ltd. (成都祺寶汽車銷售服務有限公司)		The PRC 13 July 2011	RMB50,000,000	–	100%	Automobile dealership
Wuhan ZhengTong Second Hand Automobile Brokerage Co., Ltd. (武漢正通二手車經紀有限公司)		The PRC 27 June 2011	RMB500,000	–	100%	Automobile Trading Agency
Beijing ZhengTong Old Automobile Brokerage Co., Ltd. (北京正通舊機動車經紀有限公司)		The PRC 5 May 2011	RMB10,000,000	–	100%	Automobile Trading Agency
Huhhot Jietong Second Hand Automobile Brokerage Co., Ltd. (呼和浩特市捷通二手車經紀有限公司)		The PRC 16 June 2011	RMB500,000	–	100%	Automobile Trading Agency
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd. (佛山正通眾鋭汽車銷售服務有限公司)		The PRC 18 April 2011	RMB10,000,000	–	100%	Automobile dealership
Baotou Zhongrui Automobile Sales Service Co., Ltd. (包頭眾鋭汽車銷售服務有限公司)		The PRC 21 September 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Services Co., Ltd. (正通汽車服務有限公司)		The PRC 1 September 2011	RMB50,000,000	–	100%	Automobile parts sales
Jiangxi Deao Automobile Sales Services Co., Ltd. (江西德奧汽車銷售服務有限公司)		The PRC 17 September 2002	RMB5,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Huhhot Jieyun Automobile Sales Services Co., Ltd. (呼和浩特市捷運行汽車銷售服務有限公司)		The PRC 29 December 2011	RMB10,000,000	–	100%	Automobile dealership
Jieyang Dingjie Automobile Sales Services Co., Ltd. (揭陽鼎傑汽車銷售服務有限公司)		The PRC 19 July 2011	RMB20,000,000	–	80%	Automobile dealership
Shenzhen Roadmate Technology Co., Ltd. (深圳路美特科技有限公司)	(iv)	The PRC 15 March 2004	US$2,100,000	–	100%	Investment holding
Shenzhen SCAS Investment Group Co., Ltd. (深圳市中汽南方投資集團有限公司)		The PRC 21 May 2001	RMB50,000,000	–	100%	Investment holding
Shenzhen Yama Automobile Trading Co., Ltd. (深圳野馬汽車貿易有限公司)		The PRC 15 June 1993	RMB15,000,000	–	100%	Investment holding
Shenzhen SCAS Electric Machinery Co., Ltd. (深圳市中汽南方機電設備有限公司)		The PRC 25 November 1996	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Automobile Maintenance Co., Ltd. (深圳市中汽南方汽車維修有限公司)		The PRC 14 August 2000	RMB2,000,000	–	100%	Provision of automobile maintenance services
Guangdong SCAS Automobile Sales Services Co., Ltd. (廣東中汽南方汽車銷售服務有限公司)		The PRC 21 July 2004	RMB10,000,000	–	100%	Automobile dealership
Dongguan SCAS Automobile Sales Services Co., Ltd. (東莞中汽南方汽車銷售服務有限公司)		The PRC 30 July 2004	RMB5,000,000	–	100%	Automobile dealership
Zhongshan SCAS Automobile Sales Services Co., Ltd. (中山中汽南方汽車銷售服務有限公司)		The PRC 29 April 2011	RMB5,000,000	–	100%	Automobile dealership
Zhuhai SCAS Automobile Sales Services Co., Ltd. (珠海中汽南方汽車銷售服務有限公司)		The PRC 10 March 2005	RMB5,000,000	–	100%	Automobile dealership
Hunan SCAS Automobile Sales Services Co., Ltd. (湖南中汽南方汽車銷售服務有限公司)		The PRC 26 May 2005	RMB10,000,000	–	90%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hainan SCAS Automobile Sales Services Co., Ltd. (海南中汽南方汽車銷售服務有限公司)		The PRC 23 May 2008	RMB20,000,000	–	100%	Automobile dealership
Fujian SCAS Automobile Sales Services Co., Ltd. (福建中汽南方汽車銷售服務有限公司)		The PRC 29 April 2005	RMB10,000,000	–	100%	Automobile dealership
Beijing SCAS North China Automobile Services Co., Ltd. (北京中汽南方華北汽車服務有限公司)		The PRC 2 July 2001	RMB10,000,000	–	100%	Automobile dealership
Beijing BWWR Automobile Sales Services Co., Ltd. (北京百旺沃瑞汽車銷售服務有限公司)		The PRC 27 March 2008	RMB5,000,000	–	100%	Automobile dealership
Beijing Dewanlong Trading Co., Ltd. (北京德萬隆經貿有限公司)		The PRC 9 September 1999	RMB10,000,000	–	100%	Automobile dealership
