中升集團控股有限公司

ZHONGSHENG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 881

Zhongsheng Group
Lifetime Partner
中升集團 • 終生夥伴

Annual Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

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

Non-executive Director
Mr. Leng Xuesong

Independent Non-executive Directors
Mr. Shigeno Tomihei
Mr. Ng Yuk Keung
Mr. Shen Jinjun

CORPORATE HEADQUARTERS
7th Floor, Raffles City
Beijing Office Tower
No. 1 Dongzhimen South Street
Dongcheng District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 3504–12
35th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

LEGAL ADVISERS TO HONG KONG LAW
Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
Central
Hong Kong

JOINT COMPANY SECRETARIES
Ms. Kam Mei Ha Wendy
Ms. Mak Sze Man

AUTHORIZED REPRESENTATIVES
Mr. Huang Yi
Ms. Kam Mei Ha Wendy

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

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

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

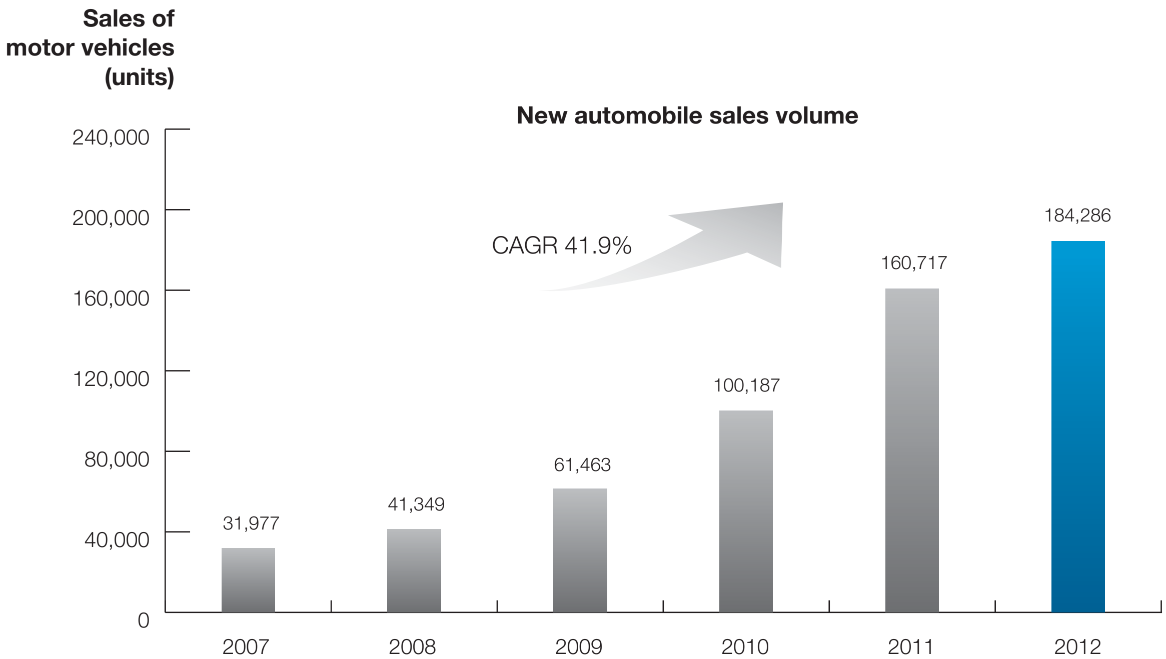
COMPLIANCE COMMITTEE
Mr. Du Qingshan *(Chairman)*
Mr. Huang Yi
Mr. Li Guoqiang

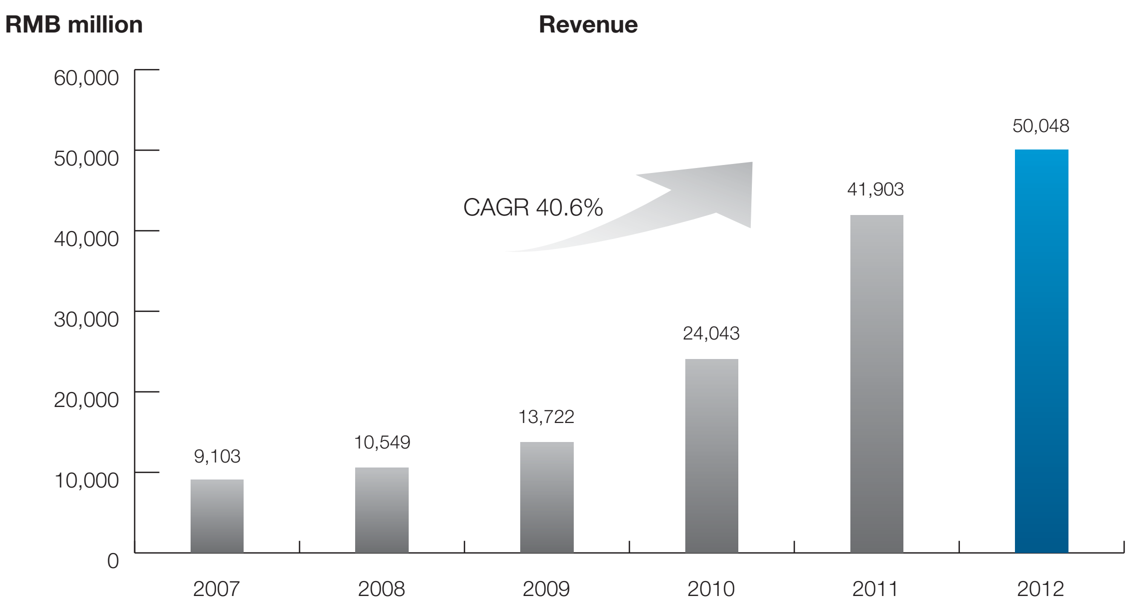
HONG KONG SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
881

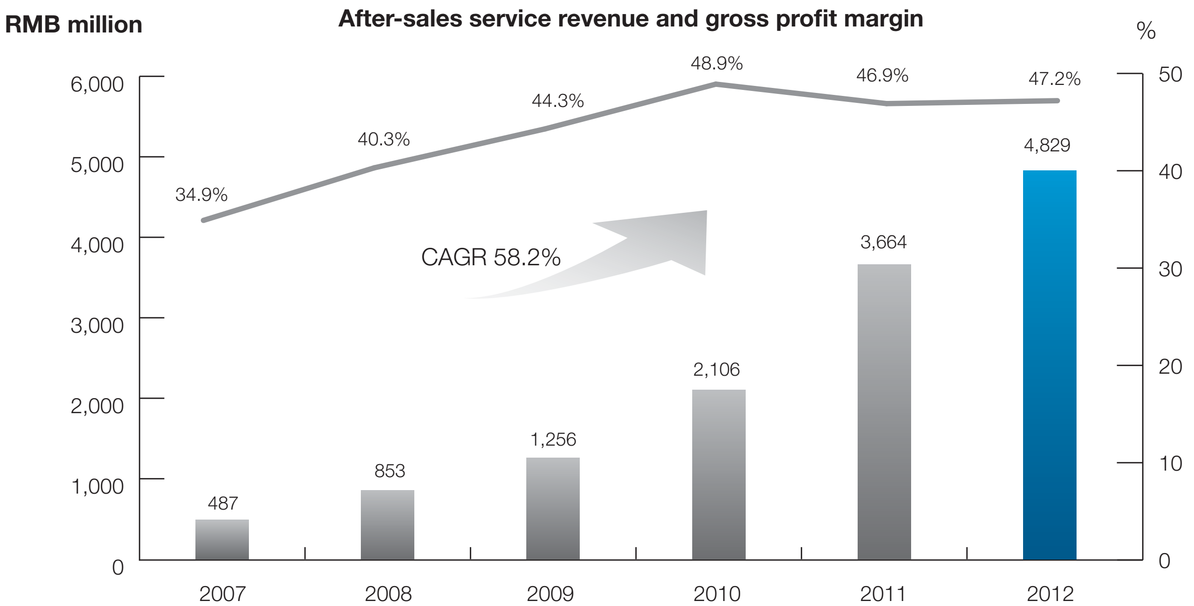
AUDITORS
Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

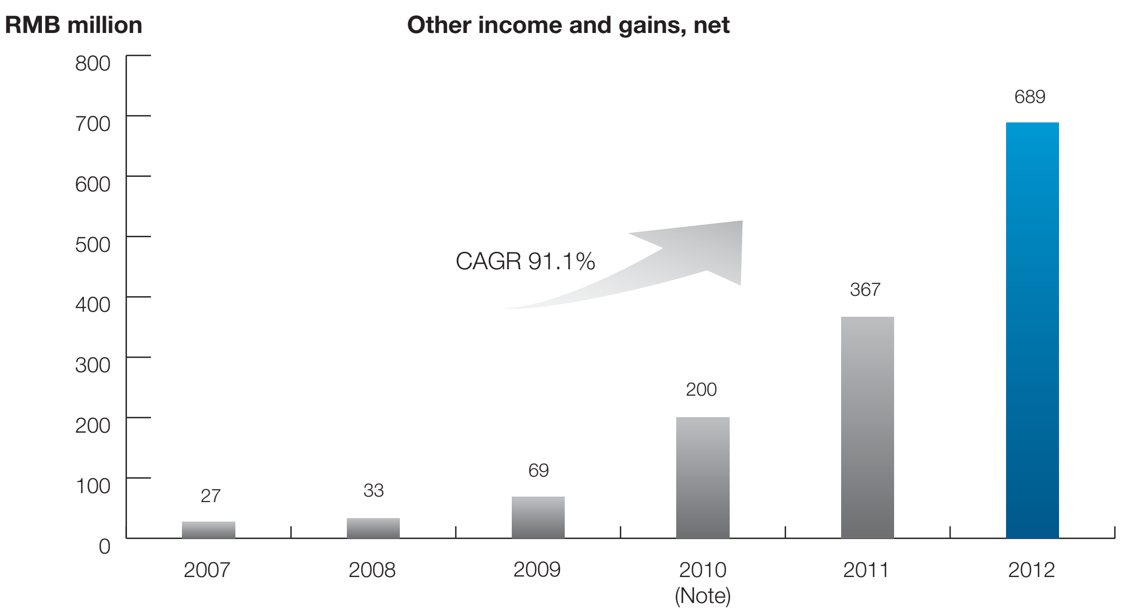
Financial Highlights





Financial Highlights (continued)





Note: Excluding the non-recurring gains of RMB122 million in 2010 arising from disposal of land use rights, property, plant and equipment and a subsidiary.

Chairman's Statement

Huang Yi
Chairman

Dear honourable shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Zhongsheng Group Holdings Limited ("**Zhongsheng**" or the "**Company**"), I am very pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2012.

Affected by the global economic downturn, China's economy still grew at a slow pace during 2012. During the year of 2012, the automobile market in China has seen a single-digit growth for two consecutive years and more intense competition in new automobile sales. Every brand automobile owner has enhanced its marketing efforts in order to attract customers. A significant increase in the inventory level of automobile dealers caused by the keener competition and an increase in financial costs brought an adverse impact on the profit of the automobile dealers in 2012. In addition, the sales of Japanese brand automobiles were also impacted by the islands dispute in early September of 2012.

2012 was a year full of challenges for the automobile dealers. Despite an overall slowdown in the automobile industry, the Group was still able to fully capitalize on its leading advantage in the industry to actively exploit potential markets. In addition to the new automobile sales business, the Group, with its philosophy of providing quality customer-oriented services, has also spared no effort in the development of its after-sales services business and other value-added business, and diversified and optimized the industry chain. In 2012, the Group recorded a revenue of RMB50,048.3 million, representing an increase of 19.4% from RMB41,903.4 million for 2011. The revenue from sales of new automobiles increased by 18.3% to RMB45,219.2 million from RMB38,239.5 million for 2011. The revenue from after-sales services business increased by 31.8% to RMB4,829.1 million from RMB3,663.9 million for 2011. However, impacted by severe market conditions, profit attributable to owners of the parent for 2012 amounted to RMB750.5 million, representing a decrease of 47.0% from RMB1,417.3 million for 2011. Earnings per share was RMB0.39 (2011: RMB0.74).

Zhongsheng has maintained a stable and progressive pace in this challenging environment. The Group was selected as a constituent stock of Hang Seng Mainland 100 Index in March 2012 and thus became one of the performance indexes of domestic companies in the Hong Kong stock market. Such privilege enhanced the reputation and corporate image of the Group and increased our prestige and influence in the international capital market, which served as a benchmark for investors to assess our development potentials. In addition, in 2012 the Group has been selected by Forbes magazine as "The 50 BEST Publicly Traded Companies in Asia-Pacific ("FAB50")" for two consecutive years. As the only automobile dealership enterprise in the Asia region that won the award, the Group's leading position in the automobile dealership industry was further established.

During the year, we have continued to further expand our existing 4S dealerships network by organic growth and strategic acquisitions to consolidate and expand our market shares in various cities and enhance our competitive edge. In 2012, we have set up 16 new dealerships in economically affluent regions or regions with strong growth potential such as Shandong, Zhejiang, Guangdong, Fujian and Sichuan. We have also actively approached companies with potential and successfully acquired 4 dealerships in Zhejiang, Fujian and Guangdong. As of 31 December 2012, the Group had 160 automobile dealerships, representing an increase of 20 dealerships from the date of 2011 Annual Report, covering 15 provinces and regions and nearly 60 cities in China.

As a large-scale automobile dealership, the Group endeavours to seize market opportunities and actively expand the business scale. The core management team of the Group has extensive experience in the sales of automobiles. We have continued to strengthen the Group's internal management and business integration, so as to enhance the Group's core competitiveness.

According to the data published by China Association of Automobile Manufacturers, since 2009, China has been the world's largest new passenger vehicle market for four consecutive years. A large number of ownership in automobiles has brought significant business opportunities for after-sales service business and second-hand car business. In addition, with the accelerating urbanization, the focus of the market demand for automobiles has gradually shifted from the first-tier cities to the second-, third-, and fourth-tier cities. During recent years, although urbanization in China has significantly accelerated, the construction of the urbanization has still been at the preliminary phase with relatively large room for development as compared to that in the developed countries such as European countries, and the United States. At the end of 2012, urbanization was included as one of the six priorities in the Central Economic Work Conference for 2013. The progress of urbanization has pushed up the urban population and the income level of urban dwellers, driving the increase of consumption and the improvement of related transportation infrastructure. Benefiting from the urbanization policy, the market demand for automobiles in the second-and-third-tier cities and rural areas would be stimulated, which would serve as a new momentum for the growth of domestic automobile sales volume. With expansion of nationwide dealership network across China, and a diversified and balanced luxury and mid-to-high-end brands portfolio, we believe that the Group will have unlimited opportunities.

