



G.A. HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability
and carrying on business in Hong Kong under the trading name of
German Automobiles International Limited)*

PLACING

Joint Sponsors

JS CRESVALE

JS CRESVALE INTERNATIONAL LIMITED

CASH

CELESTIAL CAPITAL LIMITED

Lead Manager

CASH

CELESTIAL CAPITAL LIMITED

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.



G. A. HOLDINGS LIMITED

G. A. 控股有限公司

*(incorporated in the Cayman Islands with limited liability
and carrying on business in Hong Kong under the trading name of
German Automobiles International Limited)*

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

**Number of Placing Shares : 100,000,000 Placing Shares comprising
80,000,000 New Shares and
20,000,000 Sale Shares**

Placing Price : HK\$0.50 per Placing Share

Nominal Value : HK\$0.10 each

Stock Code : 8126

Joint Sponsors

JS CRESVALE

JS Cresvale International Limited

CASH

Celestial Capital Limited

Lead Manager

CASH

Celestial Capital Limited

Co-Managers

First Shanghai Securities Limited	Hooray Securities Limited
JS Cresvale International Limited	Shun Loong Securities Company Limited
UOB Kay Hian (Hong Kong) Limited	YF Securities Company Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies" in appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

10th June, 2002

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

Announcement of the level of indication of interests in the Placing to be published on the GEM website at www.hkgem.com on	13th June, 2002
Allotment of the Placing Shares on	13th June, 2002
Despatch of share certificates on (<i>Note 1</i>)	14th June, 2002
Dealings in the Shares on GEM to commence on	17th June, 2002

Note:

- (1) The share certificate(s) is/are expected to be deposited into CCASS on 14th June, 2002 for the purpose of crediting the same to the respective CCASS participants, stock accounts designated by the Underwriters or the placees, as the case may be. No temporary documents of title will be issued.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsors, the Lead Manager, the Underwriters, the directors or officers or employees or representatives of any of them, or any other person involved in the Placing.

This prospectus does not constitute an issue or invitation in any place in which, or to any person to whom, it would not be lawful to make such an issue or invitation.

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SUMMARY OF THIS PROSPECTUS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.

There are risks associated with any investment in companies listed on GEM. Some of the particular risks in investing in the Placing Share are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS

The Group is principally engaged in the (i) distribution of passenger vehicles, in particular, BMW, Honda and Mercedes-Benz passenger vehicles to resellers in Hong Kong and the PRC whose sales targets are the end customers in the PRC, (ii) provision of marketing and technical assistance to North Anhua, a reseller and business alliance of the Group in the PRC, (iii) provision of after-sales service such as motor vehicles repair and maintenance services in the PRC and (iv) trading of auto parts and accessories in Hong Kong and the PRC. Headquartered in Singapore, the Group currently has presences in Hong Kong, Tianjin Municipality and the Xiamen Special Economic Zone of the PRC. For each of the two years ended 31st December, 2000 and 2001, total revenues generated by the Group are set out below:

	No. of motor vehicles		FY2000		No. of motor vehicles		FY2001	
			<i>HK\$'000</i>				<i>HK\$'000</i>	
Distribution of passenger vehicles	347	87,009	70%		701	218,786	86%	
Technical fee income		27,696	22%			20,413	8%	
Servicing passenger vehicles and sales of auto parts		10,270	8%			14,585	6%	
		<u>124,975</u>	<u>100%</u>			<u>253,784</u>	<u>100%</u>	

To complement the Group's motor vehicles distribution business, the Group has recently diversified into car rental business in the PRC. The Directors believe that car rental operators will enhance their services by employing imported luxury passenger vehicles supplied by the Group. The Group has entered into a license agreement with Hertz as its principal licensee for using the Hertz System and has procured three sub-licensees for using the Hertz System. The PRC legal adviser to the Company has opined that the Group is entitled to operate, within the ambit of the PRC law, as a principal licensee for sub-licensing the Hertz System to local car rental business operators in the PRC. The Group also provides management consulting, financial assistance and technical expertise to these sub-licensees in the operation of their car rental business in the PRC.

SUMMARY OF THIS PROSPECTUS

1) Distribution of passenger vehicles

Product Coverage

The Group principally distributes imported BMW, Honda and other passenger vehicles, including Land Rover, Toyota, and Mercedes-Benz to resellers in Hong Kong and the PRC whose sale targets are the end customers in the PRC.

For each of the two years ended 31st December, 2000 and 2001, revenues generated from the Group's distribution of imported BMW, Honda, Land Rover, Toyota and Mercedes-Benz passenger vehicles are set out below:

	No. of motor vehicles			No. of motor vehicles		
	FY2000			FY2001		
	HK\$'000			HK\$'000		
BMW	103	35,565	41.0%	441	128,812	58.9%
Honda	187	24,911	28.6%	124	20,526	9.4%
Land Rover	2	389	0.4%	7	690	0.3%
Toyota	—	—	—	29	4,236	1.9%
Mercedes-Benz	55	26,144	30.0%	100	64,522	29.5%
	<u>347</u>	<u>87,009</u>	<u>100.0%</u>	<u>701</u>	<u>218,786</u>	<u>100.0%</u>

The Group secured the distributorship of BMW passenger vehicles and auto parts in the Fujian Province in the PRC by entering into a yearly renewable non-exclusive BMW Importer Contract with BMW AG in December 1993. The BMW Importer Contract was renewed by BMW AG in 2002 for a term of one year from 1st January, 2002 to 31st December, 2002. The Group has been expanding its business activities and has subsequently been distributing, i) other brands of automobiles and parts to resellers inside and outside the contract territory, Fujian Province, including Hong Kong and ii) BMW automobiles and parts to resellers who have not been authorised by BMW AG (collectively the "Activities"). **The Activities do not strictly comply with the terms and conditions of the BMW Importer Contract.** The Group has obtained the BMW Waiver Letters from the BMW Group acknowledging the Activities and waiving all the breaches in relation to the Activities under the BMW Importer Contract. Pursuant to the BMW Waiver Letters, the BMW Group confirmed with the Group that BMW AG will not impose any penalty as stipulated in the BMW Importer Contract now or in the future. Please refer to the section headed "Business of the Group" of this prospectus for further details.

SUMMARY OF THIS PROSPECTUS

In addition, the Group has obtained legal opinions from its German legal adviser and its PRC legal adviser on the legal effects of the BMW Waiver Letters. According to the German and PRC legal opinions, the BMW Waiver Letters issued by the BMW Group are enforceable and legally binding on BMW AG. There are risks to the future business of the Group should BMW AG decide to notify the Group to terminate the Activities at any time in the future as it deems appropriate. Please refer to the paragraph headed “Breach of the BMW Importer Contract” under the section headed “Risk Factors” of this prospectus for further details.

BMW AG has recently announced a preliminary plan to form a potential new joint venture in early 2003 with a PRC company in which each party shall have an equal interest for setting up a manufacturing plant in the PRC. It is intended that such joint venture company will initially produce 3 and 5 Series models of BMW passenger vehicles and such models will be excluded from the list of models to be supplied by BMW AG to the Group under the BMW Importer Contract once such production commences. However, BMW AG has indicated to the Group that it will exercise its influence over the management of the joint venture company so that the Group will be offered a dealer license from such joint venture company and engage locally licensed resellers for distribution of locally manufactured BMW passenger vehicles. Nevertheless, the Directors expect that the Group will still be able to import from Germany BMW passenger vehicles other than 3 and 5 Series models for import into the PRC after the establishment of such joint venture company. Please refer to the paragraph under “Manufacturing plant set up by BMW and other suppliers in the PRC” in the section headed “Risk Factors” of the prospectus for further details.

The Group also became an importer of Honda motor vehicles for the PRC market in November 1995. The Group’s arrangement with Honda Motor Co., Ltd. is made on a case-by-case basis, that is, every order for Honda motor vehicles placed by the Group is negotiated with Honda Motor Co., Ltd. in the absence of any distribution agreement. No restriction as to the resellers and the territories to and in which Honda motor vehicles may be distributed by the Group has been imposed by Honda Motor Co., Ltd.. In September 1997, the Group was appointed by Land Rover Group as its non-exclusive authorised distributor to distribute Land Rover passenger vehicles in Fujian Province. **The Group breaches the Land Rover distribution agreement by distributing Land Rover motor vehicles outside the contract territory of Fujian Province. However, Land Rover Group has unconditionally and irrevocably waived any past, present and future corresponding liabilities of the Group and allowed the Group to continue such distributing operations.** Furthermore, the Group also distributes Toyota and Mercedes-Benz motor vehicles and the arrangements to distribute such motor vehicles are also made on a case-by-case basis.

SUMMARY OF THIS PROSPECTUS

Distribution Mechanism

The Group mainly distributes imported passenger vehicles to (i) resellers in Hong Kong and (ii) resellers in the PRC whose sale targets are the end customers in the PRC. The supply chain for distribution of passenger vehicles in the PRC involves multiple layers. The Group has diverse alternatives and options in structuring reseller networks for distributing passenger vehicles in the PRC. The distribution of passenger vehicles to Hong Kong resellers, whose sales targets are the end customers in the PRC, is just one of the many distribution and revenue contribution methods currently operated by the Group. The Group also imports passenger vehicles to PRC resellers, and CNA Anhua (Tianjin) also directly import and distribute passenger vehicles to end customers in Tianjin Free Trade Zone of the PRC. The Directors believe that it is to the benefit of the Group to implement all profitable and legally permissible distribution mechanism of passenger vehicles.

The sales derived from distribution of passenger vehicles to resellers in Hong Kong and the PRC accounted for approximately 70.4% and 29.6%, 61.3% and 38.5% respectively of the Group's revenue generated from motor vehicle distribution for each of the two years ended 31st December, 2000 and 2001 respectively.

GAL, a Hong Kong wholly-owned subsidiary of the Company, acts as the centre for distributing passenger vehicles for the Group. The imported motor vehicles are initially delivered to GAL. GAL then distributes the same either to its resellers in the PRC or its resellers in Hong Kong for sales to resellers in the PRC for further distribution to end customers in the PRC. No custom duties are levied on imports and exports of motor vehicles in Hong Kong. In addition, since the imported motor vehicles of the Group are not for use in Hong Kong, the Group will not be subject to first registration tax under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330 of the Laws of Hong Kong). The legal adviser of the Group confirmed that the distribution of BMW passenger vehicles would not be considered as parallel import into the PRC.

For each of the two years ended 31st December, 2000 and 2001, revenues generated from motor vehicles distribution by geographic locations are set out below:

	FY2000		FY2001	
	<i>HK\$'000</i>		<i>HK\$'000</i>	
PRC resellers	25,727	29.6%	84,149	38.5%
Hong Kong resellers ⁽¹⁾	61,282	70.4%	134,148	61.3%
Others	—	—	489	0.2%
Total	<u>87,009</u>	<u>100.0%</u>	<u>218,786</u>	<u>100.0%</u>

Note ⁽¹⁾: Revenue generated in Hong Kong represents sales of passenger vehicles to Hong Kong resellers who target to further distribute the same to end customers in the PRC.

SUMMARY OF THIS PROSPECTUS

Regulatory Environment

Under the relevant PRC laws and regulations, importing of passenger vehicles and auto parts and accessories should be carried out by foreign trade corporation authorised by MOFTEC, and distribution of both domestic and imported motor vehicles should be carried out by licensed resellers authorised by the State Planning and Development Commission of the PRC and the State Administration of Industry and Commerce of the PRC. As no member of the Group in the PRC is a licensed motor vehicles reseller nor a foreign trade corporation, the Group can only be a supplier to these licensed motor vehicles resellers in the PRC. However, foreign invested enterprises which are incorporated in the free trade zones in the PRC are allowed to import and trade motor vehicles and auto parts and accessories directly to end customers within the free trade zones. CNA Anhua (Tianjin), a 70% owned joint venture of the Company, has obtained such approval from MOFTEC in April 1999 for trading motor vehicles and auto parts and accessories in Tianjin Free Trade Zone. As such, the Group is allowed to distribute motor vehicles, auto parts and accessories directly to end customers in Tianjin Free Trade Zone under the PRC laws and regulations although this is in breach of the BMW Importer Contract. For details regarding the PRC regulatory environment in relation to the distribution of passenger vehicles, auto parts and accessories, please refer to the section headed "Industry Overview". The sales derived from direct distribution of motor vehicles, auto parts and accessories in Tianjin Free Trade Zone were approximately HK\$9,322,000 and HK\$4,801,000 for each of the two years ended 31st December, 2000 and 2001 respectively. The decrease in direct distribution was due to the decrease in demand of the Group's customers within the zone.

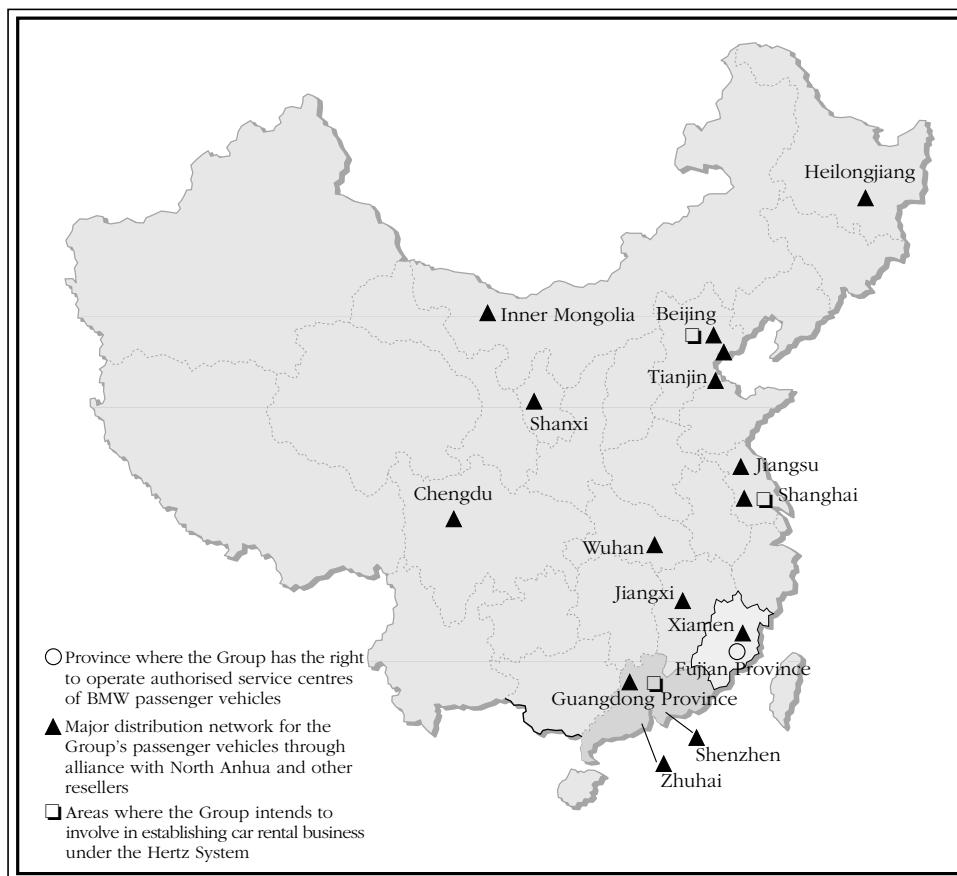
Resellers

Since 1993, the Group has formed alliances with 13 Hong Kong resellers and 84 PRC resellers which include 33 wholesalers, North Anhua and appointed agents of North Anhua for distribution of passenger vehicles, auto parts and accessories through their respective networks in the PRC to end customers. In January 1994, the Group entered into a distribution agreement with North Anhua for a term of 16 years to distribute passenger vehicles for the Group through its distribution network and its appointed agents in the PRC. Under such agreement, North Anhua provides the Group with its distribution network and sales support, while the Group supplies North Anhua with imported BMW, Honda and Land Rover passenger vehicles and after-sale services. Other than North Anhua, the distribution arrangements between the Group and the resellers in Hong Kong and the PRC are made on a case-by-case basis and no formal distribution agreement has been signed.

SUMMARY OF THIS PROSPECTUS

Distribution Coverage

According to 2000 China Statistical Yearbook, Beijing Municipality, Tianjin Municipality, Shanghai Municipality, Guangzhou Municipality and the Xiamen Special Economic Zone in the PRC are among the top municipals and special economic zones and cities in the PRC in terms of GDP in 2000. The following map illustrates the Group's product market in the PRC:



The Group is currently the authorised distributor of BMW passenger vehicles as well as auto parts and accessories in Fujian Province. In order to expand its distribution network to cover the central and western regions of the PRC, the Group is presently in active negotiations with BMW China for a right to operate authorised distributorship in the central region of the PRC.

SUMMARY OF THIS PROSPECTUS

2) Marketing and technical assistance

For the year ended 31st December, 2000, the revenue generated from distributing imported Honda passenger vehicles of the Group decreased by 46% compared to the year ended 31st December, 1999. Such decrease was due to the commencement of manufacturing of locally manufactured Honda passenger vehicles in the PRC in 1999. Since the foreign companies are prohibited under the PRC laws from operating trading business and foreign invested domestic companies were prohibited from distributing vehicles in the PRC, the Group cannot distribute locally manufactured Honda passenger vehicles in the PRC. In order to compensate the potential loss of revenue due to the reduction in the share of imported Honda passenger vehicles in the PRC, in January 2000, the Group entered into a 5-year non-exclusive management consulting and technical service agreement with North Anhua for the locally manufactured Honda passenger vehicles distributed by North Anhua. North Anhua is one of the resellers of locally manufactured Honda passenger vehicles. The Group does not obtain title to such passenger vehicles.

The Group provides management consulting and technical assistance to North Anhua and its distribution agents for the promotion and maintenance of locally manufactured Honda passenger vehicles distributed by North Anhua in exchange for technical fees. The technical fees are calculated based on a mutually agreed percentage, which is currently around 13% (5% to 15% pursuant to the technical agreement), of the sales of the locally manufactured Honda passenger vehicles distributed by North Anhua. The current percentage is based on the Group's internal pricing model that comprises various kinds of fees including engineers, technicians, administration and marketing, and is calculated on a cost plus margins basis. The current allocation of the 13% technical fees is approximately 5% for engineers, 2% for technicians, 3% for administration and 3% for marketing. The current technical fee is subject to revision should there be a change in the Company's cost structure in providing such services or government regulation. The scope of marketing assistance to North Anhua includes formulating marketing strategy, market positioning, assistance in market study, training of North Anhua's sales persons, etc. Technical services comprise performing pre-sale testing and tuning, pre-delivery inspection, performing after-sale repairs and maintenance services to each vehicle sold by North Anhua on the earliest of either after 1 year from the purchase or when the vehicle runs for 10,000 km, providing technical advice and solutions on technical services, and training of North Anhua's technical staff, etc.

SUMMARY OF THIS PROSPECTUS

For each of the two years ended 31st December, 2000 and 2001, technical fee income received from North Anhua were approximately HK\$27,696,000 and HK\$20,413,000 respectively. Notwithstanding the prohibition under the PRC law, the Group had been providing technical service to North Anhua before it obtained the approval from MOFTEC. However, the Group's PRC legal adviser confirmed that there is no detailed provision in the PRC law concerning the penalty of such violation. In addition, pursuant to the PRC Technology Import and Export Administration Regulations passed by the State Council on 31st October, 2001 (effective as of 1st January, 2002), the MOFTEC registration of the technical service agreement is no longer a condition precedent for the same to become effective. It is the understanding of the PRC legal adviser that the relevant PRC authority will not impose penalty on the Group in respect of the violation committed by the Group prior to the enactment of the said regulations based on precedents and past experience in practice. Please refer to the paragraph headed "Violation of certain PRC laws regarding provision of technical services" under the "Risk Factors" section for further details.

3) After-sales service

The Group provides after-sales service such as repair and maintenance services to BMW, Honda and other mid-market motor vehicles by Xiamen BMW and Xiamen Honda in the Xiamen Special Economic Zone in the PRC. The Group established Xiamen BMW, its first authorised service centre of BMW motor vehicles in the Xiamen Special Economic Zone in January 1994. The Group set up, through Xiamen BMW, a branch to operate a Honda authorised service centre in the Xiamen Special Economic Zone in February 1996 for imported Honda passenger vehicles servicing. Such auto service centres are subject to stringent quality control which are reviewed by the management of the Group on a regular basis. The Group intends to, upon the Group's successfully receiving its right of operating authorised service centres in the central region of the PRC from BMW China, establish a BMW authorised service centre in the central region of the PRC.

4) Trading of auto parts and accessories

The Directors have observed that original and quality auto parts and accessories are in great demand as a result of increasing sales of luxury and mid-market motor vehicles in the PRC. The Directors believe that trading of auto parts and accessories is an area of tremendous growth potential.

Accordingly, the Group began to import auto parts and accessories from their manufacturing companies such as BMW AG into the PRC market in January 1994. Since the incorporation of GAL in 1997, the Group has been engaged in trading of auto parts in Hong Kong and selling of original auto parts to resellers in the PRC and Hong Kong. Incidentally, the Group also sells motor vehicle auto parts through Xiamen BMW in the PRC to resellers and end users for pre-sale services and after-sale repair and maintenance services respectively.