Beijing SCAS Zhongguan Automobile Sales Co., Ltd. (北京中汽南方中關汽車銷售有限公司)		The PRC 19 March 2010	RMB5,000,000	–	100%	Automobile dealership
Tianjin SCAS Automobile Sales Services Co., Ltd. (天津中汽南方汽車銷售服務有限公司)		The PRC 21 May 2004	RMB10,000,000	–	100%	Automobile dealership
Tianjin Automobile Industry SCAS Sales Co., Ltd. (天津汽車工業銷售深圳南方有限公司)		The PRC 28 November 1995	RMB20,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd. (深圳市南方騰星汽車銷售服務有限公司)		The PRC 15 May 2006	RMB30,000,000	–	100%	Automobile dealership
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd. (深圳市南方英菲尼迪汽車銷售服務有限公司)		The PRC 19 October 2006	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Changfu Automobile Sales Co., Ltd. (深圳市中汽南方長福汽車銷售有限公司)		The PRC 10 December 2004	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengtian Automobile Sales Services Co., Ltd. (深圳市南方騰田汽車銷售服務有限公司)		The PRC 24 March 2006	RMB10,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd. (深圳市南方騰龍汽車銷售服務有限公司)		The PRC 5 December 2005	RMB5,000,000	–	100%	Automobile dealership
Shenzhen SCAS Toyota Automobile Sales Services Co., Ltd. (深圳南方豐田汽車銷售服務有限公司)		The PRC 9 April 2002	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd. (清遠南方合眾汽車銷售服務有限公司)		The PRC 31 December 2009	RMB3,000,000	–	100%	Automobile dealership
Qingyuan SCAS Heda Automobile Sales Services Co., Ltd. (清遠南方合達汽車銷售服務有限公司)		The PRC 26 October 2010	RMB8,000,000	–	100%	Automobile dealership
Qingyuan SCAS Toyota Automobile Sales Services Co., Ltd. (清遠南方豐田汽車銷售服務有限公司)		The PRC 17 October 2008	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Supply Chain Investment Holding (Shenzhen) Co., Ltd. (正通供應鏈投資控股(深圳)有限公司)	(i)	The PRC 10 January 2012	USD7,000,000	–	100%	Investment holding
Baotou Lizhongyou Materials Co., Ltd. (包頭市利中友物資有限公司)		The PRC 6 November 2003	RMB1,000,000	–	100%	Spare parts
Changchun Yilong Transportation Co., Ltd. (長春億隆運輸有限公司)		The PRC 24 October 2008	RMB5,000,000	–	94%	Provision of auto-mobile related logistic services
Wuhan Yuntong Investment Management Co., Ltd. (武漢運通行投資管理有限公司)		The PRC 1 March 2012	RMB10,000,000	–	100%	Investment holding
Shanxi Zhengtong Lanbo Automobile Sales Services Co., Ltd. (山西正通蘭博汽車銷售服務有限公司)		The PRC 5 April 2012	RMB10,000,000	–	100%	Automobile dealership
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd. (東莞寮步中汽南方汽車銷售服務有限公司)		The PRC 15 May 2012	RMB10,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd. (廣東中汽南方勝沃汽車銷售服務有限公司)		The PRC 11 June 2012	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Maintenance Co., Ltd. (武漢寶澤行汽車維修服務有限公司)		The PRC 12 June 2012	RMB10,000,000	–	100%	Provision of automobile maintenance services
Jingdezhen Shengtong Trading Co., Ltd. (景德鎮升通貿易有限公司)		The PRC 20 June 2012	RMB10,000,000	–	100%	Automobile parts sales
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd. (珠海中汽南方捷路汽車銷售服務有限公司)		The PRC 21 June 2012	RMB10,000,000	–	100%	Automobile dealership
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd. (湖南中汽南方星沙汽車銷售服務有限公司)		The PRC 27 June 2012	RMB10,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd. (東莞正通凱迪汽車銷售有限公司)		The PRC 29 October 2012	RMB10,000,000	–	100%	Automobile dealership
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd. (江西正通澤田汽車銷售服務公司)		The PRC 19 November 2012	RMB10,000,000	–	100%	Automobile dealership
Shanghai Zhengtong Zhonghui Automobile Sales Services Co., Ltd. (上海正通眾輝汽車銷售服務有限公司)		The PRC 21 December 2012	RMB10,000,000	–	100%	Automobile dealership