Looking forward, with a corporate motto of "Zhongsheng Group – Lifetime Partner", we shall continue to optimize our brand portfolio and our nationwide network. While the development of urbanization will promote the sales of new automobiles, it will also bring business opportunities for after-sales service business and second-hand car business. Therefore, the Group will actively capture market opportunities to strengthen the core business and spare no effort to develop other businesses along the industry chain, in order to provide comprehensive quality services to customers and become their lifelong partner.

The growth of the Group should be credited to the dedication of all staff members, sincere cooperation of business partners and the support from all shareholders. I would like to express our sincere gratitude to all of you for your valuable contributions to our development.

Huang Yi
Chairman

Hong Kong, 25 March 2013

Chief Executive Officer's Statement

Li Guoqiang
Vice-Chairman and Chief Executive Officer

MARKET REVIEW

Affected by the global economic uncertainties and the slow-down of domestic macro-economic growth, the passenger vehicles market in China grew at a moderate pace in 2012. According to the statistics of China Association of Automobile Manufacturers, the monthly average and accumulated automobile sales in China amounted to over 1.5 million units and over 19 million units respectively in 2012, representing an increase of 4.3% as compared to last year. The sales volume of passenger vehicles reached 15.5 million units, representing an increase of 7.1% from last year. Though the automobile sales growth in China failed to resume the double-digit level in 2012, the industry remained optimistic towards the development of the passenger vehicles market in China thanks to its gradually maturing market demand, higher market concentration and improving industry structure.

The PRC government escalated the expansion of domestic demand to the "strategic policy" level and proposed long-term measures of accelerating the expansion of consumption demand to unleash the nation's consumption potentials and expand the domestic market. According to the China Institute for Reform and Development, the urban population in China is expected to increase by approximately 400 million in the next decade, bringing in the investment of RMB40,000 billion. According to a survey on urban residents in the fourth quarter of 2012, the consumption sentiments of urban residents have improved and 15.4% of urban residents intend to purchase automobiles in the next three months, a record high since the first documented survey in 1999. With the accelerating urbanization, the market demand for automobiles in the second–, third–, and fourth-tier cities and rural areas would be further stimulated, bringing new development opportunities for the automobile industry.

BUSINESS REVIEW

Strategic Expansion of Nationwide Dealership across China

During the year under review, the Group further detailed the strategic plan in response to the market trend and focused on reinforcing and expanding the market share and competitive edges in a number of key regions. Since the beginning of the year, we have set up 16 new dealerships in economically affluent or potential-rich regions such as Shandong, Zhejiang, Guangdong, Fujian and Sichuan, including six luxury brand dealerships and ten mid-to-high-end brand dealerships. Moreover, we successfully acquired four dealerships in Zhejiang, Fujian and Guangdong, including one Mercedes-Benz dealership, two Audi dealerships and one FAW-Toyota dealership. As at the date of this report, the dealerships of the Group totaled 160, representing an increase of 20 dealerships from the date of the 2011 Annual Report. The Group's dealerships comprise 53 luxury brand dealerships and 107 mid-to-high-end brand dealerships across 15 provinces and regions and nearly 60 cities in China.

The nationwide coverage of the Group's dealerships as of the date of this report is as follows:

	As of the date of this report	As of the date of 2011 Annual Report	Change
Northeastern region	**41**	37	4
Northern region	**9**	9	–
Eastern region	**42**	36	6
Southern region	**32**	26	6
Southwestern and Northwestern inland regions	**36**	32	4
Total	**160**	140	20

Optimization of Brand Portfolio and Improvement in Inventory Level

During the year under review, the Group further enhanced its existing brand portfolio by opening two dealerships of Jaguar Land Rover, two dealerships of Volvo and one dealership of Chrysler. Our luxury brands include Mercedes-Benz, Lexus, Audi, Porsche, Lamborghini, Jaguar Land Rover, Volvo and Chrysler. Our mid-to-high-end brands include Toyota, Nissan and Honda. The diversified and balanced brand portfolio allowed us to satisfy the market demand in different regions.

In the second half of 2012, the Group continuously improved its inventory level amidst intense industry competition and market change. As at the end of 2012, the inventory turnovers significantly improved as compared to the first half of 2012. Improved inventory level lowers the capital cost and enhances the profitability of the Group as a whole.

Diversifying After-sales Service Channels and Seizing Significant Business Opportunities in Other Value-added Services

China has been the world's largest new passenger vehicle market for four consecutive years. Meanwhile, automobile ownership in China has exceeded 120 million units. Yet the huge revenue potential of the after-sales services market has not been fully explored. As a one-stop automobile service dealer, we have had the insight into seizing this business opportunity. Adhering to the motto of "Zhongsheng Group – Lifetime Partner", we developed a competitive edge from our scale of integrated business, utilised its advantage based on the new automobile sales and deeply exploring the business value chain of the after-sales market.

In addition to promoting the sales of new automobile, we also strengthened our financing and insurance agency service business, enabling more people to fulfil the dream of car ownership while expanding our revenue channels. In respect of repairs and maintenance, we have been offering a more rapid, professional and comprehensive service to our customers through regular reminders and frequent tracking of the maintenance progress by our professional after-sales services team.

As the sales of new automobile was thriving, the second-hand car market also sprouted in China. Under the guidelines on the 12th 5-year plan on the development of the automobile distribution industry launched by The Ministry of Commerce, it was expressly stated that the country would promote the brand second-hand car market, and expedite the establishment of a reliable, systematic and effective second-hand car dealership network. The Group also made more effort in promoting second-hand car service business, highlighting our advantages in diversified brand portfolios, and providing professional services to cater to various needs of our customers.

In order to fulfil the unique needs of our high-end customers, the Group acquired a 70% equity interests in Carlsson Autotechnik GmbH, a world class automobile tuning company in May, 2012. The acquisition extended our business scope from traditional automobile dealership to new areas of professional customized automobile tuning as well as design and production of automobile accessories.

FUTURE STRATEGIES AND OUTLOOK

With our sound foundation, nationwide dealership network, diversified brand portfolios and experienced core management team, we still enjoy our leadership position amid fierce market competition. 2012 was a year full of challenges, but it has strengthened our confidence for the development in 2013 and the future. Facing the constantly changing automobile industry in China, the Group will make use of its existing resources and competitive edges to focus on developing luxury automobile brands business in more mature first-tier and second-tier cities, and continue integrating mid-to-high-end automobile brands in third-tier and fourth-tier cities with potential. On the other hand, the Group will also continue to enhance the after-sales services business and other value-added businesses by injecting more resources so as to further advance our service standards, earn more customer satisfaction and loyalty, and further boost our profitability.

Looking forward, Zhongsheng will offer a better comprehensive service to its customers and expand the profit stream and sustain its leading position in automobile dealership industry by further improving its new car sales and after-sales services business. With the implementation of the consolidation policy in automobile industry by The Ministry of Commerce, the Group will seek to capture the rising market opportunities and expand the business scale through organic growth and strategic acquisition. While speeding up the nationwide dealership network expansion to enhance our market position and business scale, we will actively explore the opportunities for acquisition and co-branding by identifying promising market players, in order to broaden and optimize our brand portfolio and dealership network.

All staff, business partners and investors and shareholders who continuously support the Group have always been the motivation that inspires us to move forward. In return, we will spare no effort in weathering the challenges and endeavour in building up our leading position in the dealership industry.

Li Guoqiang
Vice-Chairman and Chief Executive Officer

Hong Kong, 25 March, 2013

Management Discussion and Analysis

OVERVIEW

Our 4S dealerships are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern coastal regions of China, as well as inland areas in southwestern and northwestern regions of China. We have grown rapidly from 140 4S dealerships as of the date of 2011 Annual Report to 160 4S dealerships as of the date of this report.

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

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

Significant Accounting Judgements and Estimates

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

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2012 was RMB50,048.3 million, representing an increase of RMB8,144.9 million or 19.4% as compared to the corresponding period in 2011. This increase was primarily due to the increase in the number of our dealerships in operation and the new car sales and after-sales business of our existing dealerships continued to maintain a stable organic growth. Revenue from new car sales amounted to RMB45,219.2 million, representing an increase of RMB6,979.7 million or 18.3% as compared to the corresponding period in 2011. Revenue from after-sales business amounted to RMB4,829.1 million, representing an increase of RMB1,165.2 million or 31.8% as compared to the corresponding period in 2011. Our new car sales business generated a substantial portion of our revenue, accounting for 90.4% of the total revenue for the year ended 31 December 2012 (2011: 91.3%).

For the year ended 31 December 2012, revenue from sales of luxury brand automobiles amounted to RMB26,717.9 million (2011: RMB19,155.5 million), accounting for 59.1% (2011: 50.1%) of our revenue from new car sales for the same period. Revenue from sales of mid-to-high-end brand automobiles amounted to RMB18,501.3 million (2011: RMB19,084.0 million), accounting for 40.9% (2011: 49.9%) of our revenue from new car sales. In terms of new car sales revenue, Toyota and Mercedes-Benz are our top-selling brands, representing approximately 24.3% and 23.6% of our total new car sales revenue respectively (2011: 29.2% and 20.1% respectively).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2012 amounted to RMB45,764.4 million, representing an increase of RMB8,169.2 million or 21.7% as compared to the corresponding period in 2011. Cost attributable to our new car sales business amounted to RMB43,215.8 million for the year ended 31 December 2012, representing an increase of RMB7,564.8 million or 21.2% as compared to the corresponding period in 2011. Cost attributable to our after-sales business amounted to RMB2,548.6 million for the year ended 31 December 2012, representing an increase of RMB604.4 million or 31.1% as compared to the same period of 2011.

Gross Profit

Gross profit for the year ended 31 December 2012 amounted to RMB4,283.9 million, representing a decrease of RMB24.3 million or 0.6% as compared to the corresponding period in 2011, of which the gross profit from new car sales business amounted to RMB2,003.5 million, representing a decrease of RMB585.1 million or 22.6% as compared to the corresponding period in 2011. Gross profit from after-sales business was RMB2,280.5 million, representing an increase of RMB560.8 million or 32.6% as compared to the corresponding period of 2011. For the year ended 31 December 2012, the gross profit from after-sales business accounted for 53.2% of the total gross profit (2011: 39.9%). Our gross profit margin for the year ended 31 December 2012 was 8.6% (2011: 10.3%), of which the gross profit margin of new car sales business was 4.4% (2011: 6.8%), and the gross profit margin of after-sales services business was 47.2% (2011: 46.9%).

Profit from Operations

Profit from operations for the year ended 31 December 2012 amounted to RMB2,183.4 million, representing a decrease of RMB550.1 million or 20.1% as compared to the corresponding period in 2011. Our operating profit margin for the year ended 31 December 2012 was 4.4% (2011: 6.5%).

Profit for the Year

Our profit for the year ended 31 December 2012 amounted to RMB865.5 million, representing a decrease of RMB777.6 million or 47.3% as compared to the corresponding period in 2011. Our net profit margin for the year ended 31 December 2012 was 1.7% (2011: 3.9%).

Profit Attributable to Owners of the Parent

Our profit attributable to owners of the parent for the year ended 31 December 2012 was RMB750.5 million, representing a decrease of RMB666.8 million or 47.0% as compared to the corresponding period in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

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

Cash Flow Generated from Operating Activities

For the year ended 31 December 2012, our net cash generated from operating activities was RMB114.4 million, arising from operating profit of RMB2,630.3 million before working capital change deducting an increase in working capital of RMB2,197.0 million and payment of tax of RMB318.9 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2012, our net cash used in investing activities was RMB3,040.3 million, consisting primarily of payment for purchases of property, plant and equipment of RMB1,501.6 million, payment for purchases of land use rights of RMB315.4 million and acquisition of subsidiaries of RMB901.1 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB351.1 million.

Cash Flow Generated from Financing Activities

For the year ended 31 December 2012, our net cash generated from financing activities was RMB2,534.6 million, consisting of proceeds from bank loans and other borrowings of RMB25,965.4 million and net proceeds from issue of short term bonds of RMB796.8 million, partially offset by repayment of bank loans and other borrowings of RMB21,935.2 million and interest paid for bank loans and other borrowings of RMB1,014.5 million.

Capital Expenditure and Investment

Our capital expenditures comprise expenditures on property, plant and equipment and land use rights. For the year ended 31 December 2012, our total capital expenditures were RMB2,080.7 million.

Inventory Analysis

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our 4S dealerships independently manages the orders for new automobiles and part of the after-sales products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our 4S dealership network. We manage our quotas and inventory levels through our ERP system. Our inventories decreased by 0.5% from RMB6,380.2 million as at 31 December 2011 to RMB6,346.7 million as at 31 December 2012. The decrease is primarily due to our continuous efforts in raising inventory turnovers so as to keep the inventories at a lower and safer level.

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

	Year ended 31 December	
	2012	2011
Average inventory turnover days	**50.1**	44.9

Our average inventory turnover days in 2012 increased to 50.1 days from 44.9 days in 2011, primarily due to the significant increase of new dealership stores, which have not yet reached their optimal level of new car sales. Compared to the average inventory turnover days of 57.0 days for the first half of 2012, our inventory turnovers improved significantly and are continuously optimizing.

Bank Loans and Other Borrowings and Short Term Bonds

Our bank loans and other borrowings and short term bonds as at 31 December 2012 amounted to RMB15,068.8 million. Our bank loans and other borrowings and short term bonds increased during the year primarily to finance our working capital for expanded operations.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank loans and other borrowings and banking facilities which were used to finance our daily business operation. As at 31 December 2012, the pledged group assets amounted to approximately RMB4.2 billion (2011: RMB3.8 billion).

Contingent Liabilities

As at 31 December 2012, neither the Company nor the Group had any significant contingent liabilities.

Future Plans and the Expected Funding

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring acclaimed brands with potential. We aim to increase approximately 30 4S dealerships in 2013 through establishment and appropriate mergers and acquisitions. We currently plan to fund our future capital expenditure and working capital through various resources including but not limited to cash flows generated from our operating activities and borrowings from banks and other financial institutions, and we currently have sufficient credit facilities granted by banks.

Risk of Exposure to Exchange Rate Fluctuations and Related Hedging

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

Employees' Remuneration Policies and Training

As at 31 December 2012, the Group had a total of 16,127 employees. During the year of 2012, the total staff costs (including Directors' remunerations) amounted to approximately RMB1,336.2 million.