SUMMARY OF THIS PROSPECTUS

5) Car rental service

Leveraging on and while maintaining the Group's core business in the distribution and maintenance services of passenger vehicles in the PRC, the Group has recently diversified into car rental business in the PRC in hope that this can diversify this revenue base by way of sub-licensing the Hertz System and car rental fleets that will be sourced from the Group by the sub-licensees. The car rental operation of the Group's sub-licensees started in January 2002, and the Group has started to provide management consulting services to the sub-licensees. The Group has been appointed by Hertz as its principal licensee and has the right to use and to sub-license its right to use the Hertz System in the operation of car rental business in the PRC for a term of 5 years commencing from 1st August, 2001. The sub-licensees acquired the car rental fleet by utilizing capitals and funds from their parent company, CNA Anhua (Hertz). The Group provided financial assistance to the car rental sub-licensees, who are subsidiaries of North Anhua, for their working capital needs in respect of the HK\$34 million banking facilities guarantee granted to Beijing China National Automotive Anhua Spare Parts Ltd. whose 45% of equity interest is held by CNA Anhua (Hertz), a wholly-owned subsidiary of North Anhua to be used in connection with the car rental business operated by the three sub-licensees. Hertz, which was founded in 1918, is the leading vehicle renting organisation in the world with a fleet of approximately 525,000 vehicles in approximately 6,500 locations in over 140 countries. The Directors believe that this is the first move of Hertz to develop its car rental business in the PRC market.

Despite that the Group is currently not a licensed car rental operator in the PRC, the Group has the right pursuant to the agreement with Hertz, with CNA Anhua (Tianjin) as the principal licensee of Hertz, to appoint sub-licensees in the PRC who are licensed car rental operators. Although the scope of business as set out in the business license of CNA Anhua (Tianjin) does not expressly cover car rental operation, the PRC legal adviser to the Company has opined that the sub-licensing of the Hertz System by CNA Anhua (Tianjin) to other PRC companies which are permitted to operate car rental business is not in violation of the PRC law. Effectively, such role of CNA Anhua (Tianjin) as the principal licensee of Hertz involves the provision of co-ordination and consultancy services which falls within the ambit of its scope of business. These sub-licensees have entered into non-exclusive sub-license agreements with Hertz for using the Hertz System to provide car rental service in the PRC. Being the principal licensee, CNA Anhua (Tianjin) is responsible for identifying sub-licensees, appointing sub-licensees to Hertz and providing management consulting, financial assistance and technical expertise which include strategic planning, staff training and daily supervision of the car rental operation of all sub-licensees.

SUMMARY OF THIS PROSPECTUS

As such, the Group has appointed 3 licensed car rental operators in the PRC, namely CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou), all of which are subsidiaries of North Anhua, to enter into non-exclusive sub-license agreements with Hertz for five years commencing from 1st August, 2000. As the Group's sub-licensees, they are entitled to use the Hertz System to operate car rental business in the PRC. The sub-licensees are authorised and approved by the State Administration of Industry and Commerce to conduct car rental operations in the PRC. Under this arrangement, these sub-licensees are required to pay Hertz, through the Group, an annual pro-rated license fee for using the Hertz System. The Group, as the principal licensee, acts as a collecting agent for Hertz to collect these license fees from the sub-licensees and pass on the same to Hertz. The Group is required to pay Hertz an one-time initial fee and these sub-licensees are required to pay the Group a one-time initial fee plus a share of their respective annual profit based on the audited net profit derived from these sub-licensees for the management consulting, financial assistance and technical expertise services provided by the Group. The Group will receive its shares of these sub-licenses annual profit at the end of each financial year in December. Currently, the Group does not meet the criteria set out by MOFTEC in the car rental business in the PRC (please refer to "Industry Overview" section of this prospectus for details of the regulations), however, the Group has the intention to acquire 19.8% interest in each of CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou) and the acquisition will only take place until such time the Group meets the criteria.

In January, 2002, the Group commenced the provision of management and technical expertise in the operation of the Hertz System to its designated sub-licensees in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality with management consultation support from Hertz. This coverage will form a car rental network for the Group. The Directors believe that this will allow the Group to capture the tremendous potential of the PRC car rental market in provision of consulting and technical expertise services and will secure a foothold in the PRC.

The Directors further believe that the Group's alliance with Hertz will enhance its service competence, public reputation and generate business from Hertz's extensive global business connections with foreign investors and tourists coming to the PRC. The Directors also believe that the synergy created from the expertise of Hertz in the car rental business worldwide and the Group's proven knowledge about the PRC motor vehicle market will enable the Group to capitalise on the potential of the car rental market in the PRC, especially after PRC's accession to the WTO. The car rental business will allow the Group to extend its presence to Beijing, Shanghai and Guangzhou and to form a car rental network. The Directors believe that this will allow the Group to establish its reputation and recognition in the PRC car rental industry as well as to expand its geographical coverage in respect of its distribution of motor vehicles in the PRC so as to facilitate the Group to attain additional distributorships from other foreign motor vehicle in the future.

SUMMARY OF THIS PROSPECTUS

TRADING RECORD

The table sets out a summary of the audited combined results of the Group for each of the two years ended 31st December, 2000 and 2001 prepared on the assumption that the current structure of the Group was in existence throughout the periods under review and is extracted from and has been prepared in accordance with the basis set out in Note 1 to Section I of the accountants' report in appendix I to this prospectus.

	FY2000		FY2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>		<i>(Note 1)</i>
Income from fixed price contracts <i>(Note 2)</i>				
– Sales of passenger vehicles	19,342	87,009	50,102	218,786
– Servicing of motor vehicles and sales of auto parts	2,283	10,270	3,340	14,585
Technical fee income <i>(Note 3)</i>	6,157	27,696	4,675	20,413
Total turnover	27,782	124,975	58,117	253,784
Cost of sales	(19,138)	(86,090)	(47,820)	(208,821)
Gross profit	8,644	38,885	10,297	44,963
Other revenues	190	855	90	393
Staff costs	(1,152)	(5,182)	(1,440)	(6,288)
Depreciation expenses	(171)	(768)	(170)	(743)
Minimum lease payment for operating lease	(252)	(1,134)	(453)	(1,978)
Exchange gain, net	912	4,103	494	2,157
Other operating expenses	(3,236)	(14,558)	(1,943)	(8,484)
Profit from operations	4,935	22,201	6,875	30,020
Share of profits of a joint venture <i>(Note 4)</i>	295	1,327	—	—
Finance costs, net	(2,107)	(9,478)	(2,053)	(8,965)
Profit before taxation	3,123	14,050	4,822	21,055
Taxation	(1,968)	(8,853)	(2,056)	(8,976)
Profit after taxation but before minority interests	1,155	5,197	2,766	12,079
Minority interests <i>(Note 5)</i>	(90)	(405)	11	48
Profit attributable to shareholders	<u>1,065</u>	<u>4,792</u>	<u>2,777</u>	<u>12,127</u>
Earnings per share <i>(Note 6)</i>				
– basic (cents)	<u>0.35</u>	<u>1.56</u>	<u>0.87</u>	<u>3.79</u>

SUMMARY OF THIS PROSPECTUS

The profit attributable to shareholders would have been impacted by certain notional adjustments. These adjustments are made for information purposes to reflect the pro forma information detailed in Notes 3a, 17b, 18 and 22 of Section I of the accountants' report in appendix I to this prospectus, as if the arrangements set out in these sections had been effected during the two years ended 31st December, 2000 and 2001.

Notes:

1. Translation of amounts from Singapore Dollars ("S\$") into Hong Kong dollars ("HK\$") is for the convenience of readers and has been made at the rate of exchange in effect at 31st December, 2000 of S\$22.23 = HK\$100 and 31st December, 2001 of S\$22.90 = HK\$100. No representation is made that the S\$ amounts could have been, or could be, converted into HK\$ at such rates or at any other rate.
2. The Group's income from fixed price contracts is stated after deducting the PRC value-added tax ("VAT") at 17% of revenue from fixed price contracts, city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount of VAT levied.
3. The technical fee income is earned based on a percentage of the selling prices of PRC locally assembled Honda motor vehicles sold by North Anhua.
4. This relates to share of results of a 55% owned joint venture company, Beijing China National Automotive Anhua Spare Parts Ltd, which was disposed of in the year ended 31st December, 2000.
5. Minority interests relate to minority shareholders' share of subsidiaries' results.
6. The calculation of basic earnings per share for each of the years ended 31st December, 2000 and 2001 is based on the profit attributable to shareholders during the year and on the weighted average number of approximately 306,302,000 Shares and 320,000,000 Shares in issue during the years ended 31st December, 2000 and 2001, respectively, by reference to 320,000,000 Shares in issue as at date of this prospectus. As there are no dilutive potential ordinary shares during the years and as at the end of each year under review, no diluted earnings per share is presented.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors attribute the Group's present success and future developments to the following principal factors:

- being one of the 5 authorised distributors of BMW AG during the Track Record Period and one of the 20 importers of Honda passenger vehicles in the PRC where, according to the National Statistics Bureau (國家統計局) of the PRC, demand for mid-market and luxury passenger vehicles has increased by approximately 21.7% from 1999 to 2000;
- its long-term established relationship with BMW AG and Honda Corporation and ability to secure reliable supply of those passenger vehicles for the PRC market when demand for such passenger vehicles exceeds supply;

SUMMARY OF THIS PROSPECTUS

- its extensive distribution network through alliance with North Anhua, including 50 distribution agents and 72 distribution offices of North Anhua;
- being the first entrant and the only company in the PRC to form alliance with Hertz, the largest car rental company in the world, to implement the Hertz System car rental business in the PRC through designated sub-licensees who are licensed car rental operators in the PRC;
- its established reputation and recognition for its reliable supply of passenger vehicles and the quality of its after-sale service;
- its strong advisory board comprising industry experts of the PRC, which facilitates the Group's business development and enhances the Group's ability in identifying and securing business opportunities in the PRC; and
- its experienced, stable, foresighted, prudent and balanced management team to enable the Group to enjoy a high business growth rate and continue to improve the Group's profitability.

BUSINESS OBJECTIVES

It is the mission of the Group to become a leading authorised distributor of luxury passenger vehicles and a leading promoter of the Hertz System car rental services in the PRC. To achieve this mission, the Group will focus on maintaining and developing the passenger vehicles distribution agent network by ensuring reliable supply of passenger vehicles as well as providing quality value-added pre-sales and after-sales services, and adding on that, promoting the car rental service of its sub-licensees operated under the Hertz System through CNA Anhua (Tianjin).

According to US Department of State and US Foreign Commercial Service, the number of cars in the PRC is expected to reach approximately 15 million by 2010. Annual demand of cars, currently at 700,000, is expected to reach 1.2 to 1.6 million in a few years, representing a growth rate of approximately 71%. BMW China stated that BMW passenger vehicles sold by it in 2000 in the PRC increased by 171% comparing to that in 1999 and BMW was the best-selling luxury brand with a market share of approximately 24% in 2000. In order to capture such market potential and achieve its overall business objective, the Group intends to focus on the following areas:

- expanding its agent distribution network for BMW, Honda and Land Rover passenger vehicles;
- attaining additional distributorships from foreign motor vehicle manufacturers whose motor vehicles are in line with the Group's targeted market segments;
- expanding geographical coverage and market share in respect of its distribution of BMW, Honda and Land Rover passenger vehicles by establishing showrooms, support centres and service centres throughout the PRC;

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- providing management consultancy, financial assistance and technical services to the car rental operators appointed by the Group; and
- establishing joint venture(s) to operate service centre and provide after-sale services, the forming of joint venture(s) will strictly comply with the regulatory requirement of the PRC law.

RISK FACTORS

The Directors consider that there are certain risks involved in the Group's business, which are summarised in the section headed "Risk Factors" of this prospectus. These risks can be categorised into: (i) risks in relation to the Group; (ii) risks in relation to the industry; (iii) risks in relation to the PRC; and (iv) issues to consider in relation to certain statements made in this prospectus. Such risk factors are summarised as follows:

Risks in relation to the Group

- Exposure to North Anhua's obligations
 - I. Lack of appropriate title certificates for development co-operation projects^{(1), (2)}
 - II. Termination to use the service centres as stipulated in the development co-operation agreements
 - III. Corporate guarantees provided to Hertz
- Manufacturing plant set up by BMW and other suppliers in the PRC
- Breach of BMW Importer Contract
- Reliance on sales of BMW passenger vehicles
- Competition
- Reliance on North Anhua
- Distribution agreement with resellers in Hong Kong and the PRC
- Reliance on the PRC market for motor vehicles distribution
- Outstanding tax payment
- Hertz car rental agreement
- Marketability of car rental business

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- Financial guarantees provided to third parties
- Personal guarantees provided by Directors and their respective associates
- Dependence on key executives
- Distribution arrangement of Honda, Toyota and Mercedes-Benz passenger vehicles
- Violation of certain PRC laws regarding provision of technical services
- Lack of appropriate title certificates for the Xiamen BMW service centre
- Use of Proceeds
- Seasonality
- Credit Risk
- Foreign exchange risk

Risks in relation to the industry

- Parallel imports
- New vehicle models
- Potential product recall

Risks in relation to the PRC

- Economic environment and political structure
- Legal and regulatory considerations
- Import regulation, import tariffs and trade restrictions

SUMMARY OF THIS PROSPECTUS

Issues to consider in relation to certain statements made in this prospectus

- Certain statistics derived from unofficial publications
- Implementation of the Group's strategies in achieving its business objectives
- Possible deviation in use of proceeds from the Placing from the intended use

Note ⁽¹⁾: Mr. Lob Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in full for the loss incurred or suffered by it in the event that appropriate title certificates cannot be obtained by the relevant PRC parties in relation to certain co-operation projects. As security, Mr. Lob Kim Her, Mr. Anthony Chan and Lob & Lob will place with an escrow agent an aggregate of 77,148,000 Shares and Lob & Lob will place with an escrow agent a sum of HK\$10,000,000 representing the Sale Shares proceeds. Such 77,148,000 Shares will be placed with an escrow agent as a pledge to the Company immediately after the expiration of the Lock-up Period when the restriction on the disposal (as defined in the GEM Listing Rules to include the creation of any option, rights or interests over such securities) of such Shares, as imposed by Rule 13.16 of the GEM Listing Rules, ceases after the same period. In addition, Mr. Lob Kim Her, Mr. Anthony Chan and Lob & Lob have further undertaken to the Stock Exchange and the Company that they will not pledge or charge any of such Shares to any banking institutions during the Lock-up Period. The Sale Shares proceeds will be placed in escrow on the terms that if the Group exercises its right under the indemnity, such amounts as correspond with the terms of indemnity will be released to the Group. (Please refer to paragraph headed "Relationship with North Anhua" of the "Business of the Group" section of this prospectus for further details.)

Note ⁽²⁾: The Company will procure a semi-annual board meeting, to be initiated by the independent non-executive Directors, after the listing of the Company on GEM (The executive Directors (Mr. Anthony Chan, Mr. Lob Kim Her and Mr. Lob Nee Peng) will abstain from voting in the board meeting) to review the relevant obligations under the deed of indemnity from Mr. Anthony Chan and Mr. Lob Kim Her (including their individual asset statements to be certified by the certified public accountant on a semi-annual basis after the listing of the Company on GEM) and the outstanding obligations from North Anhua and/or its related companies. In the event if either (i) North Anhua and/or its related companies or (ii) Mr. Anthony Chan and Mr. Lob Kim Her cannot meet their relevant respective obligations, the independent non-executive Directors will call a special general meeting for all shareholders of the Company. At the special general meeting, a resolution will be passed by the independent shareholders (with the shareholders who are connected persons to the executive Directors and North Anhua and their respective associates abstaining from voting) as to whether to enforce the deed of indemnity and to decide whether further legal action should be taken.

PLACING STATISTICS

Number of Placing Shares (<i>Note 1</i>)	100,000,000 Shares
Number of Shares after the Placing (<i>Note 2</i>)	400,000,000 Shares
Placing Price	HK\$0.50 per Share
Market capitalisation at the Placing Price (<i>Note 3</i>)	HK\$200,000,000
Price/earnings multiple on a fully diluted basis (<i>Note 4</i>)	16.49 times
Adjusted net tangible asset value per Share (<i>Note 5</i>)	20.06 cents

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Notes:

- (1) This represents the Placing Shares offered under the Placing.
- (2) This represents the number of Shares expected to be in issue immediately following the completion of the Placing.
- (3) The market capitalisation is calculated on the basis of 400,000,000 Shares calculated in note 2 above.
- (4) The calculation of the prospective price/earnings multiples on a fully diluted basis is based on the estimated earnings per Shares on a diluted basis and that the 400,000,000 Shares were issued at the Placing Price.
- (5) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the paragraph headed “Adjusted net tangible assets” in the section headed “Financial Information” in this prospectus and 400,000,000 Shares as calculated in note 2 above.

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be about HK\$27 million. The Directors presently intend to apply such net proceeds as follows:

- approximately HK\$16 million will be used to enhance the Group’s pre-sales and after-sales services, of which HK\$5 million will be for upgrading the existing authorised service centres of the Group, HK\$2.75 million for establishing a service centre in Fuzhou Municipality, HK\$2 million for establishing a service centre in the central region of the PRC, HK\$6 million for rental expense for the service centre in the central region of the PRC and HK\$0.25 million for acquiring machinery and equipment and renovation of service centre in Fuzhou Municipality.
- approximately HK\$2 million will be used for establishing joint venture(s) to operate the service centre and provide after-sale services in Fuzhou;
- approximately HK\$6 million will be used to provide security free financial assistance to car rental sub-licensee. The Group will deposit approximately HK\$6 million with a bank in Hong Kong as security for banking facilities granted by the correspondent branch of the bank in the PRC to finance the car rental business of certain appointed sub-licensees of the Group. Such arrangement will be a non-interest bearing facilities granted to sub-licensees throughout the sub-licensing period for 5 years;
- approximately HK\$2 million will be used for marketing and promotional activities; and

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- the balance of approximately HK\$1 million will be used as additional working capital required for the anticipated increase in business volume of the Group, such as staff cost, operating lease expenses, legal & professional fees for agreements for car rental business, establishing service centre(s) and joint venture(s), freight & transportation, etc.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term interest-bearing deposits with licensed banks and other financial institutions in Hong Kong and Singapore.

For details of the various plans stated above, including the expected timing thereof, please refer to the section headed “Statement of business objectives” in this prospectus. **According to the present business objectives of the Group, the net proceeds raised will not be sufficient to finance all the objectives beyond 2003. The estimated shortfall of fund for objectives in 2004 is approximately HK\$3 million. The Group plans to finance its objectives beyond 2003 by its internal generated capital or the Group’s banking facilities.** In the event there is to be any material modification to the use of proceeds as described above, the Company will issue an announcement in respect of the change.

In addition, upon the listing of the Company, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh will place with an escrow agent and pledge to the Company a total of 77,148,000 Shares, and Loh & Loh will place with an escrow agent and pledge to the Company its HK\$10 million proceeds from the Sale Shares as security for the indemnity provided by Mr. Anthony Chan and Mr. Loh Kim Her in relation to the development co-operation projects in Guangdong Province, Fujian Province, Beijing Municipality and Fuzhou Municipality entered into between the Group and North Anhua and/or its related companies. Such 77,148,000 Shares will be placed with the escrow agent and pledged to the Company immediately after the expiration of the Lock-up Period when the restriction on the disposal (as defined in the GEM Listing Rules to include the creation of any option, rights or interests over such securities) of such Shares, as imposed by Rule 13.16 of the GEM Listing Rules, ceases after the same period. In addition, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh have further undertaken to the Stock Exchange and the Company that they will not pledge or charge any of such Shares to any banking institutions during the Lock-up Period. The Sale Share proceeds will be placed in escrow as a pledge to the Company upon its listing on the terms that if the Group exercises its right under the indemnity, such amounts as correspond with the terms of the indemnity will be released to the Group. (Please refer to paragraph headed “Relationship with North Anhua” of the “Business of the Group” section of this prospectus for further details.)