18 INVESTMENT IN SUBSIDIARIES (continued)

Notes:

(i) These entities are incorporated in the PRC as wholly foreign-owned enterprises by Rising Wave Development Limited.

(ii) This entity is a 4S dealership company ultimately owned and controlled by Mr. Wang Muqing (the "Controlling Shareholder") through indirect equity holdings. The Group, also owned and controlled by the Controlling Shareholder, controlled this entity through certain agreements (the "Contractual Arrangements") with the entity and its equity holder.

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

(iv) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Wealth Fame Holdings Limited.

(v) Except for Big Glory International Limited, Rising Wave Development Limited, Tongda Group (China) Co., Ltd., Silver Journey Global Limited, Acme Joy Group Limited, Chang Jun Limited, Top Globe Limited and Wealth Fame Holdings Limited, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

19 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Share of net assets	141,037	141,602

Details of the Group's interest in the jointly controlled entity are as follows:

			Proportion of ownership interest		
Name of the investee	Place of incorporation/ establishment	Particulars of issued and paid up capital	Group's effective interest	held by subsidiaries	Principal activities
Guangzhou Fengshen Logistics Co., Ltd.	The PRC	RMB60,000,000	50%	50%	Provision of automobile related logistics

Summary of financial information on jointly controlled entity

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit RMB'000
31 December 2011					
100 per cent	698,177	414,973	283,204	1,000,106	42,254
Group's effective interest	349,089	207,487	141,602	500,053	21,127
31 December 2012					
100 per cent	700,610	418,536	282,074	1,137,003	38,870
Group's effective interest	350,305	209,268	141,037	568,502	19,435

19 INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

For the periods presented, no adjustments have been made (or are necessary) to conform the jointly controlled entity's accounting policies to those of the Group as there are no material differences between the accounting policies adopted by the jointly controlled entity and the Group.

20 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group At 31 December 2012 RMB'000	2011 RMB'000
Motor vehicles	3,001,337	3,039,142
Automobile spare parts	259,146	199,173
Others	9,069	5,708
	3,269,552	3,244,023

As at 31 December 2012, there was no inventories carried at net realisable value (2011: RMB3,141,000).

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

	The Group At 31 December 2012 RMB'000	2011 RMB'000
Carrying amount of inventories sold	24,933,004	12,891,630

Inventories with carrying amount of RMB1,060,263,000 have been pledged as security for the bills payable (see note 25) as at 31 December 2012 (2011: RMB1,330,287,000).

Inventories with carrying amount of RMB158,672,000 have been pledged as security for loans and borrowings from banks and other financial institutions (see note 24) as at 31 December 2012 (2011: RMB159,734,000).

21 TRADE AND OTHER RECEIVABLES

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables	370,946	291,207	–	–
Bills receivable	4,725	7,887	–	–
	375,671	299,094	–	–
Prepayments	738,931	1,374,323	7,840	7,840
Deposit within an escrow account	–	300,000	–	300,000
Other receivables and deposits	1,950,719	972,159	16,123	215
Receivables due from third parties	3,065,321	2,945,576	23,963	308,055
Receivables due from subsidiaries	–	–	138,676	32,920
Receivables due from related parties (note 35(c))	–	282	–	–
Trade and other receivables	3,065,321	2,945,858	162,639	340,975

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

Trade and other receivables with carrying amount of RMB28,757,000 are pledged against bank loans (see note 24) as at 31 December 2012 (2011: RMB38,500,000).