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

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

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

The Company has applied the principles set out in the CG Code.

The Board is of the view that throughout the year ended 31 December 2012, the Company has complied with the code provisions of the CG Code.

A. THE BOARD

1. Responsibilities

The Board is responsible for leadership and control of the Company, overseeing the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors make decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors 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.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

2. Delegation of Management Function

The Board reserves for its decision all major issues relating to policy, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses, for discharging their duties to the Company.

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

3. Board Composition

The Board comprises the following Directors:

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 24 to 27 of the annual report for the year ended 31 December 2012.

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

4. Independent Non-executive Directors

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 which shall represent at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent.

5. Non-executive Directors and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "**Articles of Association**"). The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of Independent Non-executive Directors.

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' written notice served by either the Executive Directors or the Company. Each of the Non-executive Directors and Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

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

According to Article 84 of the Articles of Association, Mr. Yu Guangming, Mr. Leng Xuesong and Mr. Shigeno Tomihei retired at the annual general meeting held on 15 June 2012 and offered themselves for re-election at the same meeting. Meanwhile, the Directors to be retired from office by rotation at the coming annual general meeting pursuant to the above Article shall be eligible for re-election as Directors at the same meeting.

6. Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive 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 director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and appropriate. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be circulated to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the following Directors attended seminar(s) and training session(s) arranged by the following professional institution(s)/professional firm(s):

Directors	Date	Topic	Name of organizer
Executive Directors Huang Yi Li Guoqiang Du Qingshan Yu Guangming *Independent Non-Executive Director* Ng Yuk Keung	14 June 2012	Update on Listing Rule Amendments	Freshfields Bruckhaus Deringer

Mr. Shen Jinjun attended the 20th training session on the qualification of independent director conducted by The Shanghai Stock Exchange from 17 June 2012 to 21 June 2012. Mr. Si Wei attended a training session conducted by the Stock Exchange on 12 December 2012 subsequent to his appointment on 20 August 2012.

In addition, Mr. Leng Xuesong and Mr. Shigeno Tomihei have read various relevant materials including business journals and financial magazines during the year.

7. Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Annual General Meeting
Huang Yi	5/5	2/2			1/1	1/1
Li Quoqiang	5/5		1/1		1/1	0/1
Du Qingshan	5/5				1/1	1/1
Yu Guangming	5/5					1/1
Si Wei	1/1					
Leng Xuesong	4/5			1/2		1/1
Shigeno Tomihei	4/5	2/2	1/1			1/1
Ng Yuk Keung	5/5			2/2		1/1
Shen Jinjun	4/5	2/2	1/1	2/2		1/1

The attendance record of Mr. Leng Xuesong, Mr. Shigeno Tomihei and Mr. Shen Jinjun at the Board meetings and Board committee meetings by their alternates is set out below:

	Attendance/Number of Meetings					
Name of Director (Name of Alternate)	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Annual General Meeting
Leng Xuesong (Chang Le)	1/5			1/2		
Shigeno Tomihei (Huang Yi)	1/5					
Shen Jinjun (Huang Yi)	1/5					

Apart from regular Board meetings, the Chairman also held one meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors on 15 June 2012.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

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

C. BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Compliance Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the Audit Committee, the Remuneration Committee and the Nomination Committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

1. Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2012 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

2. Remuneration Committee

The primary functions of the Remuneration Committee include establishing transparent procedures for developing remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration, determining the remuneration policy and structure for all Directors and senior management, accessing their performance and approving the terms of their service contracts, and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management.

Details of the amount of Directors' and chief executive officer's remuneration are set out in note 9 to the financial statements.

For the year ended 31 December 2012, the aggregate emoluments payable to members of senior management fell within the following bands:

	Number of individuals
By Band	
HK$2,000,000 to HK$2,500,000	1

The Remuneration Committee met once during the year ended 31 December 2012 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

3. Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee held two meetings during the year ended 31 December 2012 to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to nominate an additional director to the Board.

4. Compliance Committee

The primary function of the Compliance Committee is to determine the policy for the corporate governance of the Company so as to ensure compliance on regulatory matters and corporate governance.

The Compliance Committee met once during the year ended 31 December 2012 to review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance 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 and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

E. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

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

F. CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the Directors' information up to date of this annual report are as follows:

Mr. Ng Yuk Keung, being an Independent Non-executive Director of the Company, has been serving as the executive director of Kingsoft Corporation Limited since 1 March 2013.

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

G. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

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

The external auditors of the Company attended the annual general meeting held on 15 June 2012 to answer questions about the conduct of the audit, the preparation and content of the auditors' report and auditor independence.

During the year, the remuneration paid or payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2012 amounted to RMB5,400,000 and HK$35,000 respectively. The main non-audit services provided by the external auditors include tax services.

H. INTERNAL CONTROLS

During the year of 2012, the Board has conducted a review of the effectiveness of the internal control system 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 is responsible for maintaining an adequate internal control system to safeguard investments of shareholders and the Company's assets, and reviewing the effectiveness of such internal control system on an annual basis through the Audit Committee.

I. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all other members of the Board including Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year of 2012, the Company has not made any changes to the Articles of Association. A latest version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

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

J. SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at shareholders' meetings, including the election of individual Directors. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules, unless otherwise required by the Listing Rules and poll voting results will be posted on the websites of the Company and of the Stock Exchange after each shareholders' meeting.

(i) Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association, an extraordinary general meeting ("**EGM**") may be convened by the Board on requisition of one or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such EGM within 21 days of the deposit of the requisition, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the Company Secretary or the primary contact persons of the Company.

(ii) Putting Forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision) or the Articles of Association. However, shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph (i) above.

As regards the procedures for shareholders to propose a person for election as a Director, they are available on the Company's website at www.zs-group.com.cn.

(iii) Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquires to the Company.

Note: The Company will not normally deal with verbal or anonymous enquires.

Primary Contact Persons

Shareholders may send their requisitions, proposed resolutions or enquiries as mentioned in (i), (ii) and (iii) above to the primary contact persons of the Company as set out below:

Name:	Ms. Yan Shezhen, Ms. Yao Zhenchao
Address:	Room 3504–12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong
Fax:	(+852) 2803 5676
Email:	yanshezhen@zs-group.com.cn, yaozhenchao@zs-group.com.cn

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

K. COMPANY SECRETARY

Ms. Kam Mei Ha Wendy and Ms. Mak Sze Man of Tricor Services Limited, external service provider, have been engaged by the Company as its joint company secretaries. Both of them have satisified the training requirement for the year of 2012 under Rule 3.29 of the Listing Rules.

Its primary contact persons at the Company are Ms. Yan Shezhen, the Head of Investor Relationship of the Company, and Ms. Yao Zhenchao, the Chief Legal Officer of the Company.

L. GOING CONCERN

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Directors and Senior Management

DIRECTORS

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

Name	Age	Position
HUANG Yi	50	Chairman and Executive Director
LI Guoqiang	49	Vice-Chairman, Executive Director and Chief Executive Officer
DU Qingshan	50	Executive Director
YU Guangming	55	Executive Director
SI Wei	50	Executive Director
LENG Xuesong	43	Non-executive Director
SHIGENO Tomihei	60	Independent Non-executive Director
NG Yuk Keung	48	Independent Non-executive Director
SHEN Jinjun	55	Independent Non-executive Director

EXECUTIVE DIRECTORS

HUANG Yi (黄毅), aged 50, is our Chairman and Executive Director. Mr. Huang is one of our two founders, and has been chairman of the Group since its inception in 1998. Mr. Huang has been serving as an Executive Director of the Board since 23 June 2008 and he is also a director of the various companies in the Group. Mr. Huang is responsible for the strategic management of the Group and for formulating our overall corporate direction and focus. Prior to founding the Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. ("**China Resources Machinery**"), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited ("**China Automobile**") as a director, and was responsible for China Automobile's procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, is presently an indirect wholly-owned subsidiary of the Group. Mr. Huang is currently a council member of the Lexus China Dealer Council, as well as a council member of the National Dealer Advisory Council of FAW Toyota Motor Sales Co., Ltd. Mr. Huang has substantial senior management experience and more than 25 years' experience and in-depth knowledge of the PRC automobile industry. He received a Bachelor's degree in Economics from Xiamen University in 1983 and was awarded the title of "Economist" by MOFCOM in 1990, a work-related qualification title usually awarded to government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experience. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organization providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 49, is the other founder of the Group, and has been serving as the Group's Chief Executive Officer and Vice-Chairman since 1998 and as an Executive Director of the Board since 23 June 2008. Mr. Li is also a director of the various companies in the Group and is responsible for the overall management and operations of the Group. Mr. Li has served as deputy chairman and a member of standing committee for the China Automobile Dealers Association since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("**Aotong Repair & Assembly**"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("**Aotong Industry**"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Holdings Co., Ltd., which is currently an indirect wholly-owned subsidiary of the Group. Mr. Li has substantial senior management experience and more than 23 years' experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 50, has been serving as deputy general manager of the Group since 2007. Mr. Du has been an Executive Director of the Board since 23 June 2008. He is responsible for the financial planning, strategy and management of the Group, and oversees all the financial matters of the Group. Prior to joining the Group in 2007, Mr. Du was appointed by the State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large-scale state-owned enterprise, Dalian DHI.DCW Group Co., Ltd. ("**Dalian DHI.DCW**") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 23 years' experience in the areas of accountancy and finance. Mr. Du received a Bachelor's degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 55, has been serving as deputy general manager of the Group since 2004. Mr. Yu has been an Executive Director of the Board since 23 June 2008. He is responsible for the strategic business development of the Group as well as selecting and training middle-to-senior level managers of 4S dealerships of the Group. Since joining the Group in 2000, Mr. Yu has held numerous management positions in several of our principal subsidiaries, including Zhongsheng (Dalian) Holdings Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of our subsidiaries, implementing the strategic decisions of the Group and liaising with the automakers and customers regarding business relationship building. Prior to joining the Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, where he was in charge of its overall management and operations during his tenure. Mr. Yu has more than eleven years' relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree in English from Shanghai International Studies University in 1985.

Si Wei (司衛), aged 50, has been an Executive Director of the Company since 20 August 2012. Mr. Si joined the Group in June 2012 and since then he has been responsible for the strategic development of the Group. Mr. Si has approximately 20 years' experience in the automobile industry. Mr. Si commenced his industry experience by working for automobile dealers from 1992 to 1999, during which period he was exposed to an array of automobile brands including Mitsubishi and Saab. In 1999, he joined the Audi Motor Department of Volkswagen (China) Investment Company Limited, where he was a sales manager responsible for sales of imported Audi automobiles and management and development of dealership network about imported Audi automobiles. From 2004 to 2006, Mr. Si was a sales director of Volkswagen (Finance) China Company Limited responsible for sales and dealership relationship. From 2006 to 2007, Mr. Si acted as the director of the Iveco Business Department for Fiat's representative office in China and took responsibilities for business development matters. Subsequently Mr. Si commenced his employment with Beijing Benz Automobile Co., Ltd. in 2007 where he was initially the general manager of Dealership Network Development Department, responsible for dealership network management and development. In 2008, Mr. Si assumed the office of vice executive president of Beijing Benz Automobile Co., Ltd. in charge of sales and marketing activities. Mr. Si received a Bachelor's degree in English and American literature from Beijing Normal College in 1987.

NON-EXECUTIVE DIRECTOR

LENG Xuesong (冷雪松), aged 43, has been serving as a Non-executive Director of the Board since 1 August 2008. Mr. Leng is a managing director at General Atlantic LLC. He is based in Hong Kong, where he focuses on General Atlantic LLC's investment opportunities in North Asia. Prior to joining General Atlantic LLC, Mr. Leng served as a managing director at Warburg Pincus, an international private equity firm from 1999 to 2007. Mr. Leng also served as a non-executive director of China Huiyuan Juice Group Limited, a company listed on the Stock Exchange (stock code: 1886), from July 2006 to August 2007. Mr. Leng is also the non-executive director of two companies listed on the New York Stock Exchange, namely Wuxi Pharmatech (Cayman) Inc. (stock code: WX) and Soufun Holdings Ltd. (stock code: SFUN). Mr. Leng earned his Master's degree in Business Administration from the Wharton School of the University of Pennsylvania in 1999, and his Bachelor's degree in International Industrial Trade from Shanghai Jiao Tong University in 1992.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHIGENO Tomihei (茂野富平), aged 60, has been serving as an Independent Non-executive Director of the Board since 1 August 2008. From 2007 to 2010, Mr. Shigeno was the head of the Beijing office of Minebea Trading (Shanghai) Ltd., a division of sales of Minebea Electronics & Hi-Tech Components (Shanghai) ("**Minebea Shanghai**"), which was established in 1994 by Minebea Co., Ltd., manufacturing miniature ball bearing and other electronics products. Prior to joining Minebea Shanghai in 2007, Mr. Shigeno worked for Nissan Motor Co., Ltd. ("**Nissan Motor**") from 1976 to 2006. Mr. Shigeno was part of the team which established Nissan Motor's Beijing office, and served as its chief representative from 1991 to 1997. He was also the chief representative of Nissan Motor's China operations from 2000 to 2003, specialising in sales and marketing, and was primarily responsible for developing Nissan Motor's distribution and service networks by establishing authorized distributors and automobile dealerships across China. Mr. Shigeno was assigned by Nissan Motor to assist the president of Dongfeng Commercial Vehicle Company. Mr. Shigeno has over 34 years' experience and in-depth knowledge of the automobile industry, sales and business management. He earned his Bachelor's degree in Chinese language studies from Tokyo University of Foreign Studies in 1976.