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SHAREHOLDING STRUCTURE AND RESTRICTION ON DISPOSAL OF SHARE

The shareholders of the Company and their respective effective shareholding interests immediately after completion of the Placing are set out below:

Shareholders	Date on which shareholding interest in the Group was first acquired	No. of Shares directly or indirectly held immediately after the Placing (No. of Shares)	Approximate percentage of effective shareholding after the Placing	Total investment amount (HK\$)	Approximate cost per Share (HK\$ per share)	Lock-up period commencing from the Listing Date
Initial Management Shareholders						
Loh & Loh (Note 1)*	5/6/2002	74,432,000	18.60%	37,216,000.00	0.500	12 months
Affluence Investment	5/6/2002	16,000,000	4.00%	8.56	0.000	12 months
Mr. Loh Kim Her (Note 2)*	27/12/1993	30,195,200	7.55%	7,401,669.25	0.195	12 months
Tycoons Investment	5/6/2002	32,000,000	8.00%	3,371,354.29	0.105	12 months
Mr. Anthony Chan (Note 3)*	26/8/1993	68,471,680	17.12%	26,507,194.29	0.316	12 months
Big Reap Investment	5/6/2002	32,000,000	8.00%	16,000,000.00	0.500	12 months
Mr. Loh Nee Peng (Note 4)*	26/8/1993	43,164,800	10.79%	23,082,400.00	0.500	12 months
L&B	27/12/1993	16,000,000	4.00%	1,685,677.14	0.105	12 months
Comfort (China) (Note 5)*	8/9/2000	61,667,570	15.42%	20,270,564.59	0.329	12 months
Comfort Group (Note 5)*	8/9/2000	61,667,570	15.42%	20,270,564.59	0.329	12 months
Zhongqi Technology	5/6/2002	19,196,430	4.80%	9,598,215.00	0.500	12 months
Mr. Tan Cheng Kim (Note 6)	5/6/2002	9,598,215	2.40%	4,799,107.50	0.500	12 months
Mr. Lim Tee Peng (Note 6)	5/6/2002	9,598,215	2.40%	4,799,107.50	0.500	12 months
Other shareholders						
Mr. Gao Ji Xin (Note 7)	5/6/2002	12,000,000	3.00%	6,000,000.00	0.500	not applicable
Ms. Yeoh Cheng Yew (Note 8)	5/6/2002	12,000,000	3.00%	6,000,000.00	0.500	not applicable
Mr. Lee Chung (Note 9)	5/6/2002	9,344,000	2.34%	4,672,000.00	0.500	not applicable
Mr. Wong Chi Fung (Note 10)	5/6/2002	9,344,000	2.34%	4,672,000.00	0.500	not applicable
Mr. Henry Tan Song Kok (Note 11)	3/12/1999	3,008,000	0.75%	427,824.86	0.142	not applicable
Mr. Sitoh Yih Pin (Note 12)	3/12/1999	3,008,000	0.75%	427,824.86	0.142	not applicable

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsors and the Stock Exchange, save as provided in the GEM Listing Rules, not to dispose of (or enter into any agreement to dispose of) any of their respective direct or indirect interests in the relevant securities (as defined in the GEM Listing Rules) for a period of 12 months from the Listing Date. Each of the ultimate beneficial owners of all investment holding companies, being an Initial Management Shareholder, has also undertaken to the Company, the Sponsors and the Stock Exchange not to dispose of (or enter into any agreement to dispose of) any of his direct or indirect interests in his such investment holding companies for a period of 12 months from the Listing Date.

** These Initial Management Shareholders are also Substantial Shareholders for the purpose of the SDI Ordinance. Their respective shareholdings in the Company are set forth in the notes below.*

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Notes:

1. Loh & Loh has an effective interest of approximately 18.60% in the Company immediately after the Placing.
2. Mr. Loh Kim Her is beneficially interested in 100%, 18.94% and 15% in the respective entire issued share capitals of Affluence Investment, L&B and Loh & Loh. Accordingly, Mr. Loh Kim Her has an effective interest of approximately 7.55% and a deemed interest of approximately 26.61% in the Company immediately after the Placing. Mr. Loh Kim Her is the uncle of Mr. Loh Nee Peng. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng.
3. Mr. Anthony Chan is beneficially interested in 100% and 49% in the respective entire issued share capitals of Tycoons Investment and Loh & Loh. Accordingly, Mr. Anthony Chan has an effective interest of approximately 17.12% and a deemed interest of approximately 26.61% in the Company immediately after the Placing.
4. Mr. Loh Nee Peng is beneficially interested in 100% and 15% in the respective entire issued share capitals of Big Reap Investment and Loh & Loh. Accordingly, Mr. Loh Nee Peng has an effective interest of approximately 10.79% in the Company immediately after the Placing. Mr. Loh Nee Peng is the nephew of Mr. Loh Kim Her. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng. Mr. Loh Nee Peng is one of the Directors of 2 subsidiaries of North Anhua in which the Group has no equity interest. He is appointed as the Director in view of his provision of technical advice to the Group.
5. Comfort (China) has an effective interest of approximately 15.42% in the Company immediately after the Placing. Comfort (China) is a wholly-owned subsidiary of Comfort Group. Accordingly, Comfort Group has an effective and a deemed interests of approximately 15.42% in the Company immediately after the Placing.
6. Mr. Tan Cheng Kim, the general manager of motor vehicle distribution division of the Company, and Mr. Lim Tee Peng, the general manager of auto parts and accessories division of the Company are beneficially interested in the entire issued share capital of Zhongqi Technology in equal shares. Accordingly, each of Mr. Tan Cheng Kim and Mr. Lim Tee Peng has an effective interest of approximately 2.4% in the Company immediately after the Placing.
7. Mr. Gao Ji Xin is an independent third party. Mr. Gao is formerly a PRC citizen and has been engaged in the distribution of audio-visual products in the PRC. Mr. Gao will assist the Group in setting up new services centres in different regions in the PRC. Mr. Gao has not been involved in the management of the Group and also will not be involved in the management after listing of the Shares on GEM.
8. Ms. Yeoh Cheng Yew is an independent third party. Ms. Yeoh has contacts with high net worth individuals and corporation who are high potential customer of the Group. Ms. Yeoh has not been involved in the management of the Group and also will not be involved in the management after listing of the Shares on GEM.
9. Mr. Lee Chung is an independent third party. Mr. Lee, formerly a PRC citizen has been in the information technology business in the PRC for many years and with his experience, Mr. Lee has become familiar with businessmen and the government in PRC and will assist the Group's distribution of passenger vehicles in the PRC. Mr. Lee has not been involved in the management of the Group and also will not be involved in the management after listing of the Shares on GEM.

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10. Mr. Wong Chi Fung is an independent third party. Mr. Wong is formerly a PRC citizen and has been engaged in advertising activities for the PRC market for many years. With his experience in doing business in the PRC, Mr. Wong, who has become familiar with PRC corporations, will assist the Group in sourcing new network for distribution in the PRC. Mr. Wong has not been involved and will not be involved in the management of the Group after listing of the Shares on GEM.
11. Mr. Henry Tan Song Kok is an independent third party. Mr. Tan has been working in an accountant firm as a partner in Singapore for many years. Mr. Tan has gained valuable business contacts. Mr. Tan maintains contact with vehicle manufacturers and will assist the Group in product procurement process. Mr. Tan has not been involved in the management of the Group and will not be involved in the management after listing of the Shares on GEM.
12. Mr. Sitoh Yih Pin is an independent third party. Mr. Sitoh has been working in an accountant firm as a partner in Singapore for many years. Mr. Sitoh has gained valuable business contacts. Mr. Sitoh maintains contact with vehicle manufacturers and will assist the Group in product procurement process. Mr. Sitoh has not been involved in the management of the Group and will not be involved in the management after listing of the Shares on GEM.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

“Active Business Pursuit Period”	the two years ended 31st December, 2000 and 2001 and the period from 1st January, 2002 to the Latest Practicable Date
“Articles”	the articles of association of the Company
“associates”	has the meaning as ascribed thereto under the GEM Listing Rules
“business day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Company”	G. A. Holdings Limited (carrying on business in Hong Kong under the trading name of German Automobiles International Limited), a company incorporated in the Cayman Islands with limited liability on 5th July, 2001
“Director(s)”	director(s) of the Company
“Forward Looking Period”	the period from the Latest Practicable Date to 31st December, 2004
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries of the Company
“independent third party”	a person who is not connected with the Directors, chief executive, substantial shareholders or management shareholders of any member of the Group or any of their respective associates
“Initial Management Shareholders”	collectively, Loh & Loh, Mr. Loh Kim Her, Mr. Anthony Chan, Mr. Loh Nee Peng, L&B, Big Reap Investment, Tycoons Investment, Affluence Investment, Comfort (China), Comfort Group, Zhongqi Technology, Mr. Tan Cheng Kim and Mr. Lim Tee Peng
“Latest Practicable Date”	31st May, 2002, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing Date”	the date on which dealings in the Shares commence on GEM

DEFINITIONS

“Lock-up Period”	a period of twelve months from the Listing Date
“management shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“New Shares”	the 80,000,000 Shares being offered for sale by the Company at the Placing Price pursuant to the Placing
“passenger vehicles”	motor vehicles designed to carry nine passengers or less and used for the transportation of persons
“Placing”	the conditional placing of the Placing Shares, in each case, for cash at the Placing Price with professional, institutional and other investors by the Underwriters on behalf of the Company as described in the section headed “Structure of the Placing” in this prospectus on and subject to the terms and conditions contained in the Underwriting Agreement as described in the section headed “Underwriting” in this prospectus and the placing letters relating thereto
“Placing Price”	the price per Placing Share (exclusive of brokerage costs, the SFC transaction levy and the Stock Exchange trading fee) at which the Shares are to be subscribed and issued pursuant to the Placing
“Placing Shares”	the New Shares and the Sale Shares being conditionally placed by the Underwriters under the Placing
“relevant securities”	has the same meaning ascribed thereto in Rule 13.15 of the GEM Listing Rules
“Reorganisation”	the reorganisation of the Group in preparation for the listing of the Shares on GEM, the details of which are set out in the section “Statutory and General Information” in appendix IV to this prospectus
“Sale Shares”	the 20,000,000 existing Shares offered for sale by Loh & Loh at the Placing Price pursuant to the Placing
“Share(s)”	fully paid ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Substantial Shareholders”	Mr. Anthony Chan, Mr. Loh Kim Her, Mr. Loh Nee Peng, Loh & Loh, Comfort Group and Comfort (China), the substantial shareholders of the Company having the meaning ascribed thereto in the GEM Listing Rules

DEFINITIONS

“Track Record Period”	the two years ended 31st December, 2000 and 2001
“Underwriters”	Cash, First Shanghai Securities Limited, Hooray Securities Limited, JS Cresvale, Shun Loong Securities Company Limited, UOB Kay Hian (Hong Kong) Limited and YF Securities Company Limited
“Underwriting Agreement”	the underwriting agreement relating to the Placing dated 10th June, 2002 entered into between, among others, the Company and the Underwriters, details of which are set out in the section headed “Underwriting” in this prospectus
“DEM”	Deutsche marks, the lawful currency of the Federal Republic of Germany
“euro”	the single currency of the participating member states from time to time of the European Union that adopt such currency in accordance with the Treaty on European Union signed on 7th February, 1992 as amended
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“SGD”	Singapore dollars, the lawful currency of Singapore
“US\$”	United States dollars, the lawful currency of the US
“%”	per cent.
“sq.ft.”	square feet

Note: For the purpose of this prospectus, unless otherwise indicated, conversion of SGD into HK\$ is calculated at the approximate exchange rate of SGD0.2223 to HK\$1 and SGD0.229 to HK\$1 in 2000 and 2001 respectively, conversion of RMB into SGD is calculated at the approximate exchange rate of SGD0.209 to RMB1 and SGD0.223 to RMB1 in 2000 and 2001 respectively.

GLOSSARY OF NAMES

This glossary contains an explanation of terms used in this prospectus. Some of these may not correspond to standard industry definitions.

“Affluence Investment”	Affluence Investment International Limited, a company incorporated in BVI, which is wholly owned by Mr. Loh Kim Her
“Big Reap Investment”	Big Reap Investment Limited, a company incorporated in BVI, which is wholly owned by Mr. Loh Nee Peng
“BMW”	the brand name of the series of motor vehicles manufactured by BMW AG
“BMW AG”	Bayerische Motoren Werke Aktiengesellschaft, a Germany-based company that engages in the design, manufacturing and sale of motor vehicles under the brand name of BMW, or where the context so requires, its subsidiaries, associated or affiliated companies
“BMW China”	representative office of BMW AG in Beijing, the PRC
“BMW Group”	BMW AG and BMW China
“BMW Importer Contract”	an importer contract dated 14th December, 1993 entered into between GAPL and BMW AG whereby BMW AG agreed to grant GAPL the right to distribute BMW automobiles and original BMW parts in the Fujian Province of the PRC
“BMW Waiver Letters”	letters dated 14th December, 2001 and 12th March, 2002 issued by BMW China on behalf of BMW AG and BMW AG respectively to GAPL; and a letter dated 19th December, 2001 issued by GAPL to BMW China and acknowledged by BMW China all relating to the Activities and the potential penalty arising therefrom or in connection therewith
“Cash” or “Lead Manager”	Celestial Capital Limited, an investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a GEM approved sponsor
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

GLOSSARY OF NAMES

“China Auto Asia”	China Automobile Asia Pte, Ltd., a company incorporated in Singapore on 8th March, 1996, the entire share capital of which is legally and beneficially owned by the Company
“CNA”	China National Automotive Industry Corporation (中國汽車工業總公司), a state-owned company established in the PRC as an independent entity listed in the central government plan, which engages in research and development, manufacturing, assembly and trading of motor vehicles, auto parts and accessories
“CNA Anhua (Beijing)”	北京中汽安華汽車租賃有限公司 (Beijing China National Automotive Anhua Automobiles Leasing Co., Ltd.), a company established in the PRC and is owned as to 71.40% by CNA Anhua (Hertz), the remaining interest is owned by independent third parties
“CNA Anhua (Guangzhou)”	廣州中汽安華汽車服務有限公司 (Guangzhou China National Automotive Anhua Automobiles Services Co., Ltd.), a company established in the PRC and is owned as to 90% by CNA Anhua (Beijing), the remaining interest is owned by independent third parties
“CNA Anhua (Hertz)”	中汽安華赫茲汽車服務有限公司 (China National Automotive Anhua Hertz Services Centre Co., Ltd.), a company established in the PRC and a wholly owned subsidiary of North Anhua
“CNA Anhua (Shanghai)”	上海中汽安華汽車服務有限公司 (Shanghai China National Automotive Anhua Automobiles Services Co., Ltd.), a company established in the PRC and is owned as to 90% by CNA Anhua (Beijing), the remaining interest is owned by independent third parties
“CNA Anhua (Tianjin)”	China National Auto Anhua (Tianjin) International Trade Co., Ltd., (中汽安華(天津)國際貿易有限公司), a company established in the PRC on 1st April, 1999 and is owned as to 70% by the Group and the remaining interest owned by North Anhua
“Comfort Group”	Comfort Group Limited, a company incorporated on 18th June, 1993 and listed on the main board of the Singapore Exchange Securities Trading Limited and principally engaged in land transport-related businesses in Singapore and the PRC

GLOSSARY OF NAMES

“Comfort (China)”	Comfort (China) Pte Limited, a company incorporated in Singapore on 2nd September, 1993 and is a wholly-owned subsidiary of Comfort Group for the investments and business operations of Comfort Group in the PRC
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“GAL”	German Automobiles Limited, a company incorporated in Hong Kong on 3rd October, 1997 with limited liability and is wholly-owned by the Company
“GAPL”	German Automobiles Pte Ltd., a company incorporated in Singapore on 26th August, 1993 with limited liability and is a wholly-owned subsidiary of the Company
“GDP”	Gross domestic products, an indicator of the economic growth
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the Board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM Website”	Domain name of www.hkgem.com , being the Internet website operated by the Stock Exchange
“Guangzhou Honda”	廣州本田汽車有限公司 (Guangzhou Honda Limited), a joint venture established in the PRC by Honda Corporation and Guangzhou Automobile Corporation (廣州汽車集團) and controlled by the Guangzhou Municipal Government of the PRC
“Hertz”	Hertz International, Ltd., a US-based company engaged in the business of renting and leasing passenger vehicles with and without drivers, or where the context so requires, its subsidiaries, associated or affiliated companies

GLOSSARY OF NAMES

“Hertz System”	a unique plan or system owned by Hertz for conducting the business of renting and leasing passenger vehicles and trucks with and without drivers
“Honda”	the brand name of the series of motor vehicles manufactured by Honda Motor Co., Ltd.
“Honda Motor Co., Ltd”	a Japan-based company that engages in the design, manufacturing and sale of passenger vehicles under the brand name of Honda, or where the context so requires, its subsidiaries, associated or affiliated companies
“Honda Motor (China) Co., Ltd”	a subsidiary of Honda Motor Co., Ltd.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jin Tian Cheng”	北京金天成科貿發展有限公司 (Jin Tian Cheng Development Co., Ltd.), a company established in the PRC and is principally engaged in property development and the trading of construction materials and is owned as to 10% by North Anhua, the remaining interest is owned by independent third parties of the Group not connected with the Directors, chief executives, substantial shareholders or management shareholders of any member of the Group according to the GEM Listing Rules
“HKSCC”	Hong Kong Securities Clearing Company Limited
“JS Cresvale”	JS Cresvale International Limited, an investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a GEM approved sponsor
“Land Rover”	the brandname of the series of motor vehicles manufactured by Rover Group Limited
“Land Rover Group”	Land Rover Export Limited, the company authorised by Rover Group Limited to conduct Land Rover’s business outside the United Kingdom, and its subsidiaries

GLOSSARY OF NAMES

“Loh & Loh”	Loh & Loh Construction Group Ltd., a company incorporated in BVI on 9th January, 1996 with limited liability, the entire issued share capital of which is legally and beneficially owned as to 49% by Mr. Anthony Chan, 15% by Mr. Loh Kim Her, 15% by Mr. Loh Nee Peng and the remaining 21% by Loh Boon Cha
“Loh Family”	Ms. Loh Goh Lan Kiaw, wife of Mr. Loh Kim Her, Mr. Loh Boon Cha, brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng, Mr. Loh Kim Chah, Mr. Loh Cheng Hoo, Mr. Loh Kim Choon, brothers of Mr. Loh Kim Her and Ms. Cher Moy Eng, Ms. Koh Bee Eng, Ms. Tan Bock Choon, Ms. Low Chew Yun, sisters-in-law of Mr. Loh Kim Her
“L&B”	L & B Holdings Pte Ltd., a company incorporated in Singapore on 8th July, 1977 with limited liability, the entire issued share capital of which is legally and beneficially owned as to 81.06% by the Loh Family (19.44% by Mr. Loh Boon Cha, 20.34% by Mr. Loh Kim Chah, 19.94% by Mr. Loh Cheng Hoo, 18.84% by Mr. Loh Kim Choon, and 0.56% by each of Ms. Loh Goh Lan Kiaw, Ms. Cher Moy Eng, Ms. Koh Bee Eng, Ms. Tan Bock Choon and Ms. Low Chew Yun) and as to the remaining 18.94% by Mr. Loh Kim Her
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mercedes-Benz”	the brandname of the series of motor vehicles manufactured by DaimlerChrysler AG
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation of the PRC(中國對外貿易及經濟合作部)
“Mr. Anthony Chan”	Chan Hing Ka Anthony, an executive Director and co-founder of the Group
“North Anhua”	North Anhua Group Corporation(北方安華集團公司), a state-owned company established in the PRC and a wholly-owned subsidiary of CNA and is principally engaged in research and development, manufacturing, assembly and trading of motor vehicles, auto parts and accessories

GLOSSARY OF NAMES

“PRC”	the People’s Republic of China, which for the purposes of this prospectus excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Rover”	MG Rover Group Limited, a British company engages in the manufacturing of motor vehicles under the brandname of Land Rover, or where the context so requires, its subsidiaries, associated or affiliated companies
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission
“Sponsors”	JS Cresvale and Cash
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Toyota”	the brandname of the series of motor vehicles manufactured by Toyota Motors Corporation
“Tycoons Investment”	Tycoons Investment International Limited, an investment holding company incorporated in BVI, which is wholly owned by Mr. Anthony Chan
“U.S. Commercial Service”	US Department of State and US Foreign Commercial Service is a unit of the Department of Commerce of the US that emphasizes on the promotion of goods and services from the US and on the protection of the US business interest abroad
“Vendor”	Loh & Loh, brief particulars of which are set out in this section
“US”	United States of America
“WTO”	World Trade Organisation

GLOSSARY OF NAMES

“Xiamen BMW”

Xiamen BMW Automobiles Service Co., Ltd. (廈門寶馬汽車維修有限公司), a Sino-foreign co-operative joint venture company established in the PRC on 8th January, 1994 between GAPL and Xiamen Economic Special Zone Transportation Corporation (廈門經濟特區運輸總公司) as the foreign and Chinese joint venture partners respectively, the registered capital of which is 100% contributed by the Group. Xiamen Economic Special Zone Transportation Corporation is independent and not connected with the Company, its directors, its chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates as defined under the GEM Listing Rules

“Xiamen Honda”

廈門寶馬汽車維修有限公司本田汽車特約維修站 (Xiamen BMW Automobiles Service Company Limited Honda Automobiles Service Centre), a branch established by Xiamen BMW in Fujian Province, the PRC on 15th February, 1996

“Zhongqi Technology”

Zhong Qi Automotive Technology Limited, an investment holding company incorporated in BVI on 9th January, 1996 with limited liability, the entire issued share capital of which is legally and beneficially owned by Mr. Tan Cheng Kim, general manager of the motor vehicles distribution division of the Group and Mr. Lim Tee Peng, general manager of the auto parts and accessories division of the Group in equal shares

RISK FACTORS

An investment in the Placing Shares involves certain risk. Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Group before making any investment decision in relation to the Group.