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	
	2012 RMB'000	2011 RMB'000
Current	360,298	279,644
Less than 3 months past due	8,614	7,201
3 to 12 months past due	6,564	10,055
1 year past due	195	2,194
Total amount past due	15,373	19,450
	375,671	299,094

Details on the Group's credit policy are set out in note 32(a).

22 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Bank loans (note 24)	**119,574**	18,554
Bills payable (note 25)	**1,174,638**	1,150,355
Total	**1,294,212**	1,168,909

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

23 CASH AND CASH EQUIVALENTS

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Deposit with banks within 3 months of maturity	**–**	5,910	**–**	–
Cash at banks and on hand	**1,202,800**	1,090,861	**125,852**	136,612
Cash and cash equivalents in consolidated cash flow statements	**1,202,800**	1,096,771	**125,852**	136,612

24 LOANS AND BORROWINGS

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

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current				
Unsecured bank loans (i)	1,615,000	1,955,652	–	–
Unsecured borrowings from other financial institutions	500,000	–	–	–
	2,115,000	1,955,652	–	–
Secured bank loans (ii)	460,636	1,208,541	–	–
Secured borrowings from other financial institutions (iii)	63,200	56,177	–	–
Other secured borrowing	–	1,000,000	–	1,000,000
	2,638,836	4,220,370	–	1,000,000
Secured long-term bank loans repayable within 1 year (ii)(v)	1,055,241	–	1,055,241	–
Sub-total	3,694,077	4,220,370	1,055,241	1,000,000
Non-current				
Secured bank loans (ii)(v)	1,204,874	–	1,204,874	–
Sub-total	1,204,874	–	1,204,874	–
Total	4,898,951	4,220,370	2,260,115	1,000,000

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

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Loans and borrowings:				
– secured by assets of the Group (iv)	523,836	1,264,718	–	–
– secured by shares (v)	2,260,115	1,000,000	2,260,115	1,000,000
Total	2,783,951	2,264,718	2,260,115	1,000,000

24 LOANS AND BORROWINGS (continued)

(i) Unsecured bank loans carried interest at annual rates ranging from 5.88% to 7.50% as at 31 December 2012 (2011: from 6.06% to 9.00%).

(ii) Secured bank loans carried interest at annual rates ranging from 5.88% to 7.65% as at 31 December 2012 (2011: from 4.88% to 7.87%).

(iii) Borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 6.31% to 8.50% as at 31 December 2012 (2011: from 6.99% to 8.50%).

(iv) As at 31 December 2012, the following assets of the Group had been pledged to secure for the Group's banking facilities totalling to RMB1,010,514,000 (2011: RMB1,543,570,000):

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Inventories	158,672	159,734
Pledged bank deposits	119,574	18,554
Property, plant and equipment	41,245	77,003
Lease prepayments	45,183	52,655
Trade and other receivables	28,757	38,500
Total	393,431	346,446

As of 31 December 2012, the above banking facilities were utilised to the extent of RMB523,836,000 (2011: RMB1,264,718,000).

Certain banking facilities of the Group's subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the subsidiaries were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 32(b). As at 31 December 2012, none of the covenants relating to drawn down facilities had been breached (2011: None).

(v) In 2012, the Company has entered into a bank loan arrangement with a group of banks pursuant to which initial facilities of USD50,000,000 and HKD930,000,000 and a greenshoe facility of up to USD200,000,000 have been granted to the Company which will be expired on 16 November 2013 and 11 March 2014. The facilities are jointly guaranteed by certain subsidiaries of the Group by pledges of the shares of these subsidiaries. As at 31 December 2012, the carrying value of the loans outstanding amounted to USD242,840,000 (equivalent to RMB1,515,437,000) and HKD904,834,000 (equivalent to RMB744,678,000) respectively.

25 TRADE AND OTHER PAYABLES

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables	275,411	131,339	–	–
Bills payable	2,854,197	2,865,830	–	–
	3,129,608	2,997,169	–	–
Receipts in advance	407,111	543,644	–	–
Other payables and accruals	372,754	615,584	33	300,000
Payables due to third parties	3,909,473	4,156,397	33	300,000
Payables due to subsidiaries	–	–	13,273	–
Trade and other payables	3,909,473	4,156,397	13,306	300,000

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

Bills payable of RMB1,174,638,000 as at 31 December 2012 (2011: RMB1,150,355,000) were secured by pledged bank deposits (see note 22).