NG Yuk Keung (吳育強), aged 48, has been serving as an Independent Non-executive Director of the Board since 27 October 2009. Mr. Ng is the honorary adviser to China Huiyuan Juice Group Limited (stock code: 1886), a company listed on the Stock Exchange. Mr. Ng serves as an executive director and chief financial officer of Kingsoft Corporation Limited (stock code: 3888), a company listed on the Stock Exchange, from March 2013. Mr. Ng also serves as an independent non-executive director at Sany Heavy Equipment International Holdings Company Limited (stock code: 0631), Winsway Coking Coal Holdings Limited (stock code: 1733) and Beijing Capital Land Ltd. (stock code: 2868), all of which are listed on the Stock Exchange. Mr. Ng also served as an executive director and chief financial officer of China NT Pharma Group Company Limited (stock code: 1011) from March 2010 to July 2012. Mr. Ng also served as an independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. (stock code: 3833), a company listed on the Stock Exchange from March 2007 to October 2011. Mr. Ng worked with PricewaterhouseCoopers for over twelve years from 1988 to 2001. From 2004 to 2006, he was the deputy chief financial officer, a joint company secretary and the qualified accountant of Irico Electronics Group Company Limited (stock code: 0438), a company listed on the Stock Exchange. From 2006 to 2010, Mr. Ng was a vice-president, the chief financial officer, the company secretary and the qualified accountant of China Huiyuan Juice Group Limited. Mr. Ng graduated from The University of Hong Kong with a Bachelor's degree in Social Sciences in 1988 and a Master's degree in Global Business Management and E-commerce in 2002. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

SHEN Jinjun (沈進軍), aged 55, has been serving as an Independent Non-executive Director of the Board since 16 November 2009. Mr. Shen has become an independent non-executive director of Zhejiang Material Industrial Zhongda Yuantong Group Co., Ltd since August 2011. Mr. Shen has served as deputy chairman and secretary chief for the China Automobile Dealers Association since 2005. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical section of the State Administration of Supplies, and the chief of the Automobile section and Electrical, Mechanical and Metallic section of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in the formulation of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronics at the Beijing Open University in 1982 and obtained a graduation certificate.

OTHER SENIOR MANAGEMENT

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

Name	Age	Position
ZHANG Zhicheng	40	Vice-president

ZHANG Zhicheng (張志誠), aged 40, currently serves as vice-president of the Group. Mr. Zhang joined the Group in 2003, and has held numerous management positions in several of our key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of the Group and liaising with the automakers regarding developing our brand automobile sales business. Mr. Zhang currently oversees the sales and management of our brand automobile sales business. Mr. Zhang has over seven years' relevant experience and in-depth expertise in the PRC automobile industry. Mr. Zhang received a Master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

COMPANY SECRETARIES

KAM Mei Ha Wendy (甘美霞), aged 45, was appointed as joint company secretary of the Company on 1 July 2010. Ms. Kam is a director of Corporate Services Division of Tricor Services Limited and a Fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Kam has nearly 20 years of experience in corporate secretarial area.

MAK Sze Man (麥詩敏), aged 38, was appointed as joint company secretary of the Company on 1 July 2010. Ms. Mak is a manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms Mak has nearly 15 years of experience in corporate secretarial area.

Report of the Directors

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012 (the "**Financial Statements**").

PRINCIPAL ACTIVITIES

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

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

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the financial statements on pages 38 to 113 of this annual report.

CAPITAL

Details of the capital of the Group during the reporting period are set out in note 36 to the Financial Statements.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company has reserves of RMB4,749.0 million in total available for distribution, of which RMB152.7 million has been proposed as final dividend for the year.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities and non-controlling interests of the Group for the last five financial years is set out on page 114 of this annual report.

DONATIONS

The Company made a donation of RMB745,000 to various PRC charity projects or organizations for the year of 2012.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS AND SHORT TERM BONDS

Bank loans and other borrowings and short term bonds of the Group as at 31 December 2012 amounted to RMB15,068.8 million, the balance of which increased during the reporting period primarily to finance the Group's working capital for expanded operations. Details of bank loans and other borrowings and short term bonds of the Group during the reporting period are set out in notes 28 and 29 to the Financial Statements.

CONTINGENT LIABILITIES

As at 31 December 2012, neither the Company nor the Group had any significant contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

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

Non-executive Director
Mr. Leng Xuesong

Independent Non-executive Directors
Mr. Shigeno Tomihei
Mr. Ng Yuk Keung
Mr. Shen Jinjun

Pursuant to the Articles of Association, Mr. Huang Yi, Mr. Ng Yuk Keung and Mr. Shen Jinjun shall retire from their office by rotation at the forthcoming AGM . Mr. Si Wei, who was appointed by the Board on 20 August 2012, shall hold office only until the forthcoming AGM. These four retiring Directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the Independent Non-executive Directors, namely Mr. Shigeno Tomihei, Mr. Ng Yuk Keung and Mr. Shen Jinjun, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2012 and remain so as of the date of this annual report.

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

As at 31 December 2012, the interests and short positions of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules, were as follows:

Long positions in the Company's shares

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Deemed Interest/Interest of Controlled Company	280,535,504	14.70
	Founder of a discretionary trust/Beneficiary of a Trust	486,657,686	25.50
	Agreement to acquire interests	486,657,686	25.50
Mr. Li Guoqiang	Deemed Interest/Interest of Controlled Company	127,857,000	6.70
	Founder of a discretionary trust/Beneficiary of a Trust	486,657,686	25.50
	Agreement to acquire interests	639,336,190	33.50

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long position in the shares and underlying shares of the Company

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,253,850,876 (long position)	65.70
Light Yield Ltd. (Note 2)	Beneficial owner, deemed interest/interest of controlled company and agreement to acquire interests	1,253,850,876 (long position)	65.70
Vest Sun Ltd. (Note 3)	Deemed interest/interest of controlled company and agreement to acquire interests	1,253,850,876 (long position)	65.70
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,247,014,376 (long position)	65.34
RBC Trustees (CI) Limited	Deemed interest/interest of controlled company, trustee and agreement to acquire interests	1,247,014,376 (long position)	65.34
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,247,014,376 (long position)	65.34
The Capital Group Companies, Inc.	Deemed interest/interest of controlled company	208,348,500 (long position)	10.92

Notes:

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

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

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

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

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

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

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

The Company issued RMB1,250,000,000 senior notes (the "**Notes**") maturing in 2014 with a fixed interest rate of 4.75% per annum (the "**Notes Issue**") in April 2011. The Indenture to the Notes Issue provided that upon the occurrence of a change of control, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the offer at the date of repurchase.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2012 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2012 and up to the date of this annual report, none of the Directors and controlling shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd., Blue Natural Development Ltd., Mountain Bright Limited, RBC Trustees (CI) Limited and Vintage Star Limited) of the Company was interested in any business which competes or is likely to compete with the businesses of the Group.

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

Our Independent Non-executive Directors have reviewed the compliance with the Non-competition Deed during the financial year ended 31 December 2012 and up to the date of this annual report based on information and confirmation provided by or obtained from our controlling shareholders, and were satisfied that our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

CONNECTED TRANSACTIONS

During the year under review, the Group did not enter into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save from Mr. Si Wei, the director, who has entered into a service contract with the Company on 20 August 2012, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group or to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2012 and up to the date of this annual report.

DIRECTORS' REMUNERATION

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

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

RETIREMENT SCHEMES

Details of the retirement benefits plans of the Group are set out in note 32 to the financial statements.

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

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

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

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of approval of the Share Options Scheme, being 186,649,729 shares (representing approximately 9.78% of the Company's issued share capital as at the date of this annual report). No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time, unless the approval of our shareholders is obtained.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales. The respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 16.8% and 74.1%.

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

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

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 47 to the Financial Statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. Throughout the reporting period, the Company has complied with the code provisions in the CG Code.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2012 have been audited by Ernst & Young, certified public accountants. Ernst & Young retired and a resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming AGM.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company in the AGM to be held on 18 June 2013 the distribution of a final dividend of HK$0.10 per share for the year ended 31 December 2012 payable to the shareholders of the Company, whose names are listed in the register of the Company on 27 June 2013, in an aggregate amount of HK$190.8 million (equivalent to RMB152.7 million). The proposed distribution of the final dividend above is subject to the consideration and approval of the shareholders at the AGM of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 14 June 2013 to Tuesday, 18 June 2013 (both days inclusive) and from Tuesday, 25 June 2013 to Thursday, 27 June 2013 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Thursday, 13 June 2013. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at the above-mentioned address for registration before 4:30 p.m. on Monday, 24 June 2013.

By order of the Board
Huang Yi
Chairman

Hong Kong, 25 March 2013

Independent Auditors' Report

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

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 113, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

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

Ernst & Young
Certified Public Accountants
Hong Kong

25 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5(a)	**50,048,288**	41,903,414
Cost of sales and services provided	6(b)	**(45,764,357)**	(37,595,170)
Gross profit		**4,283,931**	4,308,244
Other income and gains, net	5(b)	**689,459**	367,362
Selling and distribution expenses		**(1,951,472)**	(1,325,790)
Administrative expenses		**(838,531)**	(616,267)
Profit from operations		**2,183,387**	2,733,549
Finance costs	7	**(1,032,130)**	(549,375)
Share of profits of jointly-controlled entities	19	**5,309**	9,549
Profit before tax	6	**1,156,566**	2,193,723
Income tax expense	8	**(291,023)**	(550,637)
Profit for the year		**865,543**	1,643,086
Attributable to:			
Owners of the parent	13	**750,480**	1,417,279
Non-controlling interests		**115,063**	225,807
		865,543	1,643,086
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– For profit for the year (RMB)	12	**0.39**	0.74
Diluted			
– For profit for the year (RMB)	12	**0.39**	0.74

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Profit for the year		**865,543**	1,643,086
Other comprehensive income			
Available-for-sale investments:			
Changes in fair value		**–**	(4,219)
Reclassification adjustments for losses/(gains) included in the consolidated income statement			
– gain/(loss) on disposal	5(b)	**1,820**	(582)
Income tax effect		**–**	492
		1,820	(4,309)
Exchange differences on translation of foreign operations		**59**	(59,601)
Other comprehensive income/(loss) for the year, net of tax		**1,879**	(63,910)
Total comprehensive income for the year		**867,422**	1,579,176
Attributable to:			
Owners of the parent	13	**752,359**	1,353,369
Non-controlling interests		**115,063**	225,807
		867,422	1,579,176

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5,039,957**	3,886,831
Land use rights	15	**1,447,091**	1,084,623
Prepayments	16	**1,463,918**	861,837
Intangible assets	17	**2,471,513**	2,241,290
Goodwill	18	**2,033,576**	1,697,884
Investments in jointly-controlled entities	19	**49,834**	44,525
Available-for-sale investments	20	**–**	132,928
Deferred tax assets	33(b)	**132,086**	38,078
Total non-current assets		**12,637,975**	9,987,996
CURRENT ASSETS			
Inventories	21	**6,346,679**	6,380,195
Trade receivables	22	**576,706**	466,697
Prepayments, deposits and other receivables	23	**5,504,213**	4,631,948
Amounts due from related parties	45(b)(i)	**1,451**	4,369
Financial assets at fair value through profit or loss	24	**63,949**	49,749
Pledged bank deposits	25	**2,079,167**	1,664,888
Cash in transit	26	**187,910**	186,721
Cash and cash equivalents	27	**4,096,803**	4,487,819
Total current assets		**18,856,878**	17,872,386
CURRENT LIABILITIES			
Bank loans and other borrowings	28	**13,540,899**	10,016,585
Short term bonds	29	**821,198**	–
Senior notes, current portion	34	**11,581**	11,518
Trade and bills payables	30	**3,739,674**	5,679,875
Other payables and accruals	31	**1,354,499**	1,505,078
Amounts due to related parties	45(b)(ii)	**16,094**	2,096
Income tax payable	33(a)	**455,298**	392,622
Dividends payable		**402**	5,718
Total current liabilities		**19,939,645**	17,613,492
NET CURRENT (LIABILITIES)/ASSETS		**(1,082,767)**	258,894
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,555,208**	10,246,890

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	33(b)	**778,629**	706,439
Senior notes	34	**1,239,951**	1,232,693
Bank loans and other borrowings	28	**706,738**	29,945
Total non-current liabilities		**2,725,318**	1,969,077
NET ASSETS		**8,829,890**	8,277,813
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**168**	168
Reserves	37	**7,385,870**	6,844,136
Proposed final dividend	11	**152,679**	247,929
		7,538,717	7,092,233
Non-controlling interests		**1,291,173**	1,185,580
Total equity		**8,829,890**	8,277,813

Huang Yi
Director

Li Guoqiang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	168	5,021,215	37,110	219,324	(1,386,176)	–	2,489	(29,705)	1,878,403	192,765	5,935,593	778,976	6,714,569
Profit for the year	–	–	–	–	–	–	–	–	1,417,279	–	1,417,279	225,807	1,643,086
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(4,309)	–	–	–	(4,309)	–	(4,309)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(59,601)	–	–	(59,601)	–	(59,601)
Total comprehensive income for the year	–	–	–	–	–	–	(4,309)	(59,601)	1,417,279	–	1,353,369	225,807	1,579,176
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	26,500	26,500
Disposal of interest in a subsidiary to non-controlling shareholders	–	–	–	–	–	(3,964)	–	–	–	–	(3,964)	11,314	7,350
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	–	–	–	149,477	149,477
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(6,494)	(6,494)
Final 2010 dividend declared	–	–	–	–	–	–	–	–	–	(192,765)	(192,765)	–	(192,765)
Proposed final 2011 dividend	–	(247,929)	–	–	–	–	–	–	–	247,929	–	–	–
Transfer from retained profits	–	–	–	126,334	–	–	–	–	(126,334)	–	–	–	–
At 31 December 2011	168	4,773,286	37,110	345,658	(1,386,176)	(3,964)	(1,820)	(89,306)	3,169,348	247,929	7,092,233	1,185,580	8,277,813
Profit for the year	–	–	–	–	–	–	–	–	750,480	–	750,480	115,063	865,543
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	1,820	–	–	–	1,820	–	1,820
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	59	–	–	59	–	59
Total comprehensive income for the year	–	–	–	–	–	–	1,820	59	750,480	–	752,359	115,063	867,422
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	45,476	45,476
Non-controlling interests arising from acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	44,618	44,618
Acquisitions of non-controlling interests	–	–	–	–	–	(57,946)	–	–	–	–	(57,946)	(98,514)	(156,460)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(1,050)	(1,050)
Final 2011 dividend declared	–	–	–	–	–	–	–	–	–	(247,929)	(247,929)	–	(247,929)
Proposed final 2012 dividend	–	(152,679)	–	–	–	–	–	–	–	152,679	–	–	–
Transfer from retained profits	–	–	–	89,544	–	–	–	–	(89,544)	–	–	–	–
At 31 December 2012	**168**	**4,620,607**	**37,110**	**435,202**	**(1,386,176)**	**(61,910)**	**-**	**(89,247)**	**3,830,284**	**152,679**	**7,538,717**	**1,291,173**	**8,829,890**