This prospectus contains certain forward looking statements relating to the Group's plans, objectives, expectations and intentions. The cautionary statements in this prospectus should be read as applicable to all forward looking statements herein. The Group's future financial results or operations could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

Exposure to North Anhua's obligations

I. *Lack of appropriate title certificates for development co-operation projects*

The Group entered into a project development co-operation agreement in March 2000 with CNA Anhua (Hertz), a wholly owned subsidiary of North Anhua and of which Mr. Loh Nee Peng is a director. The Group provided CNA Anhua (Hertz) with approximately HK\$34 million for prepayment of rental expense for the use of service centres and other related facilities which are under construction by CNA Anhua (Hertz) in Guangdong Province, Fujian Province and Beijing Municipality. The service centre in Fujian Province will be used as the replacement of the current service centre in the Xiamen Special Economic Zone. Construction plan of the service centre in Xiamen has been approved by the relevant PRC authorities. The Directors expect that the construction will start in June 2002. The service centres in Beijing Municipality and Guangdong Province will be used for servicing car rental business. The development of the service centre in Beijing Municipality was completed in December 2001, and CNA Anhua (Hertz) is in the process of obtaining the land title certificates. For the site in Guangdong Province, the construction plan is being prepared by CNA Anhua (Hertz) and will be submitted to the relevant PRC authorities for approval. The construction is expected to commence in September 2002. Under the said agreement, CNA Anhua (Hertz) will use the prepayment to subsidise and finance the construction cost and will provide land and building for the Group to use for 50 years rent free. Pursuant to the agreement, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million to the Group if appropriate title certificates in the name of CNA Anhua (Hertz) for such land and buildings cannot be obtained by June 2002. In April 2002, considering the construction progress of the development co-operation projects, the Group entered into a supplemental agreement with CNA Anhua (Hertz) to amend the said project development co-operation agreement. Pursuant to the said supplemental agreement, the deadline for CNA Anhua (Hertz) to obtain the appropriate title certificates in accordance with the terms of the said development co-operation agreement is extended to June 2003. Should CNA Anhua (Hertz) fail to obtain appropriate title certificates by June 2003, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million by 3 equal installments by the end of June, September and December 2003. The Directors confirm that there will be no further

RISK FACTORS

postponement of the projects. However, there is no assurance that CNA Anhua (Hertz) will be able to obtain the appropriate title certificates in accordance with the terms of the said supplemental agreement or refund all or any part of the said approximate amount of HK\$34 million to the Group in the event that such title certificate cannot be obtained by June 2003. Nevertheless, Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in full for the loss incurred or suffered by it in the event that CNA Anhua (Hertz) fails to obtain the appropriate title certificates in accordance with the terms of the said project development co-operation agreement. **Such indemnity is further secured by 64,664,000 Shares to be placed with an escrow agent as a pledge to the Company by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh, immediately after the expiration of the Lock-up Period, and HK\$2,035,000 Sale Shares proceeds to be placed with an escrow agent as a pledge to the Company by Loh & Loh.**

In addition, the Group entered into another project development co-operation agreement with Jin Tian Cheng, an independent third party to the Group which is owned as to 10% by North Anhua. In August 2001, approximately HK\$17 million was provided by the Group to Jin Tian Cheng for the development of the motor vehicles maintenance and service centre in Fuzhou Municipality of Fujian Province.

In December 2001, the Group, Jin Tian Cheng and North Anhua entered into a project development co-operation agreement in supplement to the agreement entered into between the Group and Jin Tian Cheng in August 2001. Pursuant to the said project development co-operation agreement, Jin Tian Cheng will provide the land and be responsible for the construction of the maintenance and service centre thereon while the Group will be entitled to use the land and building for 20 years (as opposed to 50 years as agreed between the parties under the agreement of August 2001), Jin Tian Cheng agreed to repay the Group approximately HK\$11 million by October 2002, out of which, an approximate amount of HK\$3.3 million has been received as at the Latest Practicable Date. The approximately HK\$6 million provided by the Group will be used to subsidise and finance the construction cost and will be treated as the rental prepayment of the Group for the 20 years' use of the maintenance and service centre. In addition, a monthly rent of RMB10,000 will be paid per month according to the agreement. Currently, Jin Tian Cheng is preparing the construction plan which will be submitted to relevant PRC authorities for approval in June 2002. The construction is expected to commence in July 2002. Jin Tian Cheng is in the process of obtaining appropriate title certificates for such land. Pursuant to the project development co-operation agreement, Jin Tian Cheng is obliged to return the said approximate amount of HK\$6 million to the Group if it fails to perform the project development co-operation agreement or complete the construction of the project contemplated thereunder by December 2002. In April 2002, considering the construction progress of the development co-operation projects, the Group entered into a supplemental agreement with Jin Tian Cheng and North Anhua to amend the said project development co-operation agreement. Pursuant to the said supplemental agreement, the deadline for Jin Tian Cheng to obtain appropriate title certificates in accordance with the terms of the said project development co-operation agreement is extended to June 2003. The Directors confirm that there will be no further postponement of the projects. However, there is no assurance that Jin Tian Cheng will be able to complete the said project or fulfil its obligations in accordance with the terms of the project development co-operation agreement. Nevertheless, North Anhua has agreed to guarantee the performance and discharge Jin Tian Cheng of its obligations under the project

RISK FACTORS

development co-operation agreement. Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in the event that North Anhua fails to repay the Group under the said guarantee amount of HK\$7.965 million by 31st October, 2002 and/or repay the said approximate amount of HK\$6 million to the Group if Jin Tian Cheng fails to perform the said project development co-operation agreement or complete the project contemplated thereunder.

In order to further secure such indemnity, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh will place, immediately after the expiration of the Lock-up Period, with an escrow agent 12,484,000 Shares and Loh & Loh will place with an escrow agent of HK\$7,965,000 Sale Shares proceeds as security for such indemnity.

The PRC legal adviser opined that so long as the Chinese partners fully comply with the PRC laws and regulations during the process of the construction and strictly comply with the land purchase agreement, there should be no deterrent that prevents the Chinese parties from obtaining the land title certificates. As at the Latest Practicable Date, no land title certificates has been obtained and there is no assurance that the Chinese partners would be able to procure such title certificates or refund any money to the Group. If so, any delay in the identification of appropriate land and buildings as replacements or any write off may cause adverse impact in the business operations of the Group.

II. *Termination to use the service centres as stipulated in the development co-operation agreements*

According to the Company, the service centre in Fujian Province will be used as the replacement of the current service centre in the Xiamen Special Economic Zone, the service centres in Beijing Municipality and Guangdong Province will be used for servicing car rental business and the service centre in the Fuzhou Municipality will be used for as an additional showroom and service centre for the BMW passenger vehicles. Should the Group decide not to use such buildings at any time prior to the expiration of the said period for reasons other than CNA Anhua (Hertz) or Jin Tian Cheng's failure to perform in accordance with the respective project development co-operation agreement, the Group's financial position may be adversely affected as it will not be able to amortise the said rental prepayment under such circumstances and might have to write off the remaining balance of the rental prepayment although there is no break clause stipulated in the said co-operation agreements.

III. *Corporate guarantees provided to Hertz*

The Group, as the principal licensee of the Hertz System, has given corporate guarantees to Hertz to secure the performance and timely payment by the three sub-licensees of the Hertz System appointed by the Group of all amounts payable to Hertz under the respective sub-licensee agreements. These sub-licensees are subsidiaries of North Anhua.

Pursuant to the sub-licensee agreements between Hertz and the sub-licensees, among other things, the said sub-licensees are required to pay (i) an initial fee; and (ii) the higher of either a license fee or a minimum annual fee to Hertz. The Group has however entered into management agreements with each of the sub-licensees pursuant to which the sub-licensees shall be obligated to comply with their payment obligations as stipulated in the sub-licensee agreements with Hertz, failing which, the sub-licensees shall pay to the Group default payment.

RISK FACTORS

Should any of these three sub-licensees fail to perform or meet its obligations under the said sub-license agreements, the Group's financial position will be adversely impacted.

Manufacturing plant set up by BMW and other suppliers in the PRC

In order to enjoy the advantage of cost competitive labour in the PRC, many foreign motor vehicle manufacturers have set up their manufacturing plants in the PRC. BMW AG has recently announced a preliminary plan to form a joint venture company with a PRC company in which each party shall have an equal interest in a manufacturing plant to be set up in the PRC. BMW AG has informed the Group that once the said joint venture company commences production of 3 and 5 Series models of BMW passenger vehicles, which is expected in early 2003, such models will be excluded from the list of models to be supplied by BMW AG to the Group under the BMW Importer Contract. However, the Group will still be supplied with BMW passenger vehicles other than 3 and 5 Series models for import into the PRC.

The Group mainly distributes imported 3, 5 and 7 Series of BMW passenger vehicles to the PRC market in the Track Record Period. For each of the two years ended 31st December, 2000 and 2001, revenues generated from the Group distribution of series 3, 5 and 7 Series and X5 of BMW passenger vehicles are set out below:

	No. of motor vehicles	FY2000 <i>HK\$'000</i>		No. of motor vehicles	FY2001 <i>HK\$'000</i>	
3 Series	3	957	3%	72	13,881	11%
5 Series	47	12,726	36%	204	54,264	42%
7 Series	53	21,882	61%	135	49,491	38%
X5	—	—	—	30	11,176	9%
	<u>103</u>	<u>35,565</u>	<u>100%</u>	<u>441</u>	<u>128,812</u>	<u>100%</u>

The Group's business of distribution of imported BMW passenger vehicles may be adversely affected in the future if such joint venture company starts to manufacture BMW passenger vehicles in the PRC or the Group is unable to obtain the authorised dealer license from such joint venture company and engage locally licensed resellers for distribution of such locally manufactured BMW passengers vehicles from the said joint venture company. There is no assurance that the Group will be offered such a dealer license or such arrangement complies with the PRC law. In the event that the 3 and 5 Series of the BMW passenger vehicles are excluded from the Group's BMW motor vehicles distribution business in the PRC, the commercial viability of the Group may be adversely affected.

RISK FACTORS

The Group's turnover derived principally from distribution of various brands of imported passenger vehicles. Like BMW AG, other foreign passenger vehicles suppliers of the Group may also set up their respective manufacturing plants in the PRC in the future. In the event that such suppliers start to locally manufacture their respective passenger vehicles in the PRC, there is no assurance that the Group will be offered the rights to distribute such suppliers' passenger vehicles. Accordingly, the Group's profitability may be adversely affected.

Breach of BMW Importer Contract

The Group has breached the BMW Importer Contract by i) distributing other brands of automobiles and parts to resellers inside and outside the Fujian Province including Hong Kong and ii) distributing BMW automobiles and parts to resellers who have not been authorised by BMW AG.

The Group has obtained the BMW Waiver Letters from the BMW Group acknowledging the Activities and waiving all the breaches in relation to the Activities. Pursuant to the BMW Waiver Letters, the BMW Group confirmed that it will not impose any penalty as stipulated in the BMW Importer Contract now or in the future in respect of any breaches of the Activities whether committed in the past or to be committed in the future and it has tolerated the Activities and will continue to tolerate the Activities in the future unless and until it notifies the Group in writing.

In the event that the BMW Group notifies the Group to discontinue the Activities, the Group's financial position is likely to be adversely affected.

Reliance on sales of BMW passenger vehicles

A substantial part of the Group's profits derived from the sales of BMW passenger vehicles. 50.8% of the sales revenues received by the Group in year 2001 derived from the sales of BMW passenger vehicles. In view of the confirmed orders received by the Group to date, it is anticipated that the orders for BMW passenger vehicles will represent a dominant proportion up to 82.5% of the Group's sale revenues in year 2002. The Group's profitability may be adversely affected if the Group is unable to secure distribution rights from BMW AG in the future or if demand for BMW passenger vehicles drops.

Competition

The Group may face significant competition from other authorised distributors and other appointed importers of overseas manufacturers. One of the entry barriers to the business of the Group is the granting of distribution authorisations and appointment as importers by overseas manufacturers. The rights given to the Group under most of their existing distribution authorisations are non-exclusive and are subject to annual renewal. Currently, there are approximately 5 authorised BMW distributors, 2 authorised Land Rover distributors and 20 Honda passenger vehicles importers in the PRC which are engaged in distributing the Group's products. Any intensification in competition could dilute the Group's market share and lead to price reductions and increased expenses in marketing and distribution network development. Any of these events could have material adverse effect on the Group's financial condition and profitability.

RISK FACTORS

Reliance on North Anhua

The Group has established close working relationship with North Anhua. The Group provides management consultation and technical assistance to North Anhua and its distributing agents for the promotion and maintenance of locally manufactured Honda passenger vehicles distributed by North Anhua in exchange for technical fees pursuant to a non-exclusive management consultation and technical service agreement entered into between the parties in January 2000 for a term of 5 years. The technical fees are calculated based on a mutually agreed percentage, which is currently around 13% (5% to 15% pursuant to the technical agreement), over the sales of the locally manufactured Honda passenger vehicles distributed by North Anhua. The current percentage is based on the Group's internal pricing model that comprises various kinds of fees including engineers, technicians, administration and marketing, and is calculated on a cost plus margins basis. The current allocation of the 13% technical fees is approximately 5% for engineers, 2% for technicians, 3% for administration and 3% for marketing. The current technical fee is subject to revision should there be a change in the Company's cost structure in providing such services or government regulation.

A substantial part of the Group's turnover received from North Anhua attributes to the technical fee income under the said non-exclusive management consultation and technical service agreement. The Group's financial condition and profitability may be adversely affected should the said non-exclusive management consultation and technical service agreement be terminated prior to the expiration of its term for whatever reason or should North Anhua refuse to renew the same after it expires. Since the amount of the technical fee income is based on the sales price of the locally manufactured Honda motor vehicles sold by North Anhua, the Group's profitability may also be adversely affected if such sales of North Anhua are slowdown or if North Anhua shifts its business focus.

	FY2000	FY2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Technical fee income	27,696	20,413
Distribution of motor vehicles	3,914	—
	<u>31,610</u>	<u>20,413</u>
 % of the total Group turnover	 25.3%	 8.0%
 Total Group turnover	 <u>124,975</u>	 <u>253,784</u>

Currently the Group is not allowed under the existing PRC law to directly carry out car rental operations in the PRC. Therefore, the Group also relies on the subsidiaries of North Anhua as the sub-licensees which operate the car rental business in the PRC. There is no assurance that co-operative relationship between the Group and North Anhua will not be interrupted in the future. Should the aforementioned events occur, the business of the Group would be adversely affected.

RISK FACTORS

In addition, in the event that the management consultation and technical service agreement will not be renewed after its expiration, the Group's financial position is likely to be adversely affected.

Distribution arrangement with resellers in Hong Kong and the PRC

The Group distributes passenger vehicles into the PRC through the assistance of resellers in Hong Kong and the PRC. Besides North Anhua, all distribution arrangement with resellers are made on a case-by-case basis, no formal distribution agreements were entered between the Group and the resellers. The distribution arrangements are on an ad hoc basis and may cease at any time. In the event of any resellers in Hong Kong or the PRC decides to terminate distribution arrangement and ceases to sources passenger vehicles from the Group, the business operation of the Group may be adversely affected.

Reliance on the PRC market for motor vehicles distribution

During the Track Record Period, the Group's operations have been focusing on the PRC market and will continue to do so in the near future as illustrated in the section headed "Statement of Business Objectives", given that the Group distributes left-handed drive vehicles which will be ultimately sold in the PRC. The PRC is the major market for the Group's operations, where the Group has a potential exposure to the conditions of the PRC economy. Since there is no assurance in the economic, political and social conditions of the PRC, any changes in such conditions may adversely affect the Group's profitability and performance.

Outstanding tax payment

The Group has been delaying its tax payment due to the Inland Revenue Authority of Singapore since 1997 as a result of the lack of proper accounting control during the time when the Group's accounting staff made certain injudicious assessments on filing and journalising tax returns in the past. As at 31st December, 2001, the tax payable by the Group to the Inland Revenue Authority of Singapore amounted to HK\$13,022,000. Such provision for outstanding tax payment balance has been fully made in the accountants' report, and on the ground of prudence, a maximum of up to 17% penalty for such late tax payments which amounts to approximately HK\$1,528,000 has been provided in the accountants' report. The Group intends to settle the outstanding tax balance by the end of 2002 by monthly installments. As at the Latest Practicable Date, approximately HK\$454,000 has been settled by the Group. There is no written confirmation from the Inland Revenue Authority of Singapore agreeing to the Group's proposed tax repayment schedule. Should the Inland Revenue Authority of Singapore require the Group to repay all outstanding tax balance immediately or in the event that any legal proceeding or claim is brought by the Inland Revenue Authority of Singapore against the Group in relation to the outstanding tax payment, the Group's financial conditions are likely to be adversely affected.

RISK FACTORS

Hertz car rental agreement

The Hertz car rental agreement entered into between Hertz and CNA Anhua (Tianjin) in August 2001 is subject to renewal by Hertz after the 5 year term. Should Hertz decide not to renew the principal license agreement with CNA Anhua (Tianjin) after the 5 year term, the Group will not be able to sub-license the car rental system to authorised car rental operators with which the Group has a profit sharing arrangement for providing management consulting services to sub-licensees with respect to the operation of Hertz car rental system. There is no guarantee that the principal license entered into with Hertz will be renewed after August 2006, and if the principal license is indeed not renewed, the Group's financial position and business expansion plan will be adversely impacted.

Marketability of car rental business

The Group's involvement in car rental business as described under "Future Plans and Prospects" is at the introductory stage and there is no guarantee that the services will be well received by the market. Given that the Group is relatively new in the operation of car rental business in the PRC and its experience therein is relatively less in comparison to its operation of and experience in other principal lines of motor vehicles businesses, there is no assurance that the Group will be successful in such business. The local car rental companies in the PRC may also develop their own nationwide car rental systems in competition with such business of the sub-licensees. In addition, the ability of the sub-licensees to achieve and maintain a competitive position in the provision of its services depends on its ability to develop new services that satisfy the market's demands at competitive prices, failing which the Group's financial condition and prospects may be adversely affected as the Group is entitled to receive management and consulting fees derived from the after-tax profit of the sub-licensees.

Financial guarantees provided to third parties

As illustrated in the "Use of Proceeds" section in this prospectus, approximately HK\$6 million will be deposited with a bank in Hong Kong as security for banking facilities granted by the correspondent branch of the bank in the PRC to finance the car rental business of certain appointed sub-licensees of the Group. Since these sub-licensees do not provide the Group with any security for such deposit, in the event that such sub-licensees default in their payments, the Group has the obligation to repay the bank on behalf of the sub-licensees up to a maximum of HK\$6 million being the amount deposited with the bank, the financial condition of the Group will thus be adversely affected as no security is received from the sub-licensees with respect to such deposit.

RISK FACTORS

Each of the Group, Mr. Anthony Chan, Mr. Loh Kim Her and Mr. Loh Nee Peng has provided guarantee in favour of The Development Bank of Singapore Limited in respect of banking facilities granted to Beijing China National Automotive Anhua Spare Parts Ltd., formerly a 55% owned joint venture of the Group which was disposed of to Super Yield Trading Co., Ltd, an independent third party to the Group and North Anhua in June 2000. The remaining 45% equity interest in the joint venture is held by CNA Anhua (Hertz). Since CNA Anhua (Hertz) is interested in 71.4% of CNA Anhua (Beijing), which in turn is interested in 90% of each of CNA Anhua (Shanghai) and CNA Anhua (Guangzhou), the banking facilities provided to Beijing China National Automotive Anhua Spare Parts Ltd. can be used in connection with the car rental business by the 3 car rental sub-licensees and is in line with the purpose of the such banking facilities as stipulated in the letter from the bank to the Group, namely to partly finance the Group's Hertz operations in the PRC. The amount of guarantee was approximately HK\$21,809,000 and HK\$34,550,000 as at 31st December, 2000 and 2001 respectively. Such guarantee arrangement will not continue after listing of the Shares and the bank has agreed in writing to consider to release such guarantees subject to the replacement of the guarantors to the satisfaction of the bank. The Group did not receive any security from Beijing China National Automotive Anhua Spare Parts Ltd. Should Beijing China National Automotive Anhua Spare Parts Ltd. default in its loan repayment, the Group is obligated to repay such loan on behalf of Beijing China National Automotive Anhua Spare Parts Ltd., and the Group's financial position will be adversely affected. Nevertheless, The Development Bank of Singapore Limited has confirmed that it will unconditionally release the bank guarantee provided by the Group on behalf of Beijing China National Automotive Anhua Spare Parts Ltd. upon the listing of the Company on GEM.

Personal guarantees provided by Directors and their respective associates

In relation to the bank guarantees provided by the Directors and their respective associates as mentioned in the paragraph headed "Connected Transactions" under the section headed "Business of the Group" of this prospectus, all the banks have agreed in writing that the personal bank guarantees provided by the Directors and their respective associates will be released upon listing of the Shares. However, the release of such personal guarantees are subject to several conditions which include the capacity and financial ability of the Group to be substituted as guarantor for such banking facilities. Approximately HK\$111 million of loan the repayment of which is guaranteed by the Directors and their respective associates remained outstanding as at 31st December, 2001. Should the banks consider that the Group does not have the capacity and financial ability to be substituted as guarantor for the Group's banking facilities, the personal bank guarantees provided by the Directors and their respective associates will not be released. Should the Directors and their respective associates revoke any of the guarantees provided in favor of the banks, the financial resources stability of the Group will be adversely affected.

Dependence on key executives

The Group's success is, to a significant extent, attributable to its management which comprises a handful of experienced senior executives including two of the executive Directors, namely Mr. Loh Kim Her and Mr. Anthony Chan, who are responsible for the distribution business and liaising distributorship of the Group. The loss of the services of any of its key personnel could have a material adverse impact on the Group's operations.

RISK FACTORS

Distribution arrangement of Honda, Toyota and Mercedes-Benz passenger vehicles

In relation to the appointment of importer for Honda passenger vehicles in the PRC market, there is no formal distribution agreement signed between Honda Motor Co., Ltd and the Group. The distribution arrangement between Honda Corporation and the Group is made on a case-by-case basis and may be terminated by either party. Honda Motor Co., Ltd may terminate such arrangement if the Group fails to perform up to standard satisfactory to Honda Motor Co., Ltd. In the event that such distribution arrangement is not agreed upon in the future, the business and profitability of the Group could be adversely affected.