Bills payable of RMB1,679,559,000 as at 31 December 2012 (2011: RMB1,715,475,000) were secured by inventories (see note 20).

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

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Due within 3 months	2,989,821	2,981,984
Due after 3 months but within 6 months	139,040	14,303
Due after 6 months but within 12 months	747	882
	3,129,608	2,997,169

26 EMPLOYEE RETIREMENT BENEFITS

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

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

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	RMB1.7	22,663,500	RMB1.7	23,435,900
Exercised during the year	RMB1.6	(8,685,240)	–	–
Forfeited during the year	RMB2.0	(4,829,860)	RMB1.7	(772,400)
Outstanding at the end of the year	RMB1.6	9,148,400	RMB1.7	22,663,500
Exercisable at the end of the year	RMB2.1	1,945,510	–	–

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 3.56 years (2011: 3.76 years).

Total expenses of RMB2,660,000 (2011: RMB15,488,000) were recognised as personnel expenses during the year ended 31 December 2012 (see note 6(b)).

28 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group:

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Inventory provision RMB'000	Deferred revenue RMB'000	Accrued expenses RMB'000	Capitalisation of interest RMB'000	Total RMB'000
Deferred tax assets/(liabilities) arising from:								
At 1 January 2011	(14,783)	(3,932)	1,401	–	–	3,924	–	(13,390)
Acquisition of subsidiaries through business combination	(968,919)	(3,415)	3,059	771	5,185	7,083	–	(956,236)
Credited/(charged) to profit or loss	3,827	–	5,920	–	857	(4,509)	–	6,095
At 31 December 2011	(979,875)	(7,347)	10,380	771	6,042	6,498	–	(963,531)
Credited/(charged) to profit or loss (note 7(a))	49,787	(690)	7,970	(771)	(1,910)	(6,498)	(2,374)	45,514
At 31 December 2012	(930,088)	(8,037)	18,350	–	4,132	–	(2,374)	(918,017)

	The Group At 31 December 2012 RMB'000	The Group At 31 December 2011 RMB'000
Representing:		
Net deferred tax assets	20,240	21,270
Net deferred tax liabilities	(938,257)	(984,801)
	(918,017)	(963,531)

Deferred tax liabilities not recognised:

At 31 December 2012, temporary differences relating to the Group's undistributed profits of subsidiaries located in the PRC amounted to RMB1,630,518,000 (2011: RMB873,691,000). Deferred tax liabilities of RMB143,993,000 (2011: RMB84,606,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

29 SHARE CAPITAL

The share capital of the Group represents the issued capital of the Company at the respective balance sheet dates.

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

	Note	2012 Number of shares (thousand)	2012 Amount HK$('000)	2011 Number of shares (thousand)	2011 Amount HK$('000)
Ordinary shares, authorised:					
Ordinary shares of HK$0.10 each		20,000,000	2,000,000	20,000,000	2,000,000
Ordinary shares, issued and fully paid (note (a)):					
At 1 January 2011		2,200,000	220,000	2,000,000	200,000
Issues of ordinary shares under placing		–	–	200,000	20,000
Shares issued pursuant to pre-IPO employee share option scheme		8,685	868	–	–
At 31 December		2,208,685	220,868	2,200,000	220,000
RMB equivalent ('000)			188,666		187,959

(a) Issued share capital

(i) Pursuant to a share placing agreement dated 28 July 2011, the Company completed a share placing by issuing 200,000,000 ordinary shares at a price of HK$10.45 per share on 9 August 2011. Consequently, RMB16,539,000 (equivalent to HK$20,000,000) were recorded in share capital.

(ii) During the year ended 31 December 2012, certain options were exercised to subscribe for 8,685,240 ordinary shares at HK$1.85, HK$2.47 and HK$3.07 respectively, with a total consideration of HK$17,167,000 (equivalent to RMB13,973,000), of which HK$868,000 (equivalent to RMB707,000) was credited to share capital.