* These reserve accounts comprise the consolidated reserves of RMB7,385,870,000 (2011: RMB6,844,136,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before tax		**1,156,566**	2,193,723
Adjustments for:			
– Share of profits of jointly-controlled entities	19(b)	**(5,309)**	(9,549)
– Depreciation and impairment of property, plant and equipment	14	**351,430**	256,204
– Amortisation of land use rights	15	**24,529**	18,251
– Amortisation of intangible assets	17	**117,099**	86,054
– Provision/(reversal of provision) for impairment of trade receivables and other receivables	6(c)	**27**	(26)
– Interest income	5(b)	**(40,502)**	(35,901)
– Net loss on disposal of items of property, plant and equipment	5(b)	**10,511**	763
– Net loss on disposal of intangible assets	5(b)	**797**	533
– Finance costs	7	**1,032,130**	549,375
– Fair value losses/(gains), net			
– Available-for-sale investments (transfer from equity on disposal)	5(b)	**1,820**	(582)
– Listed equity investments held for trading	5(b)	**(14,189)**	26,940
– Equity-linked note	5(b)	**–**	2,783
– Dividend income from listed equity investments	5(b)	**(1,250)**	(1,517)
– Gain on disposal of available-for-sale investments	5(b)	**(3,370)**	(1,594)
		2,630,289	3,085,457
Decrease/(increase) in pledged bank deposits		**562,421**	(339,371)
Decrease/(increase) in cash in transit		**1,909**	(33,982)
Increase in trade receivables		**(80,403)**	(113,045)
Increase in prepayments, deposits and other receivables		**(468,789)**	(1,225,617)
Decrease/(increase) in inventories		**313,662**	(2,131,568)
(Decrease)/increase in trade and bills payables		**(2,308,096)**	1,842,598
Decrease in other payables and accruals		**(234,667)**	(353,175)
Decrease/(increase) in amounts due from related parties – trade related		**2,918**	(2,140)
Increase/(decrease) in amounts due to related parties – trade related		**13,998**	(7,930)
Cash generated from operations		**433,242**	721,227
Tax paid		**(318,882)**	(361,878)
Net cash generated from operating activities		**114,360**	359,349

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(1,501,624)**	(1,727,118)
Proceeds from disposal of items of property, plant and equipment		**351,086**	260,040
Purchase of land use rights		**(315,376)**	(533,660)
Proceeds from disposal of land use rights		**–**	54,465
Purchase of intangible assets		**(2,786)**	(8,572)
Proceeds from disposal of available-for-sale investments		**137,732**	33,775
Prepayments for the potential acquisitions of equity interests from third parties		**(738,155)**	(131,258)
Acquisitions of subsidiaries		**(901,066)**	(1,385,685)
Increase in prepayments, deposits and other receivables		**(111,698)**	(68,941)
Proceeds from disposal of a subsidiary		**–**	21,264
Proceeds from disposal of equity interest in a subsidiary		**–**	7,350
Dividends received from listed equity investments		**1,250**	1,517
Dividends received from a jointly-controlled entity		**–**	11,918
Dividends received from a disposed subsidiary		**–**	7,336
Interest received		**40,342**	37,269
Net cash used in investing activities		**(3,040,295)**	(3,420,300)
Financing activities			
Proceeds from bank loans and other borrowings		**25,965,438**	15,638,367
Repayments of bank loans and other borrowings		**(21,935,244)**	(11,365,365)
Increase in pledged bank deposits		**(822,276)**	(78,097)
Capital contribution from non-controlling shareholders of a subsidiary		**1,641**	26,500
Acquisitions of non-controlling interests		**(117,370)**	–
Net proceeds from issue of short term bonds		**796,800**	–
Net proceeds from issue of senior notes	34	**–**	1,227,873
Interest paid for bank loans and other borrowings		**(1,014,522)**	(615,684)
Interest paid for senior notes	34	**(59,375)**	(29,688)
Capital element of finance lease rental payments		**(26,150)**	(43,152)
Dividends paid to the non-controlling shareholders		**(6,366)**	(7,400)
Dividends paid		**(247,929)**	(192,765)
Net cash generated from financing activities		**2,534,647**	4,560,589
Net (decrease)/increase in cash and cash equivalents		**(391,288)**	1,499,638
Cash and cash equivalents at beginning of year		**4,487,819**	2,989,718
Effect of foreign exchange rate changes, net		**272**	(1,537)
Cash and cash equivalents at end of year		**4,096,803**	4,487,819

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	44	**2,024,809**	2,024,434
Amounts due from subsidiaries	44	**3,506,344**	3,724,485
Available-for-sale investments	20	**–**	132,828
Total non-current assets		**5,531,153**	5,881,747
CURRENT ASSETS			
Prepayments, deposits and other receivables		**2,077**	3,219
Financial assets at fair value through profit or loss	24	**63,949**	49,749
Pledged bank deposits	25	**53,203**	–
Cash and cash equivalents		**318**	12,563
Total current assets		**119,547**	65,531
CURRENT LIABILITIES			
Bank loans and other borrowings	28	**88,097**	87,451
Senior notes, current portion	34	**11,581**	11,518
Other payables and accruals		**28**	110
Total current liabilities		**99,706**	99,079
NET CURRENT ASSETS/(LIABILITIES)		**19,841**	(33,548)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,550,994**	5,848,199
NON-CURRENT LIABILITIES			
Senior notes	34	**1,239,951**	1,232,693
NET ASSETS		**4,311,043**	4,615,506
EQUITY			
Share capital	36	**168**	168
Reserves	37	**4,158,196**	4,367,409
Proposed final dividend		**152,679**	247,929
Total equity		**4,311,043**	4,615,506

Huang Yi
Director

Li Guoqiang
Director

Notes to the Financial Statements

31 December 2012

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2012, the Group had net current liabilities of approximately RMB1,082,767,000. The directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities.* HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

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

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

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

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit and loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not measured and subsequent settlement is accounted for within equity.

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

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

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

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

Property, plant and equipment and depreciation

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

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

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

Category	Estimated useful life	Estimated residual value
Buildings	10-30 years	5%
Leasehold improvements	5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5-10 years	5%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Software	3–5 years
Dealership agreements	20–40 years
Customer relationships	15 years
Others	10–44 years

Leases

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

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

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

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 26 to 68 years using the straight-line method.

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

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

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

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

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

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

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

Vendor rebates

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

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

Employee benefits

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 7.3% and 8.97% has been applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using their respective functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets recognised was RMB132,086,000 (2011: RMB38,078,000) as at 31 December 2012. More details are given in Note 33(b).

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill was RMB2,033,576,000 (2011: RMB1,697,884,000) as at 31 December 2012. More details are given in Note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of intangible assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

The Group has reviewed the useful lives of certain property, plant and equipment category in order to better align this change with the observed economic behavior of assets in this category. As a result, the projected lives of certain buildings have been extended from 20 years to 30 years. The change in accounting estimates has been applied prospectively. Beginning in 2012 financial year, this change of estimation have changed the depreciation in the aforementioned property, plant and equipment category, and the after-tax effects on profit and profit attributable to owners of the parent in 2012 are as follows:

	2012 RMB'000	Later years RMB'000
Profit		
Buildings – Depreciation decrease/(increase)	**30,096**	(30,096)
Profit attributable to owners of the parent		
Buildings – Depreciation decrease/(increase)	**27,959**	(27,959)

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2012 RMB'000	2011 RMB'000
Revenue from the sale of motor vehicles	**45,219,229**	38,239,543
Others	**4,829,059**	3,663,871
	50,048,288	41,903,414

(b) Other income and gains, net:

	2012 RMB'000	2011 RMB'000
Commission income	**445,968**	234,254
Advertisement support received from motor vehicle manufacturers	**34,787**	28,704
Rental income	**27,643**	10,957
Interest income	**40,502**	35,901
Government grants	**19,178**	7,481
Net loss on disposal of items of property, plant and equipment	**(10,511)**	(763)
Net loss on disposal of intangible assets	**(797)**	(533)
Gain on disposal of available-for-sale investments	**3,370**	1,594
Fair value (losses)/gains, net:		
Available-for-sale investments (transfer from equity on disposal)	**(1,820)**	582
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**14,189**	(26,940)
– equity-linked note	**–**	(2,783)
Dividend income from listed equity investments	**1,250**	1,517
Others	**115,700**	77,391
	689,459	367,362

Notes to the Financial Statements (continued)

31 December 2012

6. PROFIT BEFORE TAX

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

		2012 RMB'000	2011 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive officer's remuneration (Note 9)):**		
	Wages and salaries	**1,098,629**	657,221
	Pension scheme contributions	**157,592**	104,004
	Other welfare	**80,000**	53,180
		1,336,221	814,405
(b)	**Cost of sales and services provided:**		
	Cost of sales of motor vehicles	**43,215,761**	35,650,976
	Others	**2,548,596**	1,944,194
		45,764,357	37,595,170
(c)	**Other items:**		
	Depreciation and impairment of property, plant and equipment	**351,430**	256,204
	Amortisation of land use rights	**24,529**	18,251
	Amortisation of intangible assets	**117,099**	86,054
	Auditors' remuneration	**5,400**	5,000
	Lease expenses	**108,642**	76,250
	Advertisement expenses	**146,743**	105,161
	Office expenses	**159,349**	113,751
	Logistics expenses	**95,604**	67,116
	Business promotion expenses	**257,425**	205,172
	Provision/(reversal of provision) for impairment of trade receivables and other receivables	**27**	(26)
	Net loss on disposal of items of property, plant and equipment	**10,511**	763
	Net loss on disposal of intangible assets	**797**	533
	Fair value losses/(gains), net:		
	Available-for-sale investments (transfer from equity on disposal)	**1,820**	(582)
	Financial assets at fair value through profit or loss		
	– listed equity investments held for trading	**(14,189)**	26,940
	– equity-linked note	**–**	2,783
	Dividend income from listed equity investments	**(1,250)**	(1,517)
	Gain on disposal of available-for-sale investments	**(3,370)**	(1,594)

7. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**931,494**	495,180
Interest expense on senior notes	**66,696**	46,026
Interest expense on other borrowings	**118,803**	57,229
Interest expense on finance leases	**2,924**	3,761
Interest expense on short term bonds	**24,398**	–
Less: Interest capitalised	**(112,185)**	(52,821)
	1,032,130	549,375

8. INCOME TAX EXPENSE

(a) Tax in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
Current Mainland China corporate income tax	**364,796**	566,138
Current Hong Kong corporate income tax	**–**	201
Deferred tax (Note 33(b))	**(73,773)**	(15,702)
	291,023	550,637

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

8. INCOME TAX EXPENSE (continued)

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

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

	2012 RMB'000	2011 RMB'000
Profit before tax	**1,156,566**	2,193,723
Tax at the statutory tax rate (25%)	**289,142**	548,431
Tax effect of non-deductible expenses	**16,383**	13,994
Income not subject to tax	**(6,838)**	(10,182)
Profits attributable to jointly-controlled entities	**(1,327)**	(2,387)
Lower tax rates for specific provinces or enacted by local authority	**2,961**	(4,304)
Tax losses utilised from previous periods	**(9,834)**	–
Tax losses not recognised	**536**	5,085
Tax charge	**291,023**	550,637

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2012 RMB'000	2011 RMB'000
Fees	**609**	624
Other emoluments:		
Salaries, allowances and other benefits	**11,122**	10,857
Discretionary bonuses	**–**	–
Contributions to defined contribution retirements schemes	**218**	177
	11,340	11,034
	11,949	11,658

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
– Mr. Shigeno Tomihei	203	208
– Mr. Ng Yuk Keung	203	208
– Mr. Shen Jinjun	203	208
	609	624

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors, a non-executive director and the chief executive

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
2012					
Executive directors:					
– Mr. Huang Yi	–	2,108	–	10	2,118
– Mr. Yu Guangming	–	1,845	–	67	1,912
– Mr. Du Qingshan	–	1,834	–	56	1,890
– Mr. Si Wei	–	303	–	19	322
Non-executive director:					
– Mr. Leng Xuesong	–	–	–	–	–
Chief executive:					
– Mr. Li Guoqiang	–	5,032	–	66	5,098
	–	11,122	–	218	11,340
2011					
Executive directors:					
– Mr. Huang Yi	–	2,160	–	10	2,170
– Mr. Yu Guangming	–	1,807	–	60	1,867
– Mr. Du Qingshan	–	1,820	–	48	1,868
Non-executive director:					
– Mr. Leng Xuesong	–	–	–	–	–
Chief executive:					
– Mr. Li Guoqiang	–	5,070	–	59	5,129
	–	10,857	–	177	11,034

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors and the chief executive (2011: three directors and the chief executive), details of whose remuneration are set out in Note 9 above. Details of the remuneration for the year of the remaining one (2011: one), highest paid employee who is neither a director nor chief executive of the Company, are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,834**	1,820
Pension scheme contributions	**56**	48
	1,890	1,868

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

	Number of employees	
	2012	2011
HK$2,000,001 to HK$2,500,000	**1**	1

11. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Proposed final – HK$0.10 (approximately RMB0.08) (2011: HK$0.16) per ordinary share	**152,679**	247,929

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,908,481,295 (2011: 1,908,481,295) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented in 2012 and 2011 in respect of a dilution as the group had no potentially dilutive ordinary shares in issue during 2012 and 2011.