For the Group's distribution of Toyota and Mercedes-Benz passenger vehicles, there are no formal agreements between the Group and the suppliers of Toyota and Mercedes-Benz passenger vehicles. The sourcings of Toyota and Mercedes-Benz passenger vehicles are made on a case-by-case basis. If the supplies of these suppliers are not stable, the business and profitability of the Group could be adversely affected.

Violation of certain PRC laws regarding provision of technical services

Prior to the enactment of the Administration of Technology Import and Export Regulations of the PRC ("New Regulations") passed by the State Council on 31st October, 2001 (effective as of 1st January, 2002), the provision of technical services by foreign companies to PRC companies is subject to the Regulations on the Administration of Technology Import Contracts of the PRC ("Old Regulations") promulgated by MOFTEC which required approval of all technical import agreements by MOFTEC. The Group has been providing technical services to North Anhua in relation to the sales of locally manufactured Honda passenger vehicles of North Anhua since January 2000 whereas the Group obtained the approval from MOFTEC in providing technical services to PRC companies in September 2000. By providing technical services to North Anhua before it obtained approval from MOFTEC, the Group was in violation of the Old Regulations. There is no detailed provision in the PRC law concerning the penalty of such violation. Under the New Regulations, the MOFTEC registration of technical service agreements is no longer a condition precedent for the same to become effective and that the technical services provided by the Group to North Anhua is no longer subject to approval. It is the understanding of the PRC legal adviser to the Company and the Directors believe that the relevant PRC authority will not impose penalty on the Group in respect of such violation which was committed by the Group prior to the enactment of the New Regulations based on precedents and past experience in practice. However, there is no guarantee that the relevant authority will not impose penalty on the Group in the future in relation to such violation and the Group's commercial viability regarding the provision of technical services may be adversely affected should the Group be prosecuted or made liable to any penalty in the future.

RISK FACTORS

Lack of appropriate title certificates for the Xiamen BMW service centre

Neither the Group nor its Chinese partner of Xiamen BMW has the title to the land and building occupied by Xiamen BMW due to the historical reason left over from the 1970's land grant from the then revolutionary authority. The Chinese partner of Xiamen BMW has agreed to take positive action to procure the appropriate title certificates and has also undertaken to Xiamen BMW in relation to the use of such land and buildings such that if Xiamen BMW is evicted from such land and buildings in the future, the Chinese partner will lease or procure the lease of other land and buildings for use by Xiamen BMW at the Chinese partner's expenses, and indemnify Xiamen BMW for any loss it may suffer. There is no assurance that the Chinese partner would fulfil such obligations. In the event of eviction, any delay in the relocation to appropriate land and buildings may cause adverse impact in the business operations of Xiamen BMW.

Use of Proceeds

According to the schedule of proceeds, the net proceeds will be fully utilised in December 2003. No proceeds will be allocated for the business developments of the Group starting from 2004 onwards. For the business objectives in 2004, the Group expects that approximately HK\$3 million will be needed to fund the business development projects. Those business development projects will be funded by internal generated funds and banking facilities. There is no guarantee that the internal generated funds and the Group's banking facilities will be sufficient to support those business developments in 2004 and beyond. Should such event occur, the Group's financial position and performance may be adversely affected.

Seasonality

The car distribution business of the Group is moderately correlated to the customers' business operating results. Normally, the peak seasons of the Group fall in the first and the third quarters of the year. Customers usually place orders in the first and the third quarters of the year after the release of their interim and annual business financial results so as to assure their financial position in making capital expenses. As a result, the second and fourth quarters may usually be considered to be low seasons of the Group's car distribution business. It is possible that, due to seasonal fluctuations, the Group may not be able to generate sufficient revenue to cover its expenses during certain periods of the year.

Credit risk

The Group offers credit terms to its customers, generally between 60 days to 150 days. These accounts receivable have been increasing and represent approximately 45% and 43% of the Group' total current assets as at 31st December, 2000 and 2001 respectively. The Group maintains a credit control policy, salient features of which include: (i) transactions with new agents/customers are carried out on a strict cash-term basis; (ii) thorough studies are conducted on the creditworthiness of new agents/customers before credit terms are provided to them; (iii) reminders will be sent to agents/customers whose payments to the Group become overdue; and (iv) legal advices will be sought on the Group's actions towards delinquent accounts. The amounts unsettled as at the Latest Practicable Date are due from long-term customers

RISK FACTORS

who have not been in default in their payments in the past. Besides, the Group maintains close business relationship and has on-going business with them and they are committed to repay with an agreed terms. The Directors believe that the risk for them to default their payment is minimal, therefore no provision is made for the unsettled balance. There is no assurance that the Group will be able to collect its accounts receivable. The Group's financial position may be adversely affected if the Group experiences difficulties in realising its receivables in the future. Debtor aging analysis as at 31st December, 2001 and the respective subsequent settlement are set out as below:

Aging	Balance 31st December, 2001 HK\$'000	Receipts Up to the Latest Practicable Date HK\$'000	Balance Latest Practicable Date HK\$'000
0-1 month	6,123	(3,065)	3,058
1-2 months	3,041	(16)	3,025
2-3 months	23,002	(790)	22,212
3-6 months	15,200	(10,035)	5,165
6-9 months	8,291	(2,205)	6,086
9-12 months	6,352	(3,906)	2,446
over 12 months	6,224	(5,773)	451
Provision for doubtful debts	(1,556)	—	(1,556)
	<u>66,677</u>	<u>(25,790)</u>	<u>40,887</u>

Out of the total account receivable of approximately HK\$67 million as at 31st December, 2001, approximately HK\$24 million (representing approximately 35.8% of the total net accounts receivable) was due from North Anhua. However, such amount has been fully repaid in May 2002.

Foreign exchange risk

The reporting currency of the Group is SGD. During the Track Record Period, the Group has recorded exchange gains of HK\$4,103,000 and HK\$2,157,000 for the years ended 31st December, 2000 and 31st December, 2001 respectively. Since the Group conducted its business transaction mainly in euro and US dollar, such exchange gains resulted from the devaluation of Singapore dollar against the euro and US dollar. However, such exchange gains are highly dependent on the worldwide economic environment and there is no guarantee that euro and US dollar may not devalue against Singapore dollar in the future. However, as the Group does not maintain any hedging policy with respect to exchange rate risk, should euro and US dollar devalue in the future and the Group keep conducting business transactions in such currencies, the Group's may record exchange loss in the future, which may induce an adverse impact to the Group's financial position.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY

Parallel imports

In the PRC, apart from the manufacturer-appointed distributors, motor vehicles can also be imported by any other individual or organisation which has the authority to engage in foreign trade and permission to import motor vehicles into the PRC. Motor vehicles that are imported into a country through parties other than the appointed distributors or import through unauthorised distributors are commonly known as parallel imports.

The existence of parallel importers affect the profit margins and market share generated by manufacturer-appointed distributors. The Group sees no significant sign that triggers the increase of parallel imports of motor vehicles into the PRC but it is possible that future growth in parallel importing of motor vehicles into the PRC could have adverse impact on the profitability of the Group.

New vehicle models

BMW AG, Honda Motor Co., Ltd. and Land Rover Group offer a wide range of passenger vehicle models. Over the years, BMW AG, Honda Corporation and Rover have established proven track records in respect of their respective abilities to introduce new and improved vehicle models at regular intervals.

The abilities of BMW AG, Honda Motor Co., Ltd. and Land Rover Group to continue to produce new and improved models at regular intervals in an increasingly competitive market place will have an impact on the profitability of the Group in the PRC.

Potential product recall

Product recall has been a common phenomenon in the manufacturing industry, especially in motor vehicles industry. If defect is found in any particular lot of motor vehicles, the manufacturer of that particular brand of motor vehicles will call back the motor vehicles in that lot to its maintenance centre for inspection and replacement for the defective part free of charge. Such recall of product will generally cause an adverse impact on the manufacturer's corporate image and thereby lowering consumers' confidence in that manufacturer's products. Should any products that the Group is distributing be subject to recall by its manufacturer, the sales of the Group will be adversely affected and the brand image that built upon the reliability of the motor vehicle could be unfavorably affected which in turn affect the profitability of the Group.

RISK FACTORS

RISKS RELATING TO THE PRC

Economic environment and political structure

The PRC has been a socialist country since 1949. Between 1949 and 1978, its economic activities were centrally planned. Since 1978, the PRC government has adopted policies which have led to significant economic and social progress. However, political, economic and social considerations will also lead to changes in policy from time to time. There is no assurance that refinements and changes will always have a positive impact on the Group's business. The Group's business in the PRC will also be adversely affected by changes in the political, economic and social conditions of the PRC and also by changes in policy, in laws and regulations (or the interpretation thereof), the introduction of measures to control inflation, the imposition of taxes, levies and fees, and the imposition of restrictions on currency conversion and remittances abroad.

Following the adoption of the "Open Door Policy" and the implementation of the "socialist market economy", the PRC government has encouraged substantial private and foreign investment and has lessened the control over the allocation of resources and productivity of the PRC economy. However, there can be no assurance that the PRC government will continue to pursue its current policy or that such policy will not be significantly altered.

Legal and regulatory considerations

The PRC's legal system is based on statutory law, under which previous court decisions may be cited as persuasive authority but do not have binding precedential effect. While considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade, such laws and regulations are relatively new. This fact combined with the limited number of published judicial interpretations and the non-binding nature of prior court decisions result in significant uncertainty in the interpretation and enforcement of such laws and regulations. There can be no assurance that the Group's business in the PRC will not be adversely affected by changes in such laws and regulations or the interpretation thereof.

The operation of car industry in the PRC is governed principally by the PRC Motor Vehicle Industry Policy promulgated in 1994. According to Article 7 of the said Policy which relates to the import administration policies, the PRC Government shall be entitled to take necessary administrative measures regarding importation of motor vehicles in the event that the domestic car industry becomes internationally uncompetitive. The PRC Government shall also be entitled to decrease the import tariff rate in accordance with the development status of the domestic car industry. The annual amount of the imported motor vehicles shall correspond to the State's manufacture plan of domestic motor vehicles. In the event that the PRC Government shall introduce administrative measures regarding importation of motor vehicles, which are less favorable than those presently applicable, increase the import tariff rate and reduce the annual amount of imported motor vehicles the Group's profitability may be adversely affected.

RISK FACTORS

Import regulations, import tariffs and trade restrictions

The PRC imposes restrictions on the import of foreign manufactured motor vehicles as well as auto parts and components. Only certain entities or persons with the authority to engage in foreign trade and permission to import are eligible to import motor vehicles into the PRC, and only in restricted quantities and subject to import tariffs, ranging from 43.8% to 50.7% for passenger vehicles, and auto parts and components. Any relaxation in such import restrictions or increase in import tariffs will lead to increase in selling price and thus may have an adverse effect on the Group's business. According to the Protocol on the Accession of the PRC published on 10th November, 2001, the import tariffs will be further reduced every year after China's entry to the WTO. There is, however, no assurance that such import tariffs will not increase in the future.

Under the current foreign investment policy of the PRC, neither foreign investment enterprises nor foreign companies is allowed to engage in trading of motor vehicles. According to the Protocol on the Accession of the PRC, trading restrictions in the PRC will be relaxed after China's entry to the WTO. There is, however, no assurance that trading restrictions will be relaxed favourably to the Group in the future.

In general, the car industry in the PRC is subject to various laws and regulations and that importation and trading of motor vehicles in the PRC are, in particular, subject to stringent restrictions. There is no assurance that the Group's business in the PRC will not be adversely affected if there are changes in the laws and regulations or policies in respect of the car industry in the PRC.

ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics derived from unofficial publications

Certain statistics in this prospectus relating to the motor vehicle industry, such as statistics relating to current and projected motor vehicle revenues in various jurisdictions as well as statistics regarding consumer preferences, are derived from various unofficial publications. Such information has not been independently verified by the Group and may be not accurate, complete or up-to-date.

Implementation of the Group's strategies in achieving its business objectives

This prospectus contains a section headed "Statement of business objectives" which sets out various future plans and milestones of development of the Group from the Latest Practicable Date to 31st December, 2004. These business objectives are based on existing circumstances and also on the bases and assumptions that certain circumstances will or will not occur, and the risks and uncertainties inherent in various stages of development of the Group's business.

RISK FACTORS

The Group's future plans and prospects must be considered in the light of these risks and uncertainties which may be encountered by the Group in its various expansion and development stages of motor vehicle distribution and car rental businesses. There is no assurance that the Group will be successful in implementing all its strategies or that its strategies, even if implemented, will lead to successful achievement of the Group's objectives. The Group's business operations and financial performance may be adversely affected if the strategies are not implemented in an effective and efficient manner.

Possible deviation in use of proceeds from the Placing from the intended use

The intended use of the proceeds from the Placing is set out under "Statement of business objectives – Use of proceeds of the Placing". It is the Directors' current intention to apply the net proceeds from the Placing in the manner as described in the aforesaid section. However, as new business opportunities arise or as unforeseen events occur, the Directors may (if they consider it to be in the best interests of the Group) reallocate all or part of the net proceeds to other business plans or new projects or to other uses or hold such funds in bank accounts, so that the actual application of the proceeds from the Placing may deviate from the intended use as described in this prospectus. In addition, the business plan of the Group as described under "Statement of business objectives" is based on assumptions of future events which by their nature are subject to uncertainty and there is no assurance that the plans of the Group will materialise as intended. The Group will issue an announcement in compliance with the requirements of the GEM Listing Rules in the event there is a material deviation in the use of the Placing proceeds from the intended use as described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNDERWRITING

This prospectus is published solely in connection with the Placing. The Placing comprises initially the New Shares and the Sale Shares at the Placing Price. The Placing is managed by Cash and fully underwritten by the Underwriters.

THE PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsors, the Lead Manager, the Underwriters, any of their respective directors, employees or representatives, or any other person involved in the Placing.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

United States of America

The Placing Shares have not been and will not be registered under the US Securities Act of 1933, as amended and may not be offered or sold within the US or to, or for the account or benefit of, US persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Placing Shares may not be offered or sold in the United Kingdom prior to the date six months from the date on which dealings in the Shares commence on the Stock Exchange except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services Act 1986 as amended by the Public Offers of Securities Regulations 1995 and where the applicable provisions of the Financial Services Act 1986 and the Public Offers of Securities Regulations 1995 have been complied with. In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the Placing unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Singapore

This prospectus has not been registered with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus and any other document or materials in connection with the offer of the Placing Shares may not be issued, circulated or distributed in Singapore nor may any of the Placing Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Placing Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in the Companies Act, Chapter 50 of Singapore (the “Singapore Companies Act”), (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Companies Act. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the contents of this prospectus.

Each person acquiring the Placing Shares will be required to, or is deemed by his acquisition of the Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Taiwan

The Placing Shares have not been and will not be registered with the SFC of Taiwan pursuant to the Taiwan Securities and Exchange Law. Accordingly, none of the Placing Shares may be offered for subscription, purchase of sold, directly or indirectly in Taiwan.

Cayman Islands

No offer of the Placing Share may be made to members of the public in the Cayman Islands.

APPLICATION FOR LISTING ON THE GEM

Application has been made to the GEM Listing Committee for the listing of and permission to deal in the Shares in issue, and the Shares to be issued pursuant to the Placing.

No part of the Shares or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being or proposed to be sought.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the GEM are expected to commence on 17th June, 2002. Shares will be traded in board lots of 4,000 each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to granting of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus on the GEM by the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the GEM or any other date HKSCC chooses. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Placing will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Placing Shares, you should consult an expert.

The Company, the Directors, the Sponsors, the Lead Manager, the Underwriters, their respective directors, agents and advisors and any other person involved in the Placing do not accept responsibility for any tax effects on or liabilities of any person resulting from the subscription for, or purchase, holding or disposal of, or dealing in, or the exercise of any rights in relation to, the Placing Shares.

STRUCTURE OF THE PLACING

Details of the structure of the Placing are set out under "Structure of the Placing".

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Loh Kim Her	Unit E 30th Floor, Block 1 Ronsdale Garden 25 Tai Hang Drive Hong Kong	Singaporean
Chan Hing Ka, Anthony	Unit E 30th Floor, Block 1 Ronsdale Garden 25 Tai Hang Drive Hong Kong	Singaporean
Loh Nee Peng	29 Duchess Avenue Singapore 269101	Singaporean
<i>Non-executive Director</i>		
Goh Chee Wee	28 Kew Walk Singapore 465976	Singaporean
<i>Independent non-executive Directors</i>		
Lee Kwok Yung	2nd Floor, Block E Beaconsfield Court No. 7 Shouson Hill Road Hong Kong	British
Lam So Ying	Flat 06, 29th Floor Block D Sunshine City Ma On Shan Shatin, New Territories Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Parties involved in the Placing

Sponsors

JS Cresvale International Limited

7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central, Hong Kong

Celestial Capital Limited

21st Floor, The Center
99 Queen's Road Central
Hong Kong

Lead Manager

Celestial Capital Limited

21st Floor, The Center
99 Queen's Road Central
Hong Kong

Underwriters

Celestial Capital Limited

21st Floor, The Center
99 Queen's Road Central
Hong Kong

First Shanghai Securities Limited

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Hooray Securities Limited

Room 3202, Office Tower
Convention Plaza, 1 Harbour Road
Hong Kong

JS Cresvale International Limited

7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central, Hong Kong

Shun Loong Securities Company Limited

Room 2202, Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

UOB Kay Hian (Hong Kong) Limited

15th Floor, AON China Building
29 Queen's Road Central
Hong Kong

YF Securities Company Limited

11th Floor, CMA Building
64-66 Connaught Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law

Simmons & Simmons

35th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

As to PRC law

Jingtian Gongcheng Associates

15th Floor, The Union Plaza
20 Chaoyangmenwai Avenue
Beijing 100020
The People's Republic of China

As to Singaporean law

Cheo Yeoh & Associates

11-02 Natwest Centre
15 McCallum Street
Singapore 069045

As to Cayman Islands law

Conyers Dills & Pearman, Cayman

Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

As to German law

Simmons & Simmons

Königsallee 98a
40215 Düsseldorf
Germany

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

**Legal advisers to the Sponsors,
the Lead Manager and
the Underwriters**

Jones, Day, Reavis & Pogue

31st Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors and reporting accountants

Arthur Andersen & Co

21st Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Property valuer

DTZ Debenham Tie Leung Limited

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head office	#02-01 Atland House 200 Bukit Timah Road Singapore 229862
Principal place of business in Hong Kong	Room 2205B, 22nd Floor 9 Queen's Road Central Hong Kong
Company websites	www.ga-holdings.com
Advisory board	Mr. Li Gang Mr. Chua Huat Hwee
Audit committee	Ms. Lam So Ying (<i>Chairman</i>) Mr. Lee Kwok Yung Mr. Anthony Chan
Authorised representatives	Mr. Loh Kim Her Mr. Anthony Chan
Company secretary	Mr. Shum Kai Wing, AHKSA FCCA
Qualified accountant	Mr. Shum Kai Wing, AHKSA FCCA
Compliance officer	Mr. Loh Kim Her

CORPORATE INFORMATION

Principal bankers

Bank of China

Singapore branch
Bank of China Building
4 Battery Road
Singapore 049908

Oversea – Chinese Bank Corporation Limited

65 Chulia Street
OCBC Centre
Singapore 049513

Industrial and Commercial Bank of China

Singapore branch
#12-01 John Hancock Tower
6 Raffles Quay
Singapore 048580

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Cayman Islands branch share registrar and transfer office

Bank of Butterfield International (Cayman) Ltd.

Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

INDUSTRY OVERVIEW

The information provided in this section as well as the historical and projected statistics and data provided elsewhere in this prospectus relating to the motor vehicle industry and car rental business in the PRC are based on various government, industry and private publications. Such information, statistics and data have not been independently verified by the Company. The Company and the Directors make no representation as to the accuracy of such information, statistics and data, which may not be consistent with other information compiled within or outside the PRC.

THE PRC MOTOR VEHICLE MARKET

The PRC motor vehicle market is characterised by both domestically manufactured motor vehicles and imported motor vehicles. The domestic motor vehicle industry was developed in 1950s, with the initial focus on production of trucks and good vehicles. Although the domestic motor vehicle industry developed rapidly after the PRC adopted the Open Door Policy in 1979, aided by the improved technology and designs from foreign partners, the industry is still under various controls such as product types, output and production capacity, designs and purchase of raw materials.

The PRC motor vehicle market is dominated by domestic manufacturers. This is, in part, attributable to the price difference between locally manufactured motor vehicles and imported motor vehicles. Such price difference is primarily due to the imposition by the PRC government of import tariffs, ranging from 43.8% to 50.7% for passenger vehicles and an average of 23.4% for auto parts and components, and the quota restrictions on the import of foreign manufactured passenger vehicles. According to the Protocol on the Accession of the PRC published on 10th November, 2001, the import tariffs on passenger vehicles will be further reduced every year after China's entry to the WTO. In the case of imports from European Union, such import tariffs are expected to be reduced over a number of years to 25%. It is also expected that import tariffs on auto parts and components will be gradually reduced to 10% over 5 years.