30 RESERVES

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

	Attributable to shareholders of the Company			
	Share premium RMB'000	Capital reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2011	2,852,840	79,972	(23,565)	2,909,247
Issue of ordinary shares by placing, net of issuance costs (note 30(a)(i))	1,667,516	–	–	1,667,516
Equity settled share-based transactions (note 27)	–	15,488	–	15,488
Total comprehensive income for the year	–	–	(19,324)	(19,324)
Balance at 31 December 2011 and 1 January 2012	**4,520,356**	**95,460**	**(42,889)**	**4,572,927**
Shares issued pursuant to pre-IPO-employee share option scheme (note 30(a)(ii))	24,551	(11,285)	–	13,266
Equity settled share-based transactions (note 27)	–	2,660	–	2,660
Total comprehensive income for the year	–	–	(131,247)	(131,247)
Balance at 31 December 2012	**4,544,907**	**86,835**	**(174,136)**	**4,457,606**

(a) Share premium

(i) Pursuant to a share placing agreement dated 28 July 2011, the Company completed a share placing by issuing 200,000,000 ordinary shares at a price of HK$10.45 per share on 9 August 2011.

Total net proceeds, after deducting issuance costs of HK$53,559,000, amounted to HK$2,036,441,000 (equivalent to approximately RMB1,684,055,000), of which HK$20,000,000 (equivalent to approximately RMB16,539,000) was credited to share capital and the remaining HK$2,016,441,000 (equivalent to approximately RMB1,667,516,000) was credited to the share premium account.

(ii) During the year ended 31 December 2012, certain options were exercised to subscribe for 8,685,240 ordinary shares at HK$1.85, HK$2.47 and HK$3.07 respectively, with a total consideration of HK$17,167,000 (equivalent to RMB13,973,000).

The excess of the total consideration over the par value of the shares, amounting to RMB13,266,000, was credited to share premium account. RMB11,285,000 has been transferred from capital reserves to share premium account in accordance with policy set out in note 2(p)(iii).

30 RESERVES (continued)

(b) Capital reserves

In December 2011, the Group acquired additional 30% interest in Baotou Baoze Automobile Sales Services Co., Ltd ("Baotou Baoze") for RMB60 million in cash, increasing its ownership from 70% to 100%. The carrying amount of Baotou Baoze's net assets in the Group's consolidated financial statements on the date of the acquisition was approximately RMB50 million. The Group recognised a decrease in non-controlling interests of approximately RMB15 million and a decrease in capital reserve of approximately RMB45 million.

(c) PRC statutory reserves

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

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

(d) Exchange reserves

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

(e) Discretionary surplus reserves

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

(f) Distributable reserves

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

At 31 December 2012, distributable reserves of the Company amounted to RMB4,457,606,000 (31 December 2011: RMB4,572,927,000).

(g) Capital risk management

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

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

30 RESERVES (continued)

(g) Capital risk management (continued)

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans and borrowings, bills payable less cash and cash equivalents, time deposits and pledged bank deposits, and capital is defined as the total equity.

The net debt-to-capital ratios at 31 December 2012 and 31 December 2011 were as follows:

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Loans and borrowings (note 24)	**4,898,951**	4,220,370	**2,260,115**	1,000,000
Bills payable (note 25)	**2,854,197**	2,865,830	**–**	–
Total borrowings	**7,753,148**	7,086,200	**2,260,115**	1,000,000
Less: Pledged bank deposits (note 22)	**(1,294,212)**	(1,168,909)	**–**	–
Time deposits	**(4,100)**	(11,800)	**–**	–
Cash and cash equivalents (note 23)	**(1,202,800)**	(1,096,771)	**(125,852)**	(136,612)
Net debt	**5,252,036**	4,808,720	**2,134,263**	863,388
Total equity	**6,800,587**	6,321,919	**4,646,272**	4,760,886
Net debt-to-capital ratio	**0.77**	0.76	**0.46**	0.18

The Group is subject to capital requirements imposed by certain banks as disclosed in note 24(iv).