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

Earnings

	2012 RMB'000	2011 RMB'000
Profit attributable to ordinary equity holders of the parent	**750,480**	1,417,279

Shares

	Number of Shares	
	2012	2011
Weighted average number of ordinary shares in issue during the year	**1,908,481,295**	1,908,481,295

Earnings per share

	2012 RMB	2011 RMB
Basic	**0.39**	0.74
Diluted	**0.39**	0.74

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB59,377,000 (2011: a loss of RMB36,853,000) which has been dealt with in the financial statements of the Company (Note 37).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2012	2,480,969	213,870	297,616	256,373	894,727	515,129	4,658,684
Exchange realignment	–	–	2,249	–	–	–	2,249
Additions	162,194	98,902	62,823	62,132	642,325	665,375	1,693,751
Acquisition of subsidiaries (Note 38)	104,578	1,422	49,984	11,751	49,051	14,675	231,461
Transfer	763,378	3,753	4,364	4,090	–	(775,585)	–
Disposals	–	(3,080)	(5,507)	(6,091)	(495,433)	–	(510,111)
At 31 December 2012	3,511,119	314,867	411,529	328,255	1,090,670	419,594	6,076,034
Accumulated depreciation and impairment:							
At 1 January 2012	325,202	70,986	91,104	112,682	171,879	–	771,853
Exchange realignment	–	–	1,171	–	–	–	1,171
Depreciation and impairment provided during the year	89,510	43,034	32,522	44,620	141,744	–	351,430
Acquisition of subsidiaries (Note 38)	13,479	–	21,141	3,194	11,012	–	48,826
Disposals	–	(1,253)	(3,116)	(4,716)	(128,118)	–	(137,203)
At 31 December 2012	428,191	112,767	142,822	155,780	196,517	–	1,036,077
Net book amount:							
At 31 December 2012	3,082,928	202,100	268,707	172,475	894,153	419,594	5,039,957
Cost:							
At 1 January 2011	1,182,703	170,108	162,645	137,623	416,422	156,259	2,225,760
Exchange realignment	–	(36)	–	(10)	(94)	–	(140)
Additions	166,765	30,824	85,560	70,699	646,567	884,497	1,884,912
Acquisition of subsidiaries	567,844	12,192	50,606	43,275	87,014	60,943	821,874
Transfer	573,985	2,570	2,212	7,803	–	(586,570)	–
Disposals	(10,328)	(1,788)	(3,407)	(3,017)	(255,182)	–	(273,722)
At 31 December 2011	2,480,969	213,870	297,616	256,373	894,727	515,129	4,658,684
Accumulated depreciation and impairment:							
At 1 January 2011	182,306	43,131	57,744	63,092	90,778	–	437,051
Exchange realignment	–	(25)	–	(6)	(49)	–	(80)
Depreciation and impairment provided during the year	71,785	25,306	19,006	28,077	112,030	–	256,204
Acquisition of subsidiaries	73,112	2,891	17,087	22,899	24,582	–	140,571
Disposals	(2,001)	(317)	(2,733)	(1,380)	(55,462)	–	(61,893)
At 31 December 2011	325,202	70,986	91,104	112,682	171,879	–	771,853
Net book amount:							
At 31 December 2011	2,155,767	142,884	206,512	143,691	722,848	515,129	3,886,831

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB2,142,451,000 as at 31 December 2012 (2011: RMB1,485,236,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2012 and 2011, respectively.

As at 31 December 2012, certain of the Group's buildings with an aggregate net book value of approximately RMB263,065,000 (2011: RMB249,980,000) were pledged as security for the Group's bank loans (Note 28(b)).

RMB28,211,000 of the additions during the year ended 31 December 2012 was the capital contribution from a non-controlling shareholder of a subsidiary.

15. LAND USE RIGHTS

	2012 RMB'000	2011 RMB'000
Cost:		
At the beginning of the year	**1,148,249**	736,902
Additions	**386,997**	134,512
Acquisition of subsidiaries	**–**	276,835
At the end of the year	**1,535,246**	1,148,249
Amortisation:		
At the beginning of the year	**63,626**	36,252
Charge for the year	**24,529**	18,251
Acquisition of subsidiaries	**–**	9,123
At the end of the year	**88,155**	63,626
Net book value:		
At the end of the year	**1,447,091**	1,084,623

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 23 to 67 years.

As at 31 December 2012, certain of the Group's land use rights with an aggregate net book value of approximately RMB217,228,000 (2011: RMB150,961,000) were pledged as security for the Group's bank loans (Note 28(b)).

The Group has yet to obtain the legal title of certain land use rights in Mainland China with an aggregate net book value of RMB285,143,000 as at 31 December 2012 (2011: RMB186,929,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these land use rights as at 31 December 2012 and 2011, respectively.

RMB15,624,000 of the additions during the year ended 31 December 2012 was the capital contribution from a non-controlling shareholder of a subsidiary.

16. PREPAYMENTS

	2012 RMB'000	2011 RMB'000
Prepaid lease for land	**102,027**	98,077
Prepayment for land use rights	**379,783**	424,553
Prepaid lease for buildings	**84,005**	83,942
Prepayments for potential acquisitions	**898,103**	255,265
	1,463,918	861,837

17. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2012	33,888	1,734,475	612,901	5,247	2,386,511
Exchange realignment	–	–	–	2,562	2,562
Additions	2,786	–	–	40,000	42,786
Acquisition of subsidiaries (Note 38)	121	172,310	88,800	41,596	302,827
Disposals	(1,249)	–	–	–	(1,249)
At 31 December 2012	35,546	1,906,785	701,701	89,405	2,733,437
Accumulated amortisation:					
At 1 January 2012	11,671	91,868	41,292	390	145,221
Exchange realignment	–	–	–	52	52
Amortisation provided during the year	4,336	65,393	44,211	3,159	117,099
Acquisition of subsidiaries (Note 38)	4	–	–	–	4
Disposals	(452)	–	–	–	(452)
At 31 December 2012	15,559	157,261	85,503	3,601	261,924
Net book value:					
At 31 December 2012	19,987	1,749,524	616,198	85,804	2,471,513
Cost:					
At 1 January 2011	20,629	1,091,725	323,321	5,364	1,441,039
Exchange realignment	(18)	–	–	(117)	(135)
Additions	8,572	–	–	–	8,572
Acquisition of subsidiaries	5,891	642,750	289,580	–	938,221
Disposals	(1,186)	–	–	–	(1,186)
At 31 December 2011	33,888	1,734,475	612,901	5,247	2,386,511
Accumulated amortisation:					
At 1 January 2011	7,006	41,390	10,197	97	58,690
Exchange realignment	(13)	–	–	(5)	(18)
Amortisation provided during the year	4,183	50,478	31,095	298	86,054
Acquisition of subsidiaries	1,148	–	–	–	1,148
Disposals	(653)	–	–	–	(653)
At 31 December 2011	11,671	91,868	41,292	390	145,221
Net book value:					
At 31 December 2011	22,217	1,642,607	571,609	4,857	2,241,290

17. INTANGIBLE ASSETS (continued)

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement.

The customer relationships are amortised over 15 years and the dealership agreements are amortised from 20 years to 40 years, which are management's best estimation of their useful lives.

18. GOODWILL

	2012 **RMB'000**	2011 RMB'000
At the beginning of the year	**1,697,884**	790,947
Acquisition of subsidiaries (Note 38)	**335,692**	906,937
At the end of the year	**2,033,576**	1,697,884

Impairment testing of goodwill

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

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

Assumptions used in the value in use calculation

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

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

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	2012 **RMB'000**	2011 RMB'000
Share of net assets	**49,834**	44,525

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

(a) Particulars of the jointly-controlled entities

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

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

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

	2012 RMB'000	2011 RMB'000
Non-current assets	**9,563**	1,185
Current assets	**45,803**	55,025
Current liabilities	**(5,532)**	(11,685)
Net assets	**49,834**	44,525

Share of the jointly-controlled entities' results:

	2012 RMB'000	2011 RMB'000
Income	**234,612**	276,600
Expenses	**(227,531)**	(263,877)
Tax	**(1,772)**	(3,174)
Profit for the year	**5,309**	9,549

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Unlisted equity investments, at cost	**–**	100	**–**	–
Corporate bonds, at fair value	**–**	132,828	**–**	132,828
	–	132,928	**–**	132,828

21. INVENTORIES

	2012 **RMB'000**	2011 RMB'000
Motor vehicles	**5,694,250**	5,900,111
Spare parts and others	**652,429**	480,084
	6,346,679	6,380,195

As at 31 December 2012, certain of the Group's inventories with a carrying amount of approximately RMB1,132,547,000 (2011: RMB899,556,000) were pledged as security for the Group's bank loans and other borrowings (Note 28(b) and 28(d)).

As at 31 December 2012, certain of the Group's inventories with a carrying amount of approximately RMB445,218,000 (2011: RMB703,959,000) were pledged as security for the Group's bills payable.

22. TRADE RECEIVABLES

	2012 **RMB'000**	2011 RMB'000
Trade receivables	**576,924**	466,888
Impairment	**(218)**	(191)
	576,706	466,697

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

22. TRADE RECEIVABLES (continued)

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

	2012 RMB'000	2011 RMB'000
Within 3 months	**507,171**	433,202
More than 3 months but less than 1 year	**51,283**	28,831
Over 1 year	**18,252**	4,664
	576,706	466,697

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	**570,832**	462,033
Over one year past due	**5,874**	4,664
	576,706	466,697

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

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

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

	2012 RMB'000	2011 RMB'000
At the beginning of the year	**191**	232
Impairment losses recognised	**47**	1
Impairment losses reversed	**(20)**	(42)
At the end of the year	**218**	191

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Prepayments and deposits to suppliers	**2,261,053**	2,362,361
Deposits paid for acquisition of land use rights	**494,238**	400,459
Advances to certain companies to be acquired	**102,305**	17,417
Rebate receivables	**1,971,484**	1,200,823
VAT recoverable (i)	**140,143**	319,278
Receivables on disposal of items of property, plant and equipment	**12,757**	1,446
Interest receivables	**1,440**	2,714
Prepaid finance costs	**27,500**	63,275
Others	**493,293**	264,175
	5,504,213	4,631,948

Note:

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

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

	2012 RMB'000	2011 RMB'000
Prepayments, deposits, and other receivables	**2,581,309**	4,631,978
Impairment	**(30)**	(30)
	2,581,279	4,631,948

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

	2012 RMB'000	2011 RMB'000
At the beginning of the year	**30**	15
Impairment losses recognised	**–**	15
At the end of the year	**30**	30

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Listed equity investments – Hong Kong	**63,949**	49,749

(1) The above equity investments at 31 December 2012 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

(2) As at 31 December 2012, certain of the Group's listed equity investments with a carrying amount of approximately RMB44,585,000 (2011: RMB34,824,000) were pledged as security for the Group's bank loans and other borrowings (Note 28(a)).

25. PLEDGED BANK DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	**2,079,167**	1,664,888	**53,203**	–

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

As at 31 December 2012, the pledged bank deposits of the Group denominated in a currency other than RMB amounted to RMB53,203,000 (2011: Nil).

26. CASH IN TRANSIT

	2012	2011
	RMB'000	RMB'000
Cash in transit	**187,910**	186,721

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

27. CASH AND CASH EQUIVALENTS

	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**3,971,803**	4,475,512
Short term deposits	**125,000**	12,307
Cash and cash equivalents	**4,096,803**	4,487,819

As at 31 December 2012, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB26,195,000 (2011: RMB30,391,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. CASH AND CASH EQUIVALENTS (continued)

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

28. BANK LOANS AND OTHER BORROWINGS

Group

		2012			2011		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Finance lease payables (Note 35)		**6-17**	**2013**	**22,128**	6-17	2012	10,599
Bank overdrafts							
– secured	(a)	**2**	**on demand**	**88,097**	2-5	on demand	102,793
Bank loans							
– secured	(b)	**3-10**	**2013**	**2,900,052**	5-10	2012	1,833,974
– guaranteed	(c)	**7-8**	**2013**	**37,562**	7-9	2012	396,063
– unsecured		**4-9**	**2013**	**9,950,924**	7-9	2012	7,318,966
Other borrowings							
– secured	(d)	**3-9**	**2013**	**348,798**	7-12	2012	305,979
– unsecured		**8-9**	**2013**	**58,338**	8-12	2012	34,704
Current portion of long term bank loans							
– secured	(b)	**8**	**2013**	**50,000**	–	–	–
– guaranteed	(c)	**–**	**–**	**–**	5-6	2012	5,027
– unsecured		**8**	**2013**	**85,000**	7	2012	8,480
				13,540,899			10,016,585
Non-current							
Finance lease payables (Note 35)		**6-17**	**2014-2015**	**4,031**	6-17	2013-2014	3,836
Bank loans							
– secured	(b)	**7-8**	**2014-2015**	**315,481**	7	2013-2015	5,600
– guaranteed	(c)	**6**	**2014**	**24,326**	5-6	2013-2014	9,269
– unsecured		**7-9**	**2014**	**362,900**	7	2013-2014	11,240
				706,738			29,945
				14,247,637			10,046,530

28. BANK LOANS AND OTHER BORROWINGS (continued)

Company

	Note	2012 Effective interest rate (%)	2012 Maturity	2012 RMB'000	2011 Effective interest rate (%)	2011 Maturity	2011 RMB'000
Current							
Bank overdrafts							
– secured	(a)	**2**	**on demand**	**88,097**	2-5	on demand	87,451
				88,097			87,451

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**13,111,635**	9,665,303	**88,097**	87,451
In the second year	**518,226**	13,106	**–**	–
In the third to fifth years	**184,481**	13,003	**–**	–
	13,814,342	9,691,412	**88,097**	87,451
Other borrowings repayable:				
Within one year	**407,136**	340,683	**–**	–
Finance lease payables:				
Within one year	**22,128**	10,599	**–**	–
In the second year	**2,501**	3,584	**–**	–
In the third year	**1,530**	252	**–**	–
	26,159	14,435	**–**	–
	14,247,637	10,046,530	**88,097**	87,451

28. BANK LOANS AND OTHER BORROWINGS (continued)

Notes:

(a) As at 31 December 2012, the Group had bank overdraft facilities amounted to RMB97,786,000 (2011: RMB145,115,000), of which RMB88,097,000 (2011: RMB102,793,000) had been utilised.

Certain of the Group's bank overdrafts amounted to RMB88,097,000 (2011: RMB87,451,000) were secured by:

(i) mortgages over the Group's listed equity investments, which had an aggregate carrying amount of approximately RMB44,585,000 (2011: RMB34,824,000) as at 31 December 2012.

(ii) None of the Group's bank overdrafts were secured by mortgages over the Group's corporate bond investments as at 31 December 2012 (2011: RMB59,145,000).

None of the Group's bank overdrafts were guaranteed by a third party as at 31 December 2012 (2011: RMB15,342,000).

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB217,228,000 (2011: RMB150,961,000) as at 31 December 2012;

(ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB263,065,000 (2011: RMB249,980,000) as at 31 December 2012; and

(iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB807,202,000 (2011: RMB638,569,000) as at 31 December 2012.

(c) Certain of the Group's bank loans which amounted to RMB61,888,000 (2011: RMB410,359,000) were guaranteed by certain third parties as at 31 December 2012.

(d) Certain of the Group's other borrowings were secured by mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB325,345,000 (2011: RMB260,987,000) as at 31 December 2012.

(e) All bank loans and other borrowings were denominated in RMB, except for certain bank overdrafts and bank loans which were denominated in Hong Kong dollars and Euros, amounted to RMB693,804,000 and RMB53,881,000, respectively.

29. SHORT TERM BONDS

As at 31 December 2012, outstanding short term bonds are summarised as follows:

	Face value RMB'000	Maturity	Fixed interest rate	**2012 RMB'000**	2011 RMB'000
Short term bonds	400,000	2013	5.70%	**414,043**	–
Short term bonds	400,000	2013	5.30%	**407,155**	–
				821,198	–

All the short term bonds were issued for working capital.