DEMAND FOR IMPORTED MOTOR VEHICLES IN THE PRC

A country's demand for motor vehicles correlates with the performance of its economy. From 1990 to 2000, the GDP of the PRC has grown from approximately RMB1,770 billion to approximately RMB8,940 billion, representing a compounded annual growth rate of approximately 18%. The annual individual disposable income of urban household in the PRC also recorded a growth rate of approximately 30% from 1996 to 2000 reaching RMB6,280 in 2000. The enhanced purchasing power of profitable private enterprises and individuals has stimulated demand for both locally manufactured and imported motor vehicles in the PRC. The number of sedans imported into the PRC in the first half of 2001 amounted to 30,465 units, representing an increase of approximately 138% comparing to that in the first half of 2000. Total sales of imported motor vehicles in the first half of 2001 amounted to US\$2.1 billion, representing an increase of approximately 32.8% over the same period of last year. Among all the imported sedans, German and Japanese motor vehicles accounted for approximately 76% of the total value of the import sales.

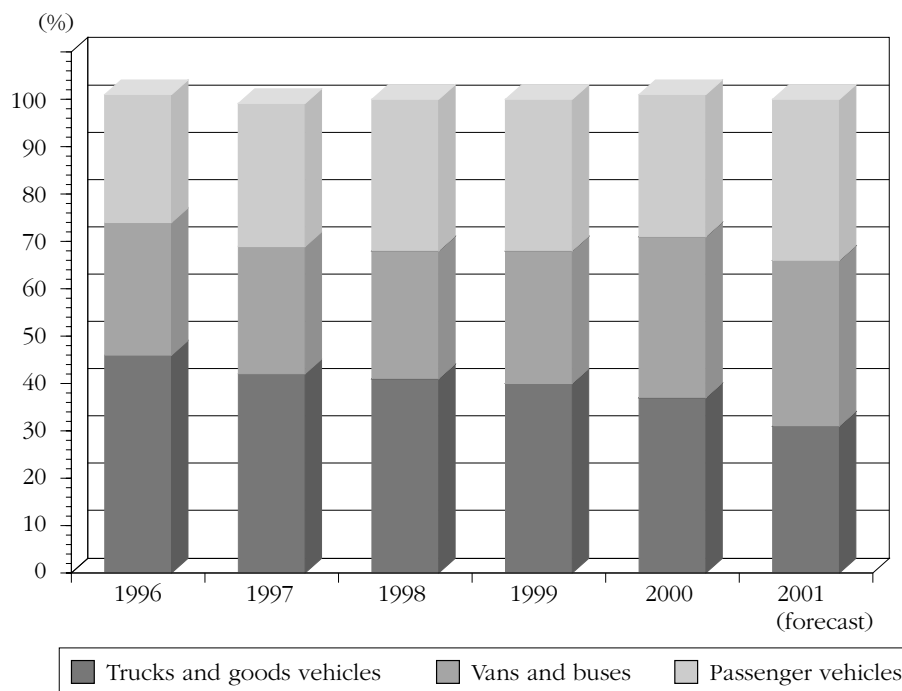
INDUSTRY OVERVIEW

The current market for imported passenger vehicles in the PRC is dominated by the Japanese and European manufacturers. It is expected that such foreign manufacturers may benefit from recent moves by the PRC's environmental protection agency to strengthen emission standards for passenger vehicles and that foreign manufactured passenger vehicles which already comply with such standards may enjoy some advantage over domestically manufactured vehicles. It is also expected that the gradual reduction in import tariffs on foreign manufactured passenger vehicles after the PRC's accession to the WTO will further improve the competitiveness of such vehicles, insofar as price is concerned.

DEMAND FOR PASSENGER VEHICLES IN THE PRC

The official statistics for the PRC motor vehicle market showed that passenger vehicles have been the fastest growing segment of the market in recent years. Sales of passenger vehicles have increased since 1996, while sales for the other categories have slackened. The growth in the demand for passenger vehicles is principally attributable to the growing demand of the private enterprises and from the growing middle class in the PRC.

Exhibit 1 – Sales of Motor Vehicles by Category in the PRC

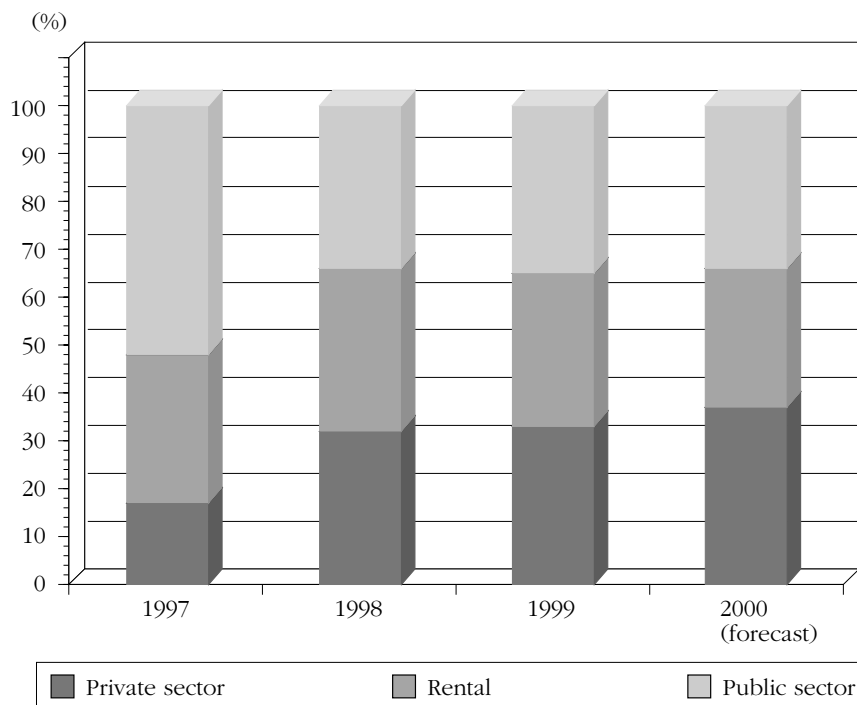


Source: *Forecast of Chinese Automobile Market 2001* by 國家信息中心 (State Information Centre) and 國家計委產業發展司 (State Development Planning Commission)

INDUSTRY OVERVIEW

According to Forecast of Chinese Automobile Market 2001 by State Information Centre and State Development Planning Commission, private sector passenger vehicle buyers increased from approximately 16.9% in 1997 to 37.3% in 2000 (forecast) of the total passenger vehicle market in the PRC. Passenger vehicle buyers from the private sector have become increasingly selective on product quality and comfort, while the preference of public sector is principally affected by government policy which give direction on the different class of passenger vehicles to be used by officials of different rankings.

Exhibit 2 – Demand for Passenger Vehicles by Sector in the PRC



Source: *Forecast of Chinese Automobile Market 2001* by 國家信息中心 (State Information Centre) and 國家計委產業發展司 (State Development Planning Commission)

According to BMW AG, its sales in the PRC in 2000 recorded an increase of more than 100% comparing to that in 1999 and BMW was the top-selling luxury brand with a market share of approximately 24% of the luxury motor vehicle segment in the PRC.

According to the China Automobiles Market Forecast 2001 by 國家信息中心 (State Information Centre) and 國家計委產業發展司 (State Development Planning Commission), the number of luxury and mid-market passenger vehicles sold in the PRC:

Year	Number of cars Sold	% change
1997	278,660	
1998	270,803	-2.8%
1999	290,369	7.2%

INDUSTRY OVERVIEW

REGULATORY FRAMEWORK

Importation of motor vehicles and auto parts and accessories into the PRC

Under the relevant PRC laws and regulations, importing of passenger vehicles and auto parts and accessories should be carried out by foreign trade corporation authorised by MOFTEC, and distribution of both domestic and imported motor vehicles should be carried out by licensed resellers authorised by the State Planning and Development Commission of the PRC and the State Administration of Industry and Commerce of the PRC. These licensed vehicles resellers in the PRC usually engage a foreign trade corporation in the PRC for importing the passenger vehicles and auto parts and accessories into the PRC. After the motor vehicles and auto parts and accessories are imported, resellers will be able to distribute the motor vehicles to the end customers in the PRC. As no member of the Group in the PRC is a licensed motor vehicles reseller or a foreign trade corporation, the Group can only be a supplier of these licensed motor vehicles resellers in the PRC. Resellers in Hong Kong will also need to engage a foreign trade corporation to first import the motor vehicles and auto parts and accessories into the PRC before distributing the same to the end customers in the PRC. However, foreign invested enterprises which are incorporated in the free trade zones in the PRC are allowed to import and trade motor vehicles and auto parts and accessories directly to end customers within the free trade zones. CNA Anhua (Tianjin), a 70% owned joint venture of the Company, was incorporated in Tianjin Free Trade Zone in April 1999. As such, the Group is allowed to import and distribute motor vehicles and auto parts and accessories directly to end customers in Tianjin Free Trade Zone under the PRC laws and regulations.

Neither foreign investment enterprises nor foreign companies is allowed under the current foreign investment policy of the PRC to engage in trading of motor vehicles. However, according to the Protocol on the Accession of the PRC, trading restrictions in the PRC will be relaxed after China's entry to the WTO. It is provided under the said Protocol that foreign companies will be allowed to engage in trading of motor vehicles in the form of joint ventures in five economic zones namely, Shenzhen, Zhuhai, Shangtou, Xiamen and Hainan and six cities namely, Beijing, Shanghai, Tianjin, Guangzhou, Dailian and Qingdao following China's entry to the WTO and that restrictions will be further relaxed within five years thereafter. Since no relevant laws or regulations in this aspect have been promulgated, there is no assurance that restrictions on trading of motor vehicles in the PRC will be relaxed favourably to the Group in the future.

INDUSTRY OVERVIEW

IMPORT TAX AND QUOTA ON IMPORTED PASSENGER VEHICLES IN THE PRC

Import barriers like tariffs, import quotas and import licenses provide a degree of protection to the PRC domestic motor vehicle industry. The import tax applied to the Group for motor vehicles in the PRC is a graduated scale for based on the tank volume of the motor vehicles. Currently the graduated scale is as follows:

Engine volume (cc)	Tax Rate %
Below 1,500 cc	43.8
Between 1,500 cc to 3,000 cc	43.8
3,000 cc above	50.7

On 1st October, 1997, the PRC Government reduced import tariffs to an average of 17%. In particular, tariffs on imported passenger vehicles were further reduced to between 43.8% to 50.7% with effective from 1st January, 2002. Any further reduction in import tariff would enhance the price competitiveness of imported motor vehicles.

Under the existing system, only PRC trading companies, industrial and trading corporations, international economic and technological co-operation companies and enterprises with foreign investments and car manufacturers can apply for import quotas and import licenses.

PROVISION OF TECHNICAL SERVICES IN THE PRC

In the PRC, as at 1st January, 2002 the provision of technical services by foreign companies to PRC companies is subject to the Regulations on the Administration of Technology Import Export of the PRC(中華人民共和國技術引進出口管理條例), which were approved by the State Council on 31st October, 2001. These new regulations supersede the Regulations on the Administration of Technology Import Contracts of the PRC(中華人民共和國技術引進合同管理條例), which were promulgated by the State Council on 24th May, 1985, and its implementing rules, which were approved by the State Council on 30th December, 1987 and promulgated by MOFTEC on 20th January, 1988. Under the new regulations, except for prohibited and restricted technology, contracts for the provision of technical services under the category of free technology are no longer subject to the approval of MOFTEC or its local authorised delegate and will become effective immediately upon signing of the contracts rather than upon receipt of MOFTEC approval. The agreement entered into in January 2000 between North Anhua and GAPL for the provision of technical services was approved by MOFTEC in September 2000 under the superseded regulations.

INDUSTRY OVERVIEW

MOTOR VEHICLE FINANCING

In 1998, the People's Bank of China granted an approval to The Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank to offer motor vehicle financing services. In 1999, China Construction Bank extended its motor vehicle financing services to about 400 of its branches and the branch list keeps on growing. In the same year, the People's Bank of China granted approvals to other commercial banks in the PRC for offering motor vehicle financing services.

General Motors Acceptance Corp. and Ford Motor Company have also expressed interests in offering motor vehicle financing to the motor vehicles buyers in the PRC, pending approvals by the relevant PRC government authorities. As foreign banks will be permitted to conduct businesses with local companies in the PRC within five years after the PRC's accession into the WTO, the Directors believe that such permission will allow corporate buyers of motor vehicles to have more financial flexibility in motor vehicle purchases. The Directors are of the view that the availability of motor vehicle financing will facilitate sales of motor vehicles along with the greater acceptance of consumer spending with consumer financing in the PRC.

WTO

It is anticipated that the PRC's accession to the WTO may open up more opportunities for foreign companies with respect to the importation and sale of goods and the provision of services in the PRC.

It is expected that as a result of the PRC's entry into the WTO, import tariffs on passenger vehicles will be reduced gradually. Import tariffs are expected to be reduced over the next 6 years to 25%. It is also expected that import tariffs on auto parts and components imported from the European Union will be reduced gradually in general.

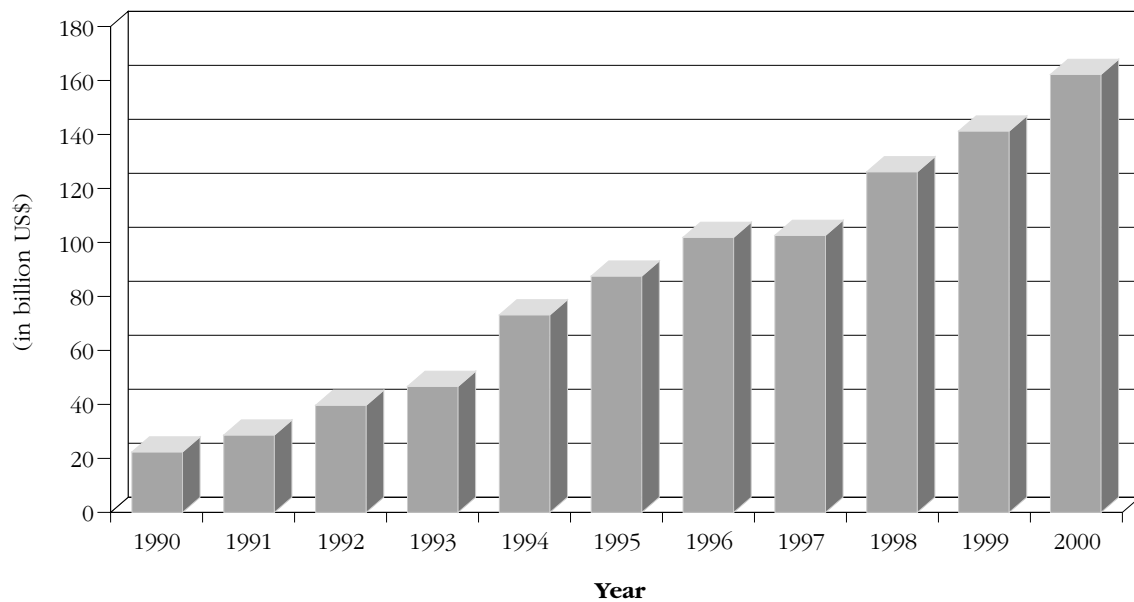
The Directors believe that the Group is well-equipped to meet the growing demand in the passenger vehicle market in the PRC as more private corporations and individuals in the PRC are becoming able to afford high quality imported vehicles, such as those supplied by the Group, as a result of the rapid economic growth in the PRC. In view of the close relationship maintained by the Group with its suppliers, the strong distribution network provided by its business partners, including North Anhua, and the potential relaxation of foreign trade restrictions and reduction in import tariffs in the PRC subsequent to its accession to the WTO, the Directors are of the view that the PRC's accession to the WTO will be beneficial to the Group's operations. Demand for imported vehicles will increase as the prices of the imported vehicles become more competitive with those of the locally manufactured cars.

INDUSTRY OVERVIEW

CAR RENTAL BUSINESS IN THE PRC

The Directors believe that prosperous tourism industry, intense business activities, modernised spider web like highway network and high living standard in the aforementioned regions contributed to their car rental industry prosperity. By the same token, the Directors believe that the growth and the development of the PRC car rental industry will be correlated to the growth of PRC tourism industry, business activities, the development of the PRC highway network and the Chinese living standard in the future.

Foreign visitors spending in China

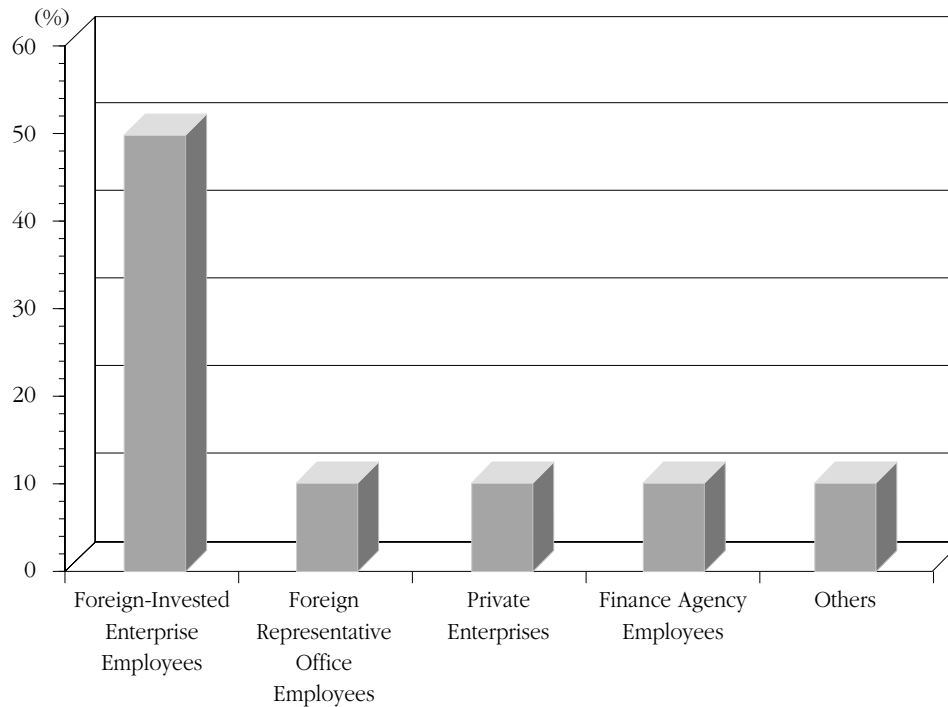


Source: China Statistical Yearbook 2001

Over the last decade, the number of people who visited China for leisure and business has increased drastically. The number of foreign visitor increased from 27 million in 1990 to 83 million in 2000. In terms of spending, in year 2000, foreign visitors spent US\$16.2 billion in China, representing a 636% increase over the past 10 years. It is anticipated that more and more tourists will be visiting and spending in China. The Directors believe that the booming of the tourism industry in the PRC will have a positive impact on the car rental industry in the PRC. Besides that, the Directors believe that the China's joining of the WTO will generate tremendous business opportunities in China. Instead of locking up their fund into a long-term purchase of a vehicle, most of the enterprises may decide to rent or lease vehicle when required, hence, car rental will become their primary means of inter-city business travel. Business operations and meetings, regardless of whether they are local, inter-provincial or international require vehicle rental service support. This is especially true in the case of group travel, where a comprehensive vehicle rental service for all grades of vehicle is required.

INDUSTRY OVERVIEW

The breakdown of vehicle rental users in the PRC



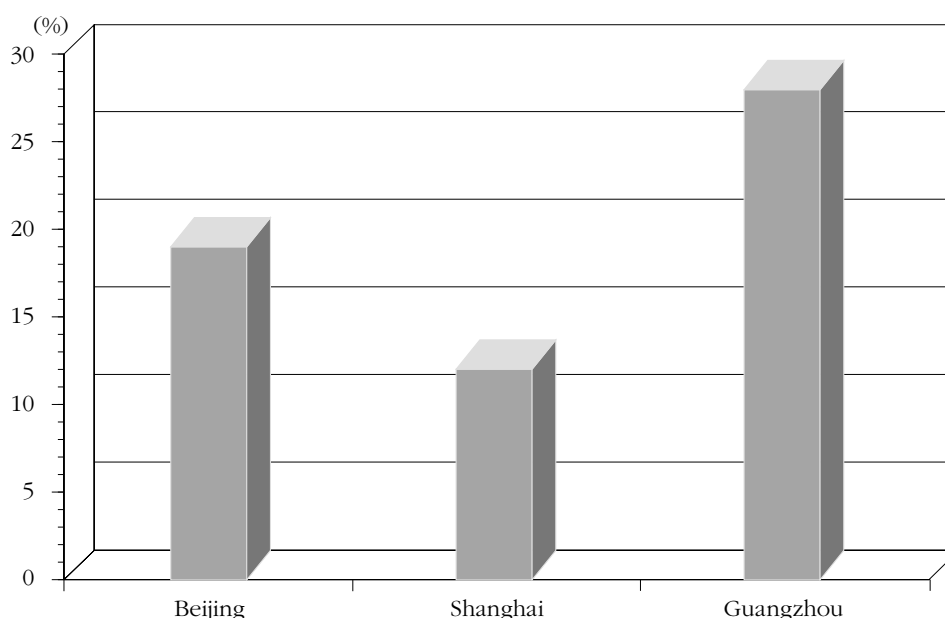
Source: Hertz Asia Pacific

A modernized and well-developed highway network plays a key role in car rental industry. The PRC Government together with private investors have been pouring funds into road construction, improving the road condition and highway infrastructure between major cities in the PRC. According to the Road Department of China Ministry of Communications, during the first half of 2001, China has already spent RMB91.4 billion in highway construction projects, representing a RMB14.8 billion or an approximately 19% increase over the same period last year. In which, RMB43.1 billion, RMB26.1 billion and RMB22.2 billion were spent in the eastern region, the central region and the western region respectively. China targeted that the national road network will connect to 99.5% of rural towns and 93% of administrative villages by 2005, covering a total of 1.6 million kilometers in highways and more than 25,000 kilometers of expressways. The Directors believe that extensive construction of road infrastructure and highway coverage create incentives to road travellers to rent motor vehicles for both leisure and business travel uses.