31 ACQUISITION OF NON-CONTROLLING INTERESTS

In July 2012, the Group acquired an additional 25% interest in Dongguan Jieyunhang Automobile Sales Services Co., Ltd. ("Dongguan Jieyunhang") for a total cash consideration of RMB150,000,000, increasing its ownership from 75% to 100%. The carrying amount of Dongguan Jieyunhang's net assets in the Group's consolidated financial statements on the date of the acquisition was RMB108,886,000. The Group recognised a decrease in non-controlling interests of RMB27,222,000 and a decrease in capital reserve of approximately RMB122,778,000.

The followings summaries the effect of changes in the Group's ownership interest in Dongguan Jieyunhang.

	The Group At 31 December 2012 RMB'000
The Group's ownership interest at 1 January	59,828
Effect of increase in the Group's ownership interest	27,222
Share of comprehensive income	44,739
The Group's ownership interest at 31 December	131,789

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

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

– credit risk

– liquidity risk

– interest rate risk

– foreign currency risk

– fair value

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

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

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(a) Credit risk

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

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

At the respective balance sheet dates, the Group has certain concentration of credit risk as prepayments to vendors and other receivables due from vendors constitute a large portion of trade and other receivables. The receivables from the five largest debtors at 31 December 2012 represented 63% of the total trade and other receivables (2011: 40%), while 22% of the total trade and other receivables were due from the largest single debtor (2011: 13%).

The Group does not provide any other guarantees outside the Group which would expose the Group to credit risk.

(b) Liquidity risk

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

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

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

The following are the contractual maturities of the Group's financial liabilities at 31 December 2012, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

The Group

	At 31 December 2012 Contractual undiscounted cash outflow				At 31 December 2011 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	3,955,952	1,228,210	5,184,162	4,898,951	4,393,121	-	4,393,121	4,220,370
Trade and other payables	3,909,473	-	3,909,473	3,909,473	4,156,397	-	4,156,397	4,156,397
	7,865,425	1,228,210	9,093,635	8,808,424	8,549,518	-	8,549,518	8,376,767

The Company

	At 31 December 2012 Contractual undiscounted cash outflow				At 31 December 2011 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	1,242,586	1,228,210	2,470,796	2,260,115	1,099,452	-	1,099,452	1,000,000
Trade and other payables	13,306	-	13,306	13,306	300,000	-	300,000	300,000
	1,255,892	1,228,210	2,484,102	2,273,421	1,399,452	-	1,399,452	1,300,000

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, time deposits, pledged bank deposits, and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with fixed interest rates ranging from 0.01% to 1.49% per annum as at 31 December 2012 (2011: 0.01% to 0.50%). Time deposits are with fixed interest rates of 3.00% per annum as at 31 December 2012 (2011: 1.35% to 2.75%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the Group, with fixed interest rates ranging from 0.35% to 2.86% per annum as at 31 December 2012 (2011: 0.36% to 1.98%).

The Group's interest-bearing borrowings and interest rates as at 31 December 2012 are set as follows:

		The Group At 31 December	
	Interest Rate	2012 RMB'000	2011 RMB'000
Fixed rate borrowings	5.88% to 8.50%	1,604,132	1,086,983
Variable rate borrowings	5.88% to 7.54%	3,294,819	3,133,387
		4,898,951	4,220,370

		The Company At 31 December	
	Interest Rate	2012 RMB'000	2011 RMB'000
Fixed rate borrowings	–	–	1,000,000
Variable rate borrowings	6.81% to 6.90%	2,260,115	–
		2,260,115	1,000,000

(ii) Sensitivity analysis

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

A general increase/decrease of 100 basis points in interest rates prevailing at 31 December 2012, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB30,361,430 (2011: RMB13,087,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2011.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk

The Group is exposed to currency risk primarily through borrowings and cash balances that are dominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(i) Exposure to currency risk

The following table details the group's and the company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

The Group

	2012		2011	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	43,157	99,543	26	235,688
Loans and borrowings	(1,515,436)	(744,679)	–	(987,114)
Net exposure	(1,472,279)	(645,136)	26	(751,426)

The Company

	2012		2011	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	931	1,474	–	18,199
Loans and borrowings	(1,515,436)	(744,679)	–	–
Net exposure	(1,514,505)	(743,205)	–	18,199

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	5%	(74,672)	5%	1
	(5)%	74,672	(5)%	(1)
Hong Kong Dollars	5%	(32,928)	5%	(43,609)
	(5)%	32,928	(5)%	43,609

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2011.