30. TRADE AND BILLS PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	**602,601**	600,322
Bills payable	**3,137,073**	5,079,553
Trade and bills payables	**3,739,674**	5,679,875

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

	2012 RMB'000	2011 RMB'000
Within 3 months	**3,066,559**	3,258,824
3 to 6 months	**666,262**	2,165,436
6 to 12 months	**2,577**	251,715
Over 12 months	**4,276**	3,900
	3,739,674	5,679,875

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

31. OTHER PAYABLES AND ACCRUALS

	2012 RMB'000	2011 RMB'000
Payables for purchase of property, plant and equipment and land use rights	**202,875**	187,692
Advances and deposits from distributors	**101,549**	93,794
Advances from customers	**686,471**	755,317
Payables for purchase of equity interests from third parties	**39,977**	249,124
Staff payroll and welfare payables	**3,262**	6,595
Others	**320,365**	212,556
	1,354,499	1,505,078

32. EMPLOYEE RETIREMENT BENEFITS

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

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2011: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

32. EMPLOYEE RETIREMENT BENEFITS (continued)

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 18% (2011: 7% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

As at 31 December 2012, the Group had no significant obligation apart from the contributions as stated above.

33. INCOME TAX PAYABLE AND DEFERRED TAX

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

	2012 RMB'000	2011 RMB'000
At the beginning of the year	**392,622**	188,161
Provision for current tax for the year	**364,796**	566,339
Transferred from deferred tax liabilities	**16,762**	–
Current tax paid	**(318,882)**	(361,878)
At the end of the year	**455,298**	392,622

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax assets:

	Losses available for offsetting against future taxable profits RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2012	**37,490**	**588**	**38,078**
Deferred tax arising from acquisition of subsidiaries (Note 38)	**13,575**	**–**	**13,575**
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	**81,021**	**(588)**	**80,433**
At 31 December 2012	**132,086**	**–**	**132,086**
At 1 January 2011	7,512	1,273	8,785
Deferred tax arising from acquisition of subsidiaries	23,158	–	23,158
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	6,820	(685)	6,135
At 31 December 2011	37,490	588	38,078

33. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

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

Deferred tax liabilities:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Change in the fair value of available-for-sale investments RMB'000	Change in the fair value of financial assets at fair value through profit or loss RMB'000	Capitalisation of interest expenses RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2012	**622,958**	**–**	**–**	**16,703**	**66,778**	**706,439**
Deferred tax arising from acquisition of subsidiaries (Note 38)	**81,094**	**–**	**–**	**–**	**1,198**	**82,292**
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	**(29,659)**	**–**	**–**	**36,319**	**–**	**6,660**
Transferred to tax payable during the year	**–**	**–**	**–**	**–**	**(16,762)**	**(16,762)**
As 31 December 2012	**674,393**	**–**	**–**	**53,022**	**51,214**	**778,629**
At 1 January 2011	364,847	492	1,581	2,877	52,800	422,597
Deferred tax arising from acquisition of subsidiaries	279,923	–	–	–	13,978	293,901
Deferred tax recognised in the consolidated income statement during the year (Note 8(a))	(21,812)	–	(1,581)	13,826	–	(9,567)
Deferred tax recognised in the consolidated statement of comprehensive income during the year	–	(492)	–	–	–	(492)
At 31 December 2011	622,958	–	–	16,703	66,778	706,439

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

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with an aggregate amount of temporary differences of approximately RMB3,278,777,000 (2011: RMB2,411,275,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2012.

34. SENIOR NOTES

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Non-current	**1,239,951**	1,232,693
Current	**11,581**	11,518
	1,251,532	1,244,211

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

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

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

	2012	2011
	RMB'000	RMB'000
At the beginning of the year	**1,244,211**	–
Issuance of the senior notes	**–**	1,227,873
Add: interest expense (Note 7)	**66,696**	46,026
Less: payment of interest	**(59,375)**	(29,688)
At the end of the year	**1,251,532**	1,244,211

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

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

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

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

35. FINANCE LEASE PAYABLES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of finance leases, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation to reflect the purchase and financing.

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

At 31 December 2012, the total future minimum lease payments under leases and their present values were as follows:

	Minimum lease payments 2012 RMB'000	Minimum lease payments 2011 RMB'000	**Present value of minimum lease payments 2012 RMB'000**	Present value of minimum lease payments 2011 RMB'000
Amount payables:				
Within one year	**23,521**	11,066	**22,128**	10,599
In the second year	**2,739**	3,880	**2,501**	3,584
In the third to fifth years	**1,622**	288	**1,530**	252
Total minimum finance lease payments	**27,882**	15,234	**26,159**	14,435
Future finance charges	**(1,723)**	(799)		
Total net finance lease payables	**26,159**	14,435		
Portion classified as current liabilities (Note 28)	**22,128**	10,599		
Non-current portion (Note 28)	**4,031**	3,836		

36. SHARE CAPITAL

Shares	**2012 HK$'000**	2011 HK$'000
Authorised:		
1,000,000,000,000 shares of HK$0.0001 each	**100,000**	100,000
Issued and fully paid:		
1,908,481,295 shares of HK$0.0001 each	**191**	191
Equivalent to RMB'000	**168**	168

37. RESERVES

Group

(i) Discretionary reserve fund

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

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

(ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 44 to the consolidated financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(iii) Exchange fluctuation reserve

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

(iv) Merger reserve

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

(v) Other reserve

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

Company

	Share premium RMB'000	Available-for-sale investments revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2011	5,021,215	2,489	(161,768)	71,990	4,933,926
Total comprehensive loss for the year	–	(4,309)	(277,426)	(36,853)	(318,588)
Proposed final 2011 dividend	(247,929)	–	–	–	(247,929)
As at 31 December 2011	4,773,286	(1,820)	(439,194)	35,137	4,367,409
Total comprehensive loss for the year	–	1,820	1,023	(59,377)	(56,534)
Proposed final 2012 dividend	(152,679)	–	–	–	(152,679)
As at 31 December 2012	4,620,607	–	(438,171)	(24,240)	4,158,196

38. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 31 March 2012 at a total consideration of RMB203,532,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

Company Name	**Acquired equity interests %**
Giant Prosper Investments Limited	100%
Nice Fortune (Hong Kong) Limited	100%
東莞佳億商貿有限公司 (Dongguan Jiayi Commercial Co., Ltd.)	100%
東莞市聚星行汽車銷售服務有限公司 (Dongguan Juxinghang Automobile Sales & Services Co., Ltd.)	100%

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

	Notes	**Recognised fair values on acquisition date** RMB'000
Property, plant and equipment	14	46,239
Intangible assets	17	117,281
Deferred tax assets	33(b)	896
Inventories		50,254
Trade receivables		15,061
Prepayments, deposits and other receivables		13,748
Pledged bank deposits		7,579
Cash in transit		393
Cash and cash equivalents		4,952
Trade and bills payables		(10,844)
Other payables and accruals		(123,872)
Deferred tax liabilities	33(b)	(31,446)
Total identifiable net assets		90,241
Goodwill on acquisition	18	113,291
Total purchase consideration		203,532
An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:		
Cash consideration paid		(203,532)
Cash and cash equivalents acquired		4,952
Net cash outflow		(198,580)

Since the acquisition, the acquired business contributed RMB540,418,000 to the Group's revenue and RMB29,809,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB50,154,153,000 and RMB866,979,000, respectively.

38. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (continued)

(b) On 25 May 2012, the Group acquired 70% of the equity interests of Carlsson Autotechnik GmbH (卡爾森汽車技術公司), which is engaged in the automobile tuning business, from two third parties at a total consideration of EUR4,100,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

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

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

	Notes	**Recognised fair values on acquisition date** RMB'000
Property, plant and equipment	14	19,428
Intangible assets	17	41,684
Deferred tax assets	33(b)	924
Inventories		19,054
Trade receivables		6,851
Prepayments, deposits and other receivables		2,160
Trade and bills payables		(12,862)
Other payables and accruals		(6,112)
Bank loans and other borrowings		(30,024)
Deferred tax liabilities	33(b)	(11,855)
Total identifiable net assets		29,248
Non-controlling interests		(8,774)
Goodwill on acquisition	18	12,432
Total purchase consideration		32,906
An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:		
Cash consideration paid		(32,906)
Cash and cash equivalents acquired		–
Net cash outflow		(32,906)

Since the acquisition, the acquired business contributed RMB68,136,000 to the Group's revenue and loss of RMB6,410,000 for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB50,088,432,000 and RMB864,593,000, respectively.

38. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (continued)

(c) As part of the Group's plan to expand its motor vehicle sales and service business in Fujian province, the Group acquired 100% of the equity interests of 福州運通豐田汽車銷售服務有限公司 (Fuzhou Yuntong Toyota Automobile Sales & Services Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from three third parties on 31 May 2012 at a total consideration of RMB30,595,000. The purchase consideration for the acquisition was in the form of cash, with RMB28,595,000 paid during the year.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	14	11,436
Intangible assets	17	18,580
Inventories		29,435
Trade receivables		3,410
Prepayments, deposits and other receivables		8,820
Pledged bank deposits		15,773
Cash and cash equivalents		714
Trade and bills payables		(42,321)
Other payables and accruals		(18,254)
Bank loans and other borrowings		(6,209)
Income tax payable		(44)
Deferred tax liabilities	33(b)	(3,669)
Total net identifiable assets		17,671
Goodwill on acquisition	18	12,924
Total purchase consideration		30,595

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

Cash consideration paid	(28,595)
Cash and cash equivalents acquired	714
Net cash outflow	(27,881)

Since the acquisition, the acquired business contributed RMB108,258,000 to the Group's revenue and RMB2,339,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB50,123,273,000 and RMB864,637,000, respectively.

38. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (continued)

(d) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang province, the Group acquired 100% of the equity interests of 溫州華能華奧汽車銷售服務有限公司 (Wenzhou Huaneng Huaao Automobile Sales & Services Co., Ltd.) and 樂清華星汽車銷售服務有限公司 (Yueqing Huaxing Automobile Sales & Services Co., Ltd.), which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 30 September 2012 and 31 October 2012, respectively, at a total consideration of RMB172,071,000. The purchase consideration for the acquisitions was in the form of cash, with RMB161,071,000 paid during the year.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	14	66,711
Intangible assets	17	61,998
Deferred tax assets	33(b)	9,521
Inventories		67,615
Trade receivables		772
Prepayments, deposits and other receivables		75,952
Pledged bank deposits		73,964
Cash in transit		1,710
Cash and cash equivalents		18,593
Trade and bills payables		(181,613)
Other payables and accruals		(88,929)
Bank loans and other borrowings		(39,321)
Deferred tax liabilities	33(b)	(16,162)
Total net identifiable assets		50,811
Goodwill on acquisition	18	121,260
Total purchase consideration		172,071

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

Cash consideration paid	(161,071)
Cash and cash equivalents acquired	18,593
Net cash outflow	(142,478)

Since the acquisition, the acquired business contributed RMB216,092,000 to the Group's revenue and RMB25,498,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB50,517,450,000 and RMB856,768,000, respectively.

Up to 31 December 2012, Yueqing Huaxing Automobile Sales & Services Co., Ltd. has not commenced its business.

38. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (continued)

(e) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang province, the Group acquired 100% of the equity interests of 台州晨隆汽車銷售有限公司 (Taizhou Chenlong Automobile Sales Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 30 September 2012 at a total consideration of RMB127,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB110,000,000 paid during the year.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	14	38,821
Intangible assets	17	63,280
Deferred tax assets	33(b)	2,234
Inventories		113,788
Trade receivables		3,539
Prepayments, deposits and other receivables		67,216
Pledged bank deposits		57,108
Cash in transit		995
Cash and cash equivalents		6,307
Trade and bills payables		(120,251)
Other payables and accruals		(80,860)
Bank loans and other borrowings		(83,636)
Income tax payable		1,834
Deferred income tax liability	33(b)	(19,160)
Total net identifiable assets		51,215
Goodwill on acquisition	18	75,785
Total purchase consideration		127,000

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

Cash consideration paid	(110,000)
Cash and cash equivalents acquired	6,307
Net cash outflow	(103,693)

Since the acquisition, the acquired business contributed RMB228,466,000 to the Group's revenue and RMB11,224,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB50,701,127,000 and RMB871,436,000, respectively.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

2012

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	63,949	–	63,949
Trade receivables	–	576,706	576,706
Financial assets included in prepayments, deposits and other receivables	–	2,581,279	2,581,279
Amounts due from related parties	–	1,451	1,451
Pledged bank deposits	–	2,079,167	2,079,167
Cash in transit	–	187,910	187,910
Cash and cash equivalents	–	4,096,803	4,096,803
	63,949	9,523,316	9,587,265

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,739,674
Financial liabilities included in other payables and accruals	566,479
Amounts due to related parties	16,094
Bank loans and other borrowings	14,247,637
Short term bonds	821,198
Senior notes	1,251,532
	20,642,614

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39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

2011

Financial assets

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

Financial liabilities

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

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

2012

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	63,949	–	63,949
Financial assets included in prepayments, deposits and other receivables	–	2,077	2,077
Amounts due from subsidiaries	–	3,506,344	3,506,344
Pledged bank deposits	–	53,203	53,203
Cash and cash equivalents	–	318	318
	63,949	3,561,942	3,625,891

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	28
Bank loans and other borrowings	88,097
Senior notes	1,251,532
	1,339,657

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (continued)

2011

Financial assets

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

Financial liabilities

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

40. FAIR VALUE HIERARCHY

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

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

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

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

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

Assets measured at fair value:

As at 31 December 2012

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss:				
Listed equity investments – Hong Kong	**63,949**	**–**	**–**	**63,949**

As at 31 December 2011

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

During the years of 2012 and 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011, respectively.

41. CONTINGENT LIABILITIES

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities.

42. COMMITMENTS

(a) Capital commitments

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

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for land use rights and buildings	**167,381**	117,669
Contracted, but not provided for potential acquisitions	**35,000**	585,289
	202,381	702,958

(b) Operating lease commitments

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

	2012		2011	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	**72,050**	44,068	**52,134**	32,855
After one year but within five years	**256,768**	178,429	**226,694**	144,391
After five years	**147,304**	363,218	**174,901**	309,111
	476,122	585,715	**453,729**	486,357

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

43. PLEDGE OF ASSETS

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

44. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**2,024,809**	2,024,434

The amounts due from subsidiaries included in the Company's non-current assets of RMB3,506,344,000 (2011: RMB3,724,485,000), are unsecured, interest-free and had no fixed repayment terms.