INDUSTRY OVERVIEW

In recent years, the living standard in the PRC has improved enormously. The annual individual disposal income of urban household in the PRC recorded a growth rate of approximately 30% from 1996 to 2000. People, in particular those receiving higher income but do not own vehicles will consider the option of renting cars for personal use. Taking Beijing as an example, there are more than 2 millions of licensed drivers, but only 1.2 million locally registered vehicles are running in Beijing city. It will be an attractive and flexible option for those 800,000 registered drivers who do not own vehicles to travel in rental cars, the same analogy will apply to other major cities in China such as Shanghai, Guangzhou and Xiamen etc. Also with the improvement in the living standard, more and more consumers are willing to pay a higher price for renting medium and premium cars for wedding and ceremonies. Thus, the Directors foresee an increasing demand of car rental for personal use as a result of the improvement of the living standard in the PRC.

% of residents holding drivers license in selected major cities in the PRC



Source: Hertz Asia Pacific

Based on incomplete statistics, there are presently more than 400 motor vehicle rental companies throughout China with a combined rental fleet of more than 40,000 vehicles, however, most motor vehicle rental companies are relatively small in size and only operate locally without a national presence or regional rental network. Only a few of the motor vehicle rental companies are of significant size. Most of them are joint ventures of state-owned enterprises or subsidiaries of vehicle manufactures and are only medium or small in size, and operate regionally. Their fleets are also limited in terms of selection of models and mostly comprise of older vehicles. The Group believes that the national car rental system and the reputation acquired from Hertz will be a cutting edge in the current PRC car rental market. The Directors believe that the Group will become one of the dominant and established players in the PRC car rental market.

INDUSTRY OVERVIEW

REGULATORY FRAMEWORK

Car rental operation in the PRC

Pursuant to 外商投資租賃公司審批管理暫行辦法 (Provisional Measures on Administration of Examination of and Approval for Foreign Investment Rental Company) promulgated by MOFTEC in August 2001, a foreign company which meets the following conditions may apply to set up a sino-foreign joint venture company for engaging in car rental business in the PRC, as of 1st September, 2001:

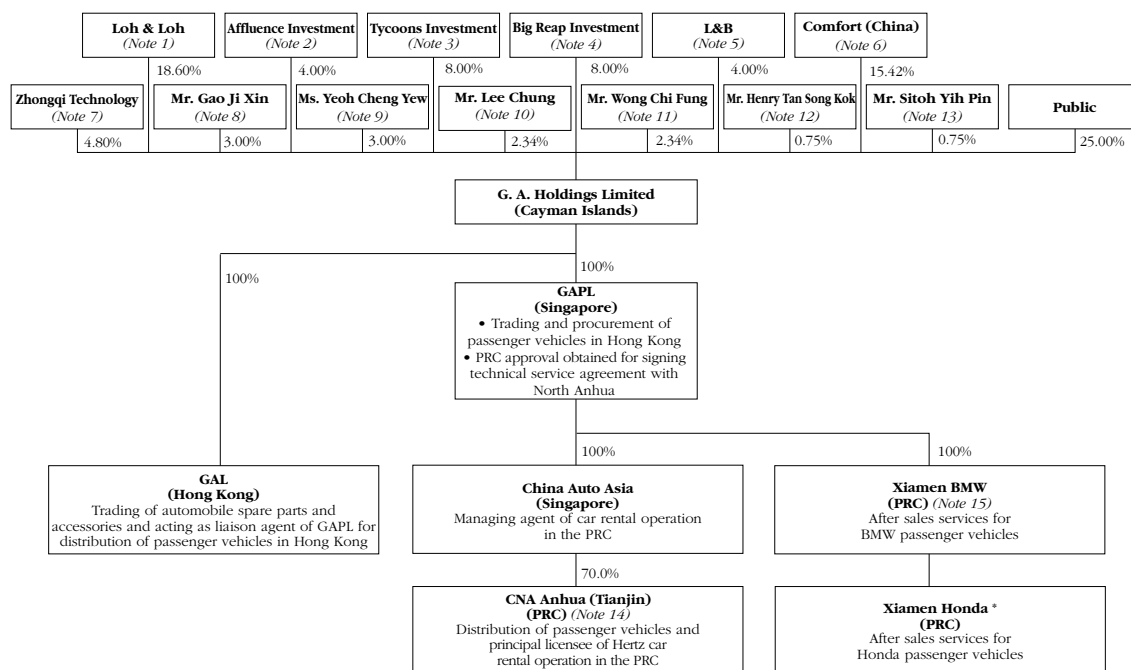
- the foreign company possesses a total assets of not less than US\$50 million during the year prior to application for setting up such a joint venture company;
- the foreign company has not less than 3 years of experience in car rental operations;
- the Chinese partner possesses a total assets of not less than RMB100 million during the year prior to application for setting up such a joint venture company;
- such joint venture company is set up for an operation period of not more than 20 years with a registered capital of not less than US\$5 million, of which the Chinese partner's share of equity interest is not less than 20%; and
- the management team of such joint venture company comprises personnel who have not less than 3 years of experience in car rental operations.

Car rental business in the PRC is mainly governed by 汽租租賃業管理暫行規定 (Interim Regulations for Administration of Car Rental Business), which was jointly promulgated by the Ministry of Communication and the State Planning Commission on 26th February 1998. Under this regulation, a company must meet certain prescribed economic and technology requirements and obtain both a License for Operating Road Transportation (道路運輸經營許可證) and a Certificate for Road Transportation (道路運輸證) from the relevant administrative authority in order to engage in car rental business in the PRC.

GENERAL OVERVIEW OF THE GROUP

GROUP STRUCTURE

The following chart shows the structure of the Group immediately following completion of the Placing:



* Xiamen Honda was set up as a branch operation of Xiamen BMW.

Notes:

1. The entire issued share capital of Loh & Loh is legally and beneficially owned as to 49% by Mr. Anthony Chan, 15% by Mr. Loh Kim Her, 15% by Mr. Loh Nee Peng and the remaining 21% by Mr. Loh Boon Cha. Mr. Loh Boon Cha (brother of Loh Kim Her) is not in the management of the Company.
2. The entire issued share capital of Affluence Investment is legally and beneficially owned as to 100% by Mr. Loh Kim Her. Together with the respective interests of the Loh Family in L&B, Mr. Loh Nee Peng in Loh and Loh and in Big Reap Investment and Mr. Loh Boon Cha in Loh & Loh, Mr. Loh Kim Her is deemed to be interested in approximately 25.49% of the entire issued share capital of the Company immediately after the Placing. Mr. Loh Kim Her is the uncle of Mr. Loh Nee Peng. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng.
3. The entire issued share capital of Tycoons Investment is legally and beneficially owned as to 100% by Mr. Anthony Chan. Together with his interest in Loh & Loh, Mr. Anthony Chan is interested in approximately 17.12% of the entire issued share capital of the Company immediately after the Placing.

GENERAL OVERVIEW OF THE GROUP

4. The entire issued share capital of Big Reap Investment is legally and beneficially owned as to 100% by Mr. Loh Nee Peng. Together with the respective interests of Mr. Loh Nee Peng, Mr. Loh Kim Her in Loh & Loh, L&B and Affluence Investment, Mr. Loh Boon Cha in Loh & Loh and the Loh Family in L&B, Mr. Loh Nee Peng is deemed to be interested in approximately 25.49% of the entire issued share capital of the Company immediately after the Placing. Mr. Loh Nee Peng is the nephew of Mr. Loh Kim Her. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng.
5. The entire issued share capital in L&B is legally and beneficially owned as to 18.94% by Mr. Loh Kim Her and the remaining 81.06% by the Loh Family.
6. Comfort (China) is a wholly-owned subsidiary of Comfort Group, a company listed on the main board of the Singapore Exchange Securities Trading Limited. As far as the directors of Comfort Group are aware, no shareholder of Comfort Group holding 5.00% or more interest in Comfort Group is connected with the directors, chief executives, substantial shareholders or management shareholders of any member of the Group.
7. The entire issued share capital in Zhongqi Technology is legally and beneficially owned as to 50% by Mr. Tan Cheng Kim, the general manager of motor vehicle distribution division of the Company, and 50% by Mr. Lim Tee Peng, the general manager of auto parts and accessories division of the Company. Accordingly, each of Mr. Tan Cheng Kim and Mr. Lim Tee Peng is deemed to be interested in approximately 2.4% of the entire issued share capital of the Company immediately after the Placing.
8. Mr. Gao Ji Xin is an independent third party to the Group.
9. Ms. Yeoh Cheng Yew is an independent third party to the Group.
10. Mr. Lee Chung is an independent third party to the Group.
11. Mr. Wong Chi Fung is an independent third party to the Group.
12. Mr. Henry Tan Song Kok is an independent third party to the Group.
13. Mr. Sitoh Yih Pin is an independent third party to the Group.
14. CNA Anhua (Tianjin) is a sino-foreign equity joint venture approved by MOFTEC to be incorporated in the PRC and is owned as to 70% by the Group and 30% by North Anhua. The registered capital of CNA Anhua (Tianjin) is US\$1,000,000 of which US\$700,000 and US\$300,000 were fully paid up by the Group and North Anhua, respectively. Its dividends are distributable in accordance with the proportions of the shareholders' capital contributions.
15. Xiamen BMW is a sino-foreign co-operative joint venture approved by MOFTEC to be incorporated in the PRC. The registered capital of Xiamen BMW is US\$3,000,000 which was fully paid up by the Group. Xiamen Economic Special Zone Transportation Corporation, the Chinese joint venture partner who is an independent third party, contributed land and building to Xiamen BMW.

GENERAL OVERVIEW OF THE GROUP

HISTORY AND DEVELOPMENT

The Group was established by Mr. Anthony Chan and Mr. Loh Nee Peng in August 1993 via the incorporation of GAPL when they foresaw the tremendous market potential of importing luxury and mid-market passenger vehicles into the PRC. GAPL was appointed by BMW AG as an authorised distributor of BMW passenger vehicles, auto parts and accessories in Fujian Province, the PRC as the procurement centre for the Group.

In January 1994, GAPL was appointed by BMW AG as a non-exclusive distributor of BMW passenger vehicles, auto parts and accessories in Fujian Province. In the same year, the Group opened its first authorised BMW service centre in the Xiamen Special Economic Zone, Fujian Province by establishing Xiamen BMW. It provides maintenance and repair services for BMW passenger vehicles in the PRC. In order to rapidly establish a foothold in the PRC in respect of its distribution of motor vehicles, the Group entered into alliance arrangements with North Anhua, a motor vehicle distributor in the PRC, in January 1994, to enhance its motor vehicle distribution network in the PRC. North Anhua distributes motor vehicles on behalf of the Group. Since then, the Group continues to explore its potential sales and distribution network in the PRC through its own efforts and cooperations with its business partner, North Anhua.

In November 1995, the Group was appointed by Honda Motor (China) Co., Ltd as one of the importers of Honda passenger vehicles in the PRC.

In February 1996, Xiamen BMW set up its branch, Xiamen Honda, as the service centre for the Honda passenger vehicles. The service centre was specifically designed and built for repairing Honda passenger vehicles.

In September 1997, the Group was granted by Land Rover Exports Limited a non-exclusive distribution rights of Land Rover passenger vehicles and auto parts in Fujian Province for an indefinite period until termination by either party giving a 12-month written notice.

In October 1997, GAL was incorporated in Hong Kong. GAL serves as a logistic centre to the Group for the motor vehicles and auto parts and accessories inventory imported to the Group for distribution in the PRC market. Moreover, GAL conducts auto parts & accessories trading business. The Group also obtained the exclusive distribution right of auto parts in Fujian Province from AC Schnitzer for an indefinite period until termination by either party giving a 3-month notice.

In December 1998, the Group commenced sourcing and distributing of Toyota and Mercedes-Benz passenger vehicles. The Toyota and Mercedes-Benz passenger vehicles are sourced from the resellers in Hong Kong and will be further distributed in the PRC through resellers in Hong Kong and in the PRC. The sourcing arrangements are made on a case-by-case basis and no formal agreement has been signed between the Group and the suppliers of the Toyota and Mercedes-Benz passenger vehicles.

GENERAL OVERVIEW OF THE GROUP

In 1999, a strategic decision was made by the Group to diversify into car rental business. In that year, CNA Anhua (Tianjin) was formed by the Group to lay ground work for the involvement in car rental business in the PRC. On 21st December, 1999, CNA Anhua (Tianjin) entered into three non-exclusive license agreements with Hertz as its principal licensee to use or to sub-license its rights to use the Hertz System for the operation of car rental service in Guangdong Province, Beijing Municipality, Shanghai Municipality, Tianjin Municipality and the Xiamen Special Economic Zone in the PRC. As CNA Anhua (Tianjin) is not a licensed car rental operator in the PRC and is therefore not allowed to operate car rental business in the PRC, it designated its rights to use the Hertz System to CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou) to operate car rental business in the PRC.

The Group signed a project development co-operation agreement in March 2000 with CNA Anhua (Hertz), a wholly-owned subsidiary of North Anhua and of which Mr. Loh Nee Peng is a director. Since the Group maintains close business relationship with North Anhua in respect of car distribution business, CNA Anhua (Hertz) was opted for the partner in the project development. The PRC legal adviser opined that such agreement does not require approval from the government. Approximately HK\$34 million which was negotiated based on commercial terms with reference to the market price of the sites and taken into account the prepayment made by the Company to finance the construction cost of the sites was provided by the Group to CNA Anhua (Hertz) for prepayment of rental expense for being the sole occupant of motor vehicle showrooms, service centres and other related facilities which are under construction by CNA Anhua (Hertz) in Guangdong Province, Fujian Province and Beijing Municipality. The service centre in Fujian Province will be used as the replacement of the current service centre in the Xiamen Special Economic Zone to prepare for business expansion of the Group and the Directors intend to employ approximately 20 staff in each of the service centre. The service centres in Beijing Municipality and Guangdong Province will be used to provide service to its sub-licensees, in return of a share of the respective annual profits of the said sub-licensees according to the agreements between, inter alia, the Group and each of its sub-licensees in November 2000. Under the said project development co-operation CNA Anhua (Hertz) will use the prepayment to subsidise and finance the construction cost and will provide land and buildings for the Group to use for 50 years rent free.

The Directors explained that it is the Group's intention to enter into such long-term arrangements in connection with the abovementioned sites to demonstrate its long-term commitment in running its car distribution and car rental businesses in the PRC. The decision for entering into the co-operation agreement with CNA Anhua (Hertz) structured for 50 years was not a result of that the Directors believe the future market growth will last for a definite 50 years term, but rather a business decision determined by the Group at that time. As the land use right to be granted by the PRC government for each of the abovementioned site generally has a maximum period of 50 years, the co-operation agreement was structured that the Group has the use of the lands and properties being developed for 50 years. The current 50-year arrangement stipulated in the co-operation agreement effectively grants to the Company an exclusive right to use the service centres for the entire possible land use right periods. Thus, it can be viewed as if the Company had acquired the service centres. The Directors

GENERAL OVERVIEW OF THE GROUP

believe that this is the most expeditious and cost effective way to acquire land and property without the hassle of complicated and time consuming procedures to deal with numerous relevant PRC authorities in order to apply for, and be granted, the land use right certificates and title certificates for the buildings. Therefore, the Company entered into the co-operation agreement with CNA Anhua (Hertz) as structured.

Pursuant to the said agreement, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million to the Group if appropriate title certificates in the name of CNA Anhua (Hertz) for such land and buildings cannot be obtained by June 2003. Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in full for the loss incurred or suffered by it in the event that CNA Anhua (Hertz) fails to obtain the appropriate title certificate in accordance with the terms of the said agreement and such indemnity is secured by the Shares to be placed with as escrow agent by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh, and Sale Share proceeds to be placed with as escrow agent by Loh & Loh (please refer to paragraph headed "Relationship with North Anhua" of the "Business of the Group" section of this prospectus for further details). The development of the service centre in Beijing Municipality was completed in December 2001 whereas the service centres in Guangdong Province and Fujian Province are expected to be completed in the first half of 2003.

On 22nd August, 2000, Comfort (China), a subsidiary of Comfort Group, and a company principally engaged in land transportation business whose shares are listed on the main board of the Singapore Exchange Securities Trading Limited, entered into agreements with GAPL for the acquisition of 1,062,589 shares and the subscription of 455,396 shares of GAPL. The aggregate 1,517,985 shares represented approximately 19.27% interest in GAPL. Among the 1,062,589 sale shares in GAPL, 796,942 shares and 265,647 shares were respectively transferred from Mr. Anthony Chan and Mr. Loh Kim Her. The total consideration for the acquired shares was SGD4,736,842.20. Comfort (China) will be interested in approximately 15.42% of the issued share capital of the Company immediately after the Placing. The Directors believe that with the strong financial background of Comfort Group, the Group will be financially supported in the future.

In August 2001, CNA Anhua (Tianjin) entered into three revised non-exclusive license agreements with Hertz (which superseded the three non-exclusive license agreements made by the same parties in December 1999) and has designated CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou), which are subsidiaries of North Anhua, to enter into three sub-license agreements with Hertz each for a term of 5 years commencing from 1st August, 2001 to commence car rental business in the Beijing Municipality, Shanghai Municipality and Guangzhou Municipality respectively. In addition, the Group also entered into 5-year management agreements with the above three sub-licensees for provision of management consulting and technical expertise services in relation to car rental operations with the assistance of management consultation from Hertz. The sub-licensees are required to pay the Group an one-time initial fee plus a share of their respective annual profit based on the audited net profit derived from these sub-licensees.

GENERAL OVERVIEW OF THE GROUP

In August 2001, foreseeing the long-term future growth and prospect of passenger vehicles market in the PRC, the Group intended to expeditiously set up additional service centres to capture the strong market growth and signed another project development co-operation agreement with Jin Tian Cheng, an independent third party to the Group which is owned as to 10% by North Anhua. Since the Directors believe that the location of the site provided by Jin Tian Cheng which belongs to Jin Tian Cheng and the terms and conditions are favorable to the Group, and in view of the close business relationship with North Anhua in respect of car distribution business, Jin Tian Cheng was opted for the partner in the project development. The PRC legal adviser opined that such agreement does not require approval from the government. Approximately HK\$17 million which was negotiated based on commercial terms with reference to the market price of the site and taken into account the prepayment made by the Company to finance the construction of the site, was provided by the Group to Jin Tian Cheng for the development of the motor vehicles maintenance and service centre in Fuzhou of Fujian Province. The Directors intend to employ approximately 20 staffs in the service centre and the service centre is expected to be completed in the first half of 2003.

In December 2001, the Group, Jin Tian Cheng and North Anhua entered into a project development co-operation agreement, in supplement to the agreement entered into between the Group and Jin Tian Cheng in August 2001. Pursuant to the said project development co-operation agreement, Jin Tian Cheng will provide the land and be responsible for the construction of the maintenance and service centre thereon while the Group will be entitled to use the land and building for 20 years. Jin Tian Cheng agreed to repay the Group approximately HK\$11 million by October 2002, out of which, approximately HK\$3.3 million has been received as at the Latest Practicable Date. It was also agreed by both parties that the total rent for the service centre in Fuzhou for a period of 20 years would be RMB9,050,000. The RMB6,650,000 which is equivalent to approximately HK\$6 million as up front amount provided by the Group will be used to subsidise and finance the construction and will be treated as the rental prepayment of the Group for the 20 years use of the said maintenance and service centre. The remaining amount will be settled by monthly rent of RMB10,000 for a period of 20 years. The Directors believed that the total cost of the project was a favorable consideration to the Group after comparing it with the market rental rate. In addition, the Directors believe that rather than prepaying up front the RMB9,050,000 in full to Jin Tian Cheng, the Group is able to negotiate and defer some of the rental payment, which will be beneficial to its current cashflow position.

Jin Tian Cheng is in the process of obtaining appropriate title certificate for such land, and pursuant to the said project development co-operation agreement, Jin Tian Cheng is obliged to return the said HK\$6 million prepaid rental expense to the Group if it fails to perform the said project development co-operation agreement or complete the construction of the project contemplated thereunder by December 2002. North Anhua has agreed to guarantee the performance and discharge by Jin Tian Cheng of its obligations under the said project development co-operation agreement. Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in the event that Jin Tian Cheng fails to repay the Group and such indemnity is secured by the Shares to be placed with an escrow agent by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh, and the Sale Share proceeds to be placed with an escrow agent by Loh & Loh (please refer to paragraph headed "Relationship with North Anhua" of the "Business of the Group" section of this prospectus for further details).