(e) Fair values

At 31 December 2012 and 2011, all financial assets and liabilities were carried at amounts not materially different from their fair values.

33 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at 31 December 2012 not provided for in the consolidated financial statements were as follows:

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Contracted for	66,186	48,738

The Company has no capital commitments outstanding at 31 December 2012.

(b) Operating lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group At 31 December		The Company At 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 1 year	148,849	117,542	1,499	1,503
After 1 year but within 5 years	423,068	303,709	–	1,503
After 5 years	455,074	258,905	–	–
	1,026,991	680,156	1,499	3,006

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

34 CONTINGENT LIABILITIES

Financial guarantees issued

As at 31 December 2012, 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 2012, 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 2012 under the guarantees by the Company is the aggregate amount of the facilities drawn down by the subsidiaries of RMB1,040,030,000 (2011: RMB974,763,000).

35 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Wang Muqing 王木清	Controlling Shareholder
Hubei Shengze Industry Co., Ltd. ("Hubei Shengze") 湖北聖澤實業有限公司	Controlled by the Controlling Shareholder
Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze Technology") 北京寶澤汽車科技發展有限公司	Controlled by the Controlling Shareholder
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by the Controlling Shareholder
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze Ruibao") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Jieyun") 武漢聖澤捷運貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong") 武漢聖澤捷眾物流有限公司	Controlled by the Controlling Shareholder

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

(a) Recurring transactions

	The Group For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Rental expense:		
Hubei Shengze	3,624	3,624
Beijing Baoze Technology	6,516	6,516
Inner Mongolia Shengze Dingjie	1,092	1,092
Changsha Shengze Ruibao	2,100	2,100
Wuhan Jieyun	6,300	6,300
Wuhan Jiezhong	1,500	1,500
	21,132	21,132

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

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions

	The Group For the year ended 31 December	
	2012 RMB'000	2011 RMB'000
Acquisition of subsidiaries from:		
Hubei Shengze	–	40,000
Capital contribution by the equity holder of the Company:	–	10,000

(c) Balances with related parties

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

	The Group At 31 December	
	2012 RMB'000	2011 RMB'000
Other receivables due from:		
Beijing Baoze Technology	–	282

(d) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 8 and note 9.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expenses above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Reports of the directors.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of new standards, amendments and Interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

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

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

(continued)

HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. HKFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required. The Group estimates that the adoption of HKFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 financial statements.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Depreciation

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

(b) Impairment losses on trade and other receivables

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

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Income tax

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

(d) Provision for inventories

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

(e) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisition of subsidiaries and jointly controlled entities through business combination, the assets acquired and liabilities assumed are adjusted to their estimated fair values on the respective date of acquisition. The determination of the values of assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed.

(f) 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 RMB1,926,551,000 (2011: RMB1,926,551,000) as at 31 December 2012. More details are given in Note 17.

38 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2012 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Kunpeng *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Chen Tao *(Vice President)*
Mr. Shao Yong Jun *(Vice President)*

Non-executive Director
Mr. Wang Muqing

Independent non-executive Directors
Dr. Wong Tin Yau, Kelvin
Mr. Tan Xiangyong
Mr. Zhang Yansheng

REGISTERED OFFICE

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WEBSITE ADDRESS

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COMPANY SECRETARY

Ms. Luo Xiao Jing

AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Ms. Luo Xiao Jing

MEMBERS OF THE OPERATION AND MANAGEMENT COMMITTEE

Mr. Wang Kunpeng *(Chairman)*
Mr. Li Zhubo
Mr. Chen Tao
Mr. Shao Yong Jun
Mr. Li Yi
Mr. Wang Limin

MEMBERS OF THE AUDIT COMMITTEE

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

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Zhang Yansheng *(Chairman)*
Mr. Shao Yong Jun
Mr. Tan Xiangyong

MEMBERS OF THE REMUNERATION COMMITTEE

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

HONG KONG SHARE REGISTRAR

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PRINCIPAL BANKERS

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

AUDITORS

KPMG
Certified Public Accountants

HONG KONG LEGAL COUNSEL

Chiu & Partners
Solicitors

正通

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