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
中升(大連)集團有限公司 (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB700,000,000	–	100%	Investment holding
大連中升日產汽車銷售服務有限公司 (Dalian Zhongsheng Nissan Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US$7,500,000	–	100%	Sale and service of motor vehicles
大連中升東本汽車銷售服務有限公司 (Dalian Zhongsheng Dongfeng Honda Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of US$6,500,000	–	100%	Sale and service of motor vehicles
大連中升匯迪汽車銷售服務有限公司 (Dalian Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	–	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司 (Kunming Zhongsheng Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司 (Kunming Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
南京中升豐田汽車服務有限公司 (Nanjing Zhongsheng Toyota Automobile Services Co., Ltd.)	Nanjing, the PRC 2003	Registered and paid-in capital of HK$13,860,000	–	60%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司 (Dalian Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2005	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
廣州中升豐田汽車銷售服務有限公司 (Guangzhou Zhongsheng Toyota Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2004	Registered and paid-in capital of US$8,000,000	–	100%	Sale and service of motor vehicles

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
廣州中升凌志汽車銷售服務有限公司 (Guangzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司 (Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US$17,500,000	–	100%	Sale and service of motor vehicles
大連中升汽車銷售服務有限公司 (Dalian Zhongsheng Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
泉州隆星汽車銷售服務有限公司 (Quanzhou Longxing Automobile Sales & Services Co., Ltd.)	Quanzhou, the PRC 2006	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
大連中升搏通汽車銷售服務有限公司 (Dalian Zhongsheng Botong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
雲南中升雷克薩斯汽車銷售服務有限公司 (Yunnan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Yunnan, the PRC 2006	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
福州中升雷克薩斯汽車銷售服務有限公司 (Fuzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Fuzhou, the PRC 2006	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
HOKURYO (Hong Kong) Co., Ltd.	HK 1997	Registered and paid-in capital of HK$10,000	–	100%	Investment holding

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
大連新盛榮新實業有限公司 (Dalian Xinshengrong New Industrial Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB200,000,000	–	100%	Investment holding
大連新盛榮豐田汽車銷售服務有限公司 (Dalian Xinshengrong Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
東莞中升雷克薩斯汽車銷售服務有限公司 (Dongguan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
SUPER CHARM Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
BILLION GREAT Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
大連裕增實業有限公司 (Dalian Yuzeng Industrial Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB30,000,000	–	100%	Investment holding
大連裕德豐田汽車銷售服務有限公司 (Dalian Yude Toyota Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
營口華盛汽車銷售服務有限公司 (Yingkou Huasheng Automobile Sales & Services Co., Ltd.)	Yingkou, the PRC 2004	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
青島中升智通汽車銷售服務有限公司 (Qingdao Zhongsheng Zhitong Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2005	Registered and paid-in capital of RMB11,000,000	–	100%	Sale and service of motor vehicles

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44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
烟台中升匯迪汽車銷售服務有限公司 (Yantai Zhongsheng Huidi Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2002	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
OLYMPIA WELL Limited	HK 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
佛山中升之星汽車銷售服務有限公司 (Foshan Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之星汽車銷售服務有限公司 (Nanjing Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC 2009	Registered and paid-in capital of RMB140,000,000	–	100%	Sale and service of motor vehicles
常熟華星汽車銷售服務有限公司 (Changshu Huaxing Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
遼寧中升捷通汽車銷售服務有限公司 (Liaoning Zhongsheng Jietong Automobile Sales & Services Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
長春市成邦商貿有限公司 (Changchun Chengbang Trading Co., Ltd.)	Changchun, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
無錫國信汽車銷售服務有限公司 (Wuxi Guoxin Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
NOBLE VILLA Investments Limited	BVI 2008	Registered and paid-in capital of US$1	100%	–	Investment holding
Zhongsheng Holdings Co., Ltd.	HK 1996	Registered and paid-in capital of HK$32,000,000	–	100%	Investment holding

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
中升(中國)企業管理有限公司 (Zhongsheng (China) Enterprise Management Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of US$40,000,000	–	100%	Enterprise management
溫州中升雷克薩斯汽車銷售服務有限公司 (Wenzhou Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Wenzhou, the PRC 2010	Registered and paid-in capital of RMB120,000,000	–	100%	Sale and service of motor vehicles
重慶中升雷克薩斯汽車銷售服務有限公司 (Chongqing Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升之星汽車銷售服務有限公司 (Shanghai Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB200,000,000	–	100%	Sale and service of motor vehicles
福州華瑞汽車銷售服務有限公司 (Fuzhou Huarui Automobile Sales & Services Co., Ltd.)	Fuzhou, the PRC 2002	Registered and paid-in capital of RMB37,100,000	–	100%	Sale and service of motor vehicles
福州廣裕達貿易有限公司 (Fuzhou Guangyuda Trading Co., Ltd.)	Fuzhou, the PRC 2002	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
南京恒岳汽車銷售服務有限公司 (Nanjing Hengyue Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
大連鋭派汽車用品有限公司 (Dalian Ruipai Automobile Accessories Co., Ltd.)	Dalian, the PRC 2011	Registered and paid-in capital of RMB4,000,000	–	100%	Sale and service of motor vehicles

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name		Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
濰坊中升仕豪汽車銷售服務有限公司 (Weifang Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)		Weifang, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
東莞市聚星行汽車銷售服務有限公司 (Dongguan Juxinghang Automobile Sales & Services Co., Ltd.)		Dongguan, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
北京百得利汽車進出口集團有限公司 (Beijing Betterlife Automobile Import & Export Group Co., Ltd.)	*	Beijing, the PRC 1998	Registered and paid-in capital of RMB60,000,000	–	50%	Sale and service of motor vehicles
北京百得利汽車銷售有限公司 (Beijing Betterlife Automobile Sales Co., Ltd.)	*	Beijing, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利汽車服務有限公司 (Tianjin Betterlife Automobile Services Co., Ltd.)	*	Tianjin, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	50%	Sale and service of motor vehicles
北京百得利汽車貿易有限公司 (Beijing Betterlife Automobile Trading Co., Ltd.)	*	Beijing, the PRC 2004	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
天津百得利之迪汽車銷售有限公司 (Tianjin Betterlife Zhidi Automobile Sales Co., Ltd.)	*	Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	50%	Sale and service of motor vehicles
北京百得利之星汽車銷售有限公司 (Beijing Betterlife Star Automobile Sales Co., Ltd.)	*	Beijing, the PRC 2008	Registered and paid-in capital of RMB40,000,000	–	50%	Sale and service of motor vehicles
杭州百得利汽車有限公司 (Hangzhou Betterlife Automobile Co., Ltd.)	*	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	50%	Sale and service of motor vehicles

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name		Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
成都百得利汽車貿易有限公司 (Chengdu Betterlife Automobile Trading Co., Ltd.)	*	Chengdu, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	50%	Sale and service of motor vehicles
Betterlife International Motor Co., Ltd.	*	HK 2010	Registered and paid-in capital of HK$10,000	–	50%	Investment holding
杭州百得利之星汽車銷售有限公司 (Hangzhou Betterlife Star Automobile Sales Co., Ltd.)	*	Hangzhou, the PRC 2011	Registered and paid-in capital of RMB50,000,000	–	50%	Sale and service of motor vehicles
龍華汽車有限公司 (Loong Wah Motors Limited)		HK 1978	Registered and paid-in capital of HK$10,000,000	–	100%	Investment holding
惠州中升雷克薩斯汽車服務有限公司 (Huizhou Zhongsheng Lexus Automobile Services Co., Ltd.)		Huizhou, the PRC 2008	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
寧波龍華雷克薩斯汽車服務有限公司 (Ningbo Loong Wah Lexus Automobile Services Co., Ltd.)		Ningbo, the PRC 2006	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
昆山中升雷克薩斯汽車銷售服務有限公司 (Kunshan Zhongsheng Lexus Automobile Sales & Services Co., Ltd.)		Kunshan, the PRC 2010	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
大明行有限公司 (Big Brilliant Limited)		HK 2011	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
雲南中升華通汽車銷售服務有限公司 (Yunnan Zhongsheng Huatong Automobile Sales & Service Co., Ltd.)		Yunnan, the PRC 1999	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
WORLDWIDE CHANNEL INTERNATIONAL LIMITED		HK 2010	Registered and paid-in capital of HK$1	–	55%	Investment holding

44. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
Carlsson Autotechnik GmbH	Germany 1989	Registered and paid-in capital of EUR1,000,000	–	70%	Automobile tuning
福州運通豐田汽車銷售服務有限公司 (Fuzhou Yuntong Toyota Automobile Sales & Services Co., Ltd.)	Fujian, the PRC 2004	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
溫州華能華奧汽車銷售服務有限公司 (Wenzhou Huaneng Huaao Automobile Sales & Services Co., Ltd.)	Zhejiang, the PRC 2009	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
台州晨隆汽車銷售有限公司 (Taizhou Chenlong Automobile Sales Co., Ltd.)	Zhejiang, the PRC 2005	Registered and paid-in capital of RMB18,800,000	–	100%	Sale and service of motor vehicles
樂清華星汽車銷售服務有限公司 (Yueqing Huaxing Automobile Sales & Services Co., Ltd.)	Zhejiang, the PRC 2011	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

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

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

45. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Transactions with related parties

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

		2012 RMB'000	2011 RMB'000
(i)	Sales of goods to jointly-controlled entities:		
	– Xiamen Zhongsheng	**28,597**	21,704
	– Zhongsheng Tacti	**9,334**	545
		37,931	22,249
(ii)	Purchase of goods or services from jointly-controlled entities:		
	– Xiamen Zhongsheng	**10,979**	15,695
	– Zhongsheng Tacti	**27,143**	60,847
	– TAC	**359**	–
		38,481	76,542

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

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Balances with related parties

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

		2012 RMB'000	2011 RMB'000
(i)	Due from related parties:		
	Trade related		
	Jointly-controlled entities		
	– Xiamen Zhongsheng	**857**	3,765
	– Zhongsheng Tacti	**594**	604
		1,451	4,369
(ii)	Due to related parties:		
	Trade related		
	Jointly-controlled entities		
	– Xiamen Zhongsheng	**6**	–
	– Zhongsheng Tacti	**15,868**	2,096
	– TAC	**220**	–
		16,094	2,096
(iii)	Compensation of key management personnel of the Group:		
	Short term employee benefits	**12,956**	15,609
	Post-employee benefits	**274**	303
	Total compensation paid to key management personnel	**13,230**	15,912

Further details of directors' and the chief executive officer's emoluments are included in Note 9 to the financial statements.

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2012		
RMB	**15**	**(13,739)**
RMB	**(15)**	**13,739**
2011		
RMB	15	(9,291)
RMB	(15)	9,291

Foreign currency risk

Most of the Group's assets and liabilities were denominated in RMB, except for certain pledged bank deposits, cash and cash equivalents and bank loans and other borrowings denominated in HK dollars, US dollars and Euros as disclosed in Note 25, Note 27 and Note 28, respectively.

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

As at 31 December 2012, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

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

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

	2012					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bank loans and other borrowings	**88,097**	**4,629,897**	**9,275,275**	**752,453**	**–**	**14,745,722**
Short term bonds	**–**	**–**	**844,000**	**–**	**–**	**844,000**
Senior notes	**–**	**–**	**59,375**	**1,279,688**	**–**	**1,339,063**
Trade and bills payables	**–**	**2,299,852**	**1,439,822**	**–**	**–**	**3,739,674**
Other payables	**–**	**340,004**	**226,475**	**–**	**–**	**566,479**
Amounts due to related parties	**16,094**	**–**	**–**	**–**	**–**	**16,094**
	104,191	**7,269,753**	**11,844,947**	**2,032,141**	**–**	**21,251,032**

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	102,793	4,846,156	5,341,178	1,420,840	–	11,710,967
Senior notes	–	–	59,375	1,339,063	–	1,398,438
Trade and bills payables	–	2,705,486	2,974,389	–	–	5,679,875
Other payables	–	470,877	185,090	–	–	655,967
Amounts due to related parties	2,096	–	–	–	–	2,096
	104,889	8,022,519	8,560,032	2,759,903	–	19,447,343

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2012.

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

	2012 **RMB'000**	2011 RMB'000
Bank loans and other borrowings	**14,247,637**	10,046,530
Short term bonds	**821,198**	–
Senior notes	**1,251,532**	1,244,211
Trade and bills payables	**3,739,674**	5,679,875
Other payables and accruals	**1,354,499**	1,505,078
Amounts due to related parties	**16,094**	2,096
Less: Cash and cash equivalents	**(4,096,803)**	(4,487,819)
Pledged bank deposits	**(2,079,167)**	(1,664,888)
Net debt	**15,254,664**	12,325,083
Equity attributable to owners of the parent	**7,538,717**	7,092,233
Capital and net debt	**22,793,381**	19,417,316
Gearing ratio	**66.9%**	63.5%

47. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2012.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2013.

Financial Summary

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

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**50,048,288**	41,903,414	24,042,907	13,722,185	10,548,577
Cost of sales and services provided	**(45,764,357)**	(37,595,170)	(21,750,181)	(12,542,762)	(9,771,214)
Gross profit	**4,283,931**	4,308,244	2,292,726	1,179,423	777,363
Other income and gains, net	**689,459**	367,362	321,779	69,203	33,412
Selling and distribution expenses	**(1,951,472)**	(1,325,790)	(693,372)	(346,521)	(274,317)
Administrative expenses	**(838,531)**	(616,267)	(318,414)	(161,967)	(118,861)
Profit from operations	**2,183,387**	2,733,549	1,602,719	740,138	417,597
Finance costs	**(1,032,130)**	(549,375)	(226,917)	(80,688)	(104,443)
Share of profits of jointly – controlled entities	**5,309**	9,549	8,195	7,254	4,520
Profit before tax	**1,156,566**	2,193,723	1,383,997	666,704	317,674
Income tax expense	**(291,023)**	(550,637)	(301,624)	(173,701)	(83,265)
Profit for the year	**865,543**	1,643,086	1,082,373	493,003	234,409
Attributable to:					
Owners of the parent	**750,480**	1,417,279	1,031,190	470,881	218,702
Non-controlling interests	**115,063**	225,807	51,183	22,122	15,707
	865,543	1,643,086	1,082,373	493,003	234,409
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**31,494,853**	27,860,382	16,199,630	5,504,464	4,170,559
TOTAL LIABILITIES	**(22,664,963)**	(19,582,569)	(9,485,061)	(3,356,657)	(2,484,788)
NON-CONTROLLING INTERESTS	**(1,291,173)**	(1,185,580)	(778,976)	(36,892)	(52,673)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**7,538,717**	7,092,233	5,935,593	2,110,915	1,633,098