GENERAL OVERVIEW OF THE GROUP

In view of the expected growth of the motor vehicles market in the PRC as well as fulfilling its relevant obligations with its business partners, the Group intends to set up service centres in Beijing Municipality, Guangdong Province, Fujian Province and Fuzhou Municipality expeditiously so as to capture the market potential as soon as possible. As such, the Group entered into the project development co-operation agreements as mentioned above with CNA Anhua (Hertz) and Jin Tian Cheng respectively. During such time, since both CNA Anhua (Hertz) and Jin Tian Cheng needed extra financing to construct the facilities and the Directors considered that the obtaining of land titles after the commencement of construction was only a procedural process, the aggregate amount of approximately HK\$40 million was paid in advance to subsidies and finance the construction cost of the projects, including interior design, acquiring materials, labour costs, etc.

In January 2002, car rental businesses run by the sub-licensees of the Group were officially launched and operated in 9 rental locations in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality. The Group provides management consulting and technical service in relation to the car rental businesses operated by such sub-licensees. Also, the Beijing service centre development project that the Group invested in March 2000 was completed in December 2001.

In April 2002, the Directors have been updated the construction progress of the said two development projects according to the progress reports from both CNA Anhua (Hertz) and Jin Tian Cheng, the Group entered into supplemental agreements with CNA Anhua (Hertz), Jin Tian Cheng and North Anhua respectively to amend the development co-operation agreements. Pursuant to such supplemental agreements, the respective deadline for CNA Anhua (Hertz) and Jin Tian Cheng to complete the said two projects and to obtain appropriate title certificates in accordance with the terms of the said agreements will be amended from June 2002 and December 2002 respectively to June 2003. Should CNA Anhua (Hertz) fail to obtain appropriate title certificates by June 2003, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million by 3 equal installments by the end of June, September and December 2003. The Directors confirm there will be no further postponement of the projects.

GENERAL OVERVIEW OF THE GROUP

The following tables summarise the changes in the board representations and the shareholders of the Group:

Table 1 – Summary of Changes in Board Representations

Name of Directors	Period from Incorporation to Immediately after the Placing (including Track Record Period)							
	9/1993 to					Immediately prior to the	Immediately after the	Immediately after the
	8/1993	1/1999	12/1999	6/2000	9/2000	Reorganisation	Reorganisation	Placing
Mr. Anthony Chan	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Loh Kim Her	—	✓	✓	✓	✓	✓	✓	✓
Mr. Loh Nee Peng	✓	✓	✓	—	—	—	✓	✓
Mr. Goh Chee Wee	—	—	—	—	✓	✓	✓	✓

Mr. Anthony Chan and Mr. Loh Nee Peng were the co-founders and executive directors of GAPL at the time of incorporation in August 1993. Mr. Loh Nee Peng relinquished his directorship in GAPL in June 2000 with the intention to develop his auto parts business. Immediately after the intention was shelved, he has been serving the Group as a manager for the PRC development since January 2001. Since Mr. Loh Nee Peng no longer persists his intention to develop his auto parts business nowadays, he resumes his interest and directorship in the Company after the reorganisation. Mr. Loh Kim Her joined the Group also as an executive director of GAPL in November 1993. Throughout the Track Record Period, Mr. Anthony Chan and Mr. Loh Kim Her remain as executive directors of GAPL. Mr. Goh Chee Wee, the representative of the Comfort Group became a director of GAPL in September 2000. Immediately after the Reorganisation and the Placing, Mr. Anthony Chan, Mr. Loh Kim Her and Mr. Loh Nee Peng are the executive Directors of the Company and Mr. Goh Chee Wee is a non-executive director of the Company.

GENERAL OVERVIEW OF THE GROUP

Table 2 – Summary of Changes in Shareholders

Name of Shareholders	Period from Incorporation to Immediately after the Placing (including Track Record Period)						Immediately after the	Immediately after the
	8/1993	12/1993	12/1999	7/2000	9/2000	Reorganisation prior to the Reorganisation	Reorganisation	Placing
Anthony Chan	50.00%	55.00%	53.00%	53.00%	39.80%	39.80%	—	—
Tycoons Investment ¹	—	—	—	—	—	—	10.00%	8.00%
L&B ²	—	25.00%	25.00%	25.00%	23.56%	23.56%	5.00%	4.00%
Loh Kim Her	—	—	—	20.00%	15.48%	15.48%	—	—
Affluence Investment ³	—	—	—	—	—	—	5.00%	4.00%
Loh & Loh ⁴	—	—	—	—	—	—	29.51%	18.60%
Loh Nee Peng	50.00%	20.00%	20.00%	—	—	—	—	—
Big Reap Investment ⁵	—	—	—	—	—	—	10.00%	8.00%
Comfort (China) ⁶	—	—	—	—	19.28%	19.28%	19.27%	15.42%
Mr. Henry Tan Song Kok	—	—	1.00%	1.00%	0.94%	0.94%	0.94%	0.75%
Mr. Sitoh Yih Pin	—	—	1.00%	1.00%	0.94%	0.94%	0.94%	0.75%
Mr. Gao Ji Xin	—	—	—	—	—	—	3.75%	3.00%
Ms. Yeoh Cheng Yew	—	—	—	—	—	—	3.75%	3.00%
Mr. Wong Chi Fung	—	—	—	—	—	—	2.92%	2.34%
Mr. Lee Chung	—	—	—	—	—	—	2.92%	2.34%
Zhongqi Technology ⁷	—	—	—	—	—	—	6.00%	4.80%
Institutional/ Professional investors	—	—	—	—	—	—	—	25.00%

Notes:

1. The entire issued share capital of Tycoons Investment is legally and beneficially owned as to 100% by Mr. Anthony Chan.
2. The entire issued share capital of L&B is legally and beneficially owned as to 18.94% by Mr. Loh Kim Her and the remaining 81.06% by the Loh Family.

GENERAL OVERVIEW OF THE GROUP

3. The entire issued share capital of Affluence Investment is legally and beneficially owned as to 100% by Mr. Loh Kim Her.
4. The entire issued share capital of Loh & Loh is legally and beneficially owned as to 49% by Mr. Anthony Chan, 15% by Mr. Loh Kim Her, 15% by Mr. Loh Nee Peng and the remaining 21% by Mr. Loh Boon Cha (who is the brother of Mr. Loh Kim Her and the father of Mr. Loh Nee Peng). Mr. Loh Nee Peng is one of the Directors of 2 North Anhua subsidiaries in which the Group has no equity interest. He is appointed as the Director in view of his position of technical advice to the company.
5. The entire issued share capital of Big Reap Investment is legally and beneficially owned as to 100% by Mr. Loh Nee Peng.
6. Comfort (China) is a wholly-owned subsidiary of Comfort Group, a company whose shares are listed on the main board of the Singapore Exchange Securities Trading Limited.
7. The entire issued share capital of Zhongqi Technology is legally and beneficially owned as to 50% by Mr. Tan Cheng Kim, the general manager of motor vehicle distribution division of the Company, and 50% by Mr. Lim Tee Peng, the general manager of auto parts and accessories division of the Company.

As indicated in Table 1 and Table 2 above, Mr. Anthony Chan and Mr. Loh Kim Her (through his nephew (Mr. Loh Nee Peng) and his family companies (L&B and Loh & Loh)) together effectively control the Board and hold the majority shares in, and the voting power at general meetings of, the Company throughout the Track Record Period (at least 59.51%) and immediately after the Placing (as to 42.60%).

STATEMENT OF ACTIVE BUSINESS PURSUITS

ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits since the inception of the Group and during the Active Business Pursuit Period (i.e. the two years ended 31st December, 2000 and 2001 and for the period from 1st January, 2002 to the Latest Practicable Date).

For the period from the date of incorporation of GAPL to 31st December, 1999

Business development

GAPL was incorporated in Singapore in August 1993 to provide luxury and mid-market passenger vehicles to meet the increasing demand for passenger vehicles in the PRC market. Since December 1993, the Group has been appointed by BMW AG as a non-exclusive distributor of BMW passenger vehicles, parts and accessories in Fujian Province. In January 1994, the Group established its first joint venture company, Xiamen BMW, in Xiamen to provide after-sale repair and maintenance services for BMW passenger vehicles in the PRC. The Group also provides sale of auto parts and accessories for repairs and maintenance of BMW and other high-end passenger vehicles in the region.

In January 1994, the Group entered into a distribution agreement with North Anhua for a term of 16 years pursuant to which the Group will supply to North Anhua imported BMW, Honda and Land Rover passenger vehicles and provide after-sale services including testing, tuning, repair and maintenance of the vehicles through Xiamen BMW and Xiamen Honda whereas North Anhua will promote and distribute the passenger vehicles supplied by the Group through its nationwide distribution network and its appointed agents.

In November 1995, the Group was appointed by Honda Motor (China) Co., Ltd. as one of the importers for Honda passenger vehicles in the PRC. The Group's arrangement with Honda Motor (China) Co., Ltd. in respect of the import of Honda passenger vehicles into the PRC are made on a case-by-case basis, that is, no formal agreement had been entered into between each party. The Directors believe that BMW and Honda passenger vehicles could be introduced to the customers from high-income group and the middle class. In 1996, Xiamen BMW set up a branch, Xiamen Honda, in Xiamen as the service centre, to provide after-sale services including repair and maintenance for Honda passenger vehicles in the region.

In September 1997, the Group was granted by Land Rover Group a non-exclusive distribution right of Land Rover passengers vehicles and auto parts in Fujian Province for an indefinite period until termination by either party giving 12-month written notice.

In October 1997, GAL was incorporated in Hong Kong to accommodate the Group's expanding operation of trading of auto parts and accessories to Hong Kong resellers for further distribution in the PRC market.

In October 1997, the Group was appointed by AC Schnitzer as its exclusive distributor of auto parts in Fujian Province for an indefinite period until termination by either party giving 3-month notice.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Since 1998, the Group has been maintaining close business relationship with North Anhua and other Hong Kong resellers. North Anhua is a licensed motor vehicles reseller with a distribution network of 72 motor vehicle sales offices and 50 distribution agents located in major cities and coastal area of the PRC. In the same year, the Group also traded with 3 Hong Kong resellers who further distributed the Group's imported motor vehicles in the PRC market within their distribution networks.

In September 1998, GAL started to serve as the logistic centre for managing the inventory of the Group. GAL maintains warehouse in Hong Kong to store all the motor vehicles that are going to be delivered to the PRC and Hong Kong resellers.

In December 1998, the Group commenced sourcing and distributing of Toyota and Mercedes-Benz passenger vehicles. The Toyota and Mercedes-Benz passenger vehicles are sourced from the resellers in Hong Kong and will be further distributed in the PRC through resellers in Hong Kong and in the PRC. The sourcing arrangements are made on a case-by-case basis and no formal agreement has been signed between the Group and the suppliers of the Toyota and Mercedes-Benz passenger vehicles.

In December 1999, the Group obtained from Hertz, the world's largest car rental company, a non-exclusive right to use or sub-license its right to use the Hertz System to licensed car rental operators in the PRC for car rental business in the PRC. The Group had previously established CNA Anhua (Tianjin) in the PRC in April 1999 to commence all the preparation works for its car rental operation.

Sales and marketing

The Group held different kinds of marketing activities in Fujian Province to maintain close relationship with the customers.

Financial performance

For the financial year ended 31st December, 1999, the Group recorded a turnover of approximately HK\$292 million of which approximately 83.5%, 11.4% and 5.1% were attributable to (i) the distribution of motor vehicles; (ii) servicing of motor vehicles and sales of auto parts; and (iii) commission income respectively.

For the financial year ended 31st December, 2000

Business development

In January 2000, the Group entered into a technical service agreement with North Anhua for 5 years pursuant to which the Group will provide management consultancy and technical service to the locally manufactured motor vehicles sold by North Anhua.

In March 2000, the Group was accredited the ISO 9002 for maintenance, repair and service of BMW and Honda vehicles. The Group was ascertained its quality of after-sale services.

STATEMENT OF ACTIVE BUSINESS PURSUITS

In April 2000, since the Group considered that manufacturing of spare parts is not the Group's core business, the Group disposed of its 55% equity interest in 北京中汽安華汽車配件有限公司 (Beijing China National Automotive Anhua Spare Parts Ltd.), a joint venture company incorporated in December 1998 in the PRC, to Super Yield Trading Co., Ltd, an independent third party to the Group and North Anhua. The remaining 45% equity interest in the joint venture is held by CNA Anhua (Hertz), a wholly-owned subsidiary of North Anhua and of which Mr. Loh Nee Peng is a director.

In July 2000, the Group disposed of its 80% equity interest in its subsidiary, Xiamen Xiangyu Jinbow International Trading Co. Ltd., which was incorporated in December 1993 for trading of auto parts in the PRC. The disposal was triggered when GAL took up the trading of auto parts since its incorporation in 1997.

Pursuant to a share subscription agreement and a share acquisition agreement which were entered into in August 2000 between the Group and Comfort (China), a wholly-owned subsidiary of Comfort Group, became the strategic investor of the Group by taking up a minority interest of 19.28% in the issued share capital of GAPL.

Sales and marketing

The Group held different kinds of marketing activities in Fujian Province to promote the Group's products and maintain close relationship with customers. A race day was scheduled in a kart racing track to share the driving pleasure with customers.

Financial performance

For the financial year ended 31st December, 2000, the Group's turnover was approximately HK\$125 million, of which approximately 91.8% and 8.2% were attributable to (i) the distribution of motor vehicle and technical fee and (ii) servicing of motor vehicle and sales of auto parts respectively. The establishment of the Honda factory in late 1999 in Guangzhou also affected the sale of imported Honda cars in 2000. The Group only supplied the imported Honda passenger vehicles, excluding Accord models, to North Anhua. For the year ended 31st December, 2000, the Group's turnover generated from distribution of Honda passenger vehicles to North Anhua was approximately HK\$382,500. In view of the decrease in the sales of imported motor vehicles, in January 2000, the Group entered into a contract with its business partner, North Anhua, pursuant to which the Group will provide management consulting and technical service to North Anhua in return for a technical fee based on the number of locally manufactured motor vehicles sold by North Anhua. (For details please refer to "Relationship with North Anhua"). During the financial year of 2000, approximately HK\$28 million was generated from the Group's provision of such technical service and advice. Together with such technical service income, the Group had a total of HK\$4.8 million net profit for the financial year of 2000. Though the Group's sales of imported motor vehicles made in the beginning of the year was not satisfactory, the Group managed to improve its sales record of imported car in the middle of the year. Approximately HK\$87 million was generated from the sales of imported cars.

STATEMENT OF ACTIVE BUSINESS PURSUITS

For the financial year ended 31st December, 2001

Business development

In August 2001 the Group was appointed by Hertz as its principal licensee under three non-exclusive license agreements for three different types of motor vehicles. The Group further appointed 3 licensed car operators in the PRC to enter into non-exclusive license agreements with Hertz as the Group's sub-licensees to use the Hertz System to operate car rental business in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality. Such Municipalities are planned to be the origins of the Group's car rental business network. In addition, the Group also entered into 5-year management agreements with the above three sub-licensees for provision of management consulting, financial assistance and technical expertise services in relation to car rental operations with the assistance of management consultation support from Hertz. The sub-licensees are required to pay the Group an one-time initial fee plus a share of their respective annual profit based on the audited net profit derived from these sub-licensees.

In November 2001, these sub-licensees soft launched their respective car rental business in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality.

Sales and marketing

The Group arranged a fun day in Xiamen for its customers. The activities on the fun day included golf competition, exhibition and introduction of new models. The Group also provided test drive to the participants. It was the first time that test drive of BMW passenger vehicles was provided to the customers in the PRC.

Financial performance

For the financial year ended 31st December, 2001, the Group recorded a turnover of approximately HK\$254 million comprising approximately HK\$219 million generated from sales of motor vehicles, approximately HK\$15 million from provision of car service and sales auto parts and approximately HK\$20 million from provision of technical service. The gross profit margin of the Group dropped from approximately 31% to 18% which was mainly due to the decrease of technical fee income (the decrease of technical income was resulted as the drop of number of locally manufactured Honda distributed by North Anhua), while the net profit margin for the year ended 31st December, 2001 increased to 4.78% from 3.83% of the turnover for the year ended 31st December, 2000.

For the period from 1st January, 2002 to the Latest Practicable Date

Business development

In January 2002, the car rental businesses run by the sub-licensees of the Group were officially launched and operated in 9 rental locations in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality. The Group will provide management consulting and technical service in relation to the car rental business operated by the sub-licensees.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Deployment of Human Resources

The numbers of employees of the Company during the Active Business Pursuit Period are summarised as follows:

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2000	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	8	—	31
Sales and Marketing	3	1	5	1	—	10
Purchasing	3	1	4	2	—	10
Total	<u>10</u>	<u>6</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>69</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2001	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
Total	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at the Latest Practicable Date	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
Total	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>

BUSINESS OF THE GROUP

BUSINESS

The Group is principally engaged in the (i) distribution of passenger vehicles, in particular, BMW, Honda and Mercedes-Benz passenger vehicles to resellers in Hong Kong and the PRC whose sales targets are the end customers in the PRC, (ii) provision of marketing and technical assistance to North Anhua, a reseller and business alliance of the Group in the PRC, (iii) provision of after-sales service such as motor vehicles repair and maintenance services in the PRC and (iv) trading of auto parts and accessories in Hong Kong and the PRC. Headquartered in Singapore, the Group currently has presences in Hong Kong, Tianjin Municipality and the Xiamen Special Economic Zone of the PRC. For each of the two years ended 31st December, 2000 and 2001, total revenues generated by the Group are set out below:

	No. of motor vehicles		FY2000		No. of motor vehicles		FY2001
			<i>HK\$'000</i>				<i>HK\$'000</i>
Distribution of passenger vehicles	347	87,009	70%	701	218,786	86%	
Technical fee income		27,696	22%		20,413	8%	
Servicing passenger vehicles and sales of auto parts		10,270	8%		14,585	6%	
		<u>124,975</u>	<u>100%</u>		<u>253,784</u>	<u>100%</u>	

To complement the Group's motor vehicles distribution business, the Group has recently diversified into car rental business in the PRC. The Directors believe that car rental operators will enhance their service by employing imported luxury passenger vehicles supplied by the Group. The Group has entered into license agreements with Hertz as its principal licensee for using the Hertz System and has procured three sub-licensees for using the Hertz System. The PRC legal adviser of the Group has opined that the Group is entitled to operate, within the ambit of the PRC law, as a principal licensee for sub-licensing the Hertz System to local car rental business operators in the PRC. The Group also provides management consulting, financial assistance and technical expertise to these sub-licensees in the operation of their car rental business in the PRC.

1) Distribution of passenger vehicles

Product Coverage

The Group principally distributes imported BMW, Honda and other passenger vehicles, including Land Rover, Toyota and Mercedes-Benz to resellers in Hong Kong and the PRC whose sale targets are the end customers in the PRC.

BUSINESS OF THE GROUP

For each of the two years ended 31st December, 2000 and 2001, revenues generated from the Group's distribution of imported BMW, Honda, Land Rover, Toyota and Mercedes-Benz passenger vehicles are set out below:

	No. of motor vehicles	FY2000 <i>HK\$'000</i>		No. of motor vehicles	FY2001 <i>HK\$'000</i>	
BMW	103	35,565	41.0%	441	128,812	58.9%
Honda	187	24,911	28.6%	124	20,526	9.4%
Land Rover	2	389	0.4%	7	690	0.3%
Toyota	—	—	—	29	4,236	1.9%
Mercedes-Benz	55	26,144	30.0%	100	64,522	29.5%
	<u>347</u>	<u>87,009</u>	<u>100.0%</u>	<u>701</u>	<u>218,786</u>	<u>100.0%</u>

Below is a description of passenger vehicles distributed by the Group:

BMW passenger vehicles

BMW passenger vehicles can be divided into three broad categories: 3, 5 and 7 Series. The 5 and 7 Series BMW passenger vehicles are developed for passenger comfort, while the 3 Series BMW passenger vehicles which are designed for the younger generation are built with special emphasis on driving pleasure. The Group specialises in the distribution of 5 and 7 Series BMW passenger vehicles which are the most popular series of BMW passenger vehicles in the PRC. For each of the two years ended 31st December, 2000 and 2001, revenue generated from the Group's distribution of 3, 5 and 7 Series and X5 of BMW passenger vehicles are set out as follows:

	No. of motor vehicles	FY2000 <i>HK\$'000</i>		No. of motor vehicles	FY2001 <i>HK\$'000</i>	
3 Series	3	957	3%	72	13,881	11%
5 Series	47	12,726	36%	204	54,264	42%
7 Series	53	21,882	61%	135	49,491	38%
X5	—	—	—	30	11,176	9%
	<u>103</u>	<u>35,565</u>	<u>100%</u>	<u>441</u>	<u>128,812</u>	<u>100%</u>

BUSINESS OF THE GROUP

The Group secured the distributorship of BMW passenger vehicles and auto parts in Fujian Province in the PRC by entering into a yearly renewable non-exclusive BMW Importer Contract with BMW AG in December 1993. The BMW Importer Contract was renewed by BMW AG in 2002 for a term of one year from 1st January, 2002 to 31st December, 2002.

The Group has been expanding its business activities and has subsequently been distributing, i) other brands of automobiles and parts to resellers inside and outside the contract territory, Fujian Province, including Hong Kong and ii) BMW automobiles and parts to resellers who have not been authorised by BMW AG (collectively the “Activities”). **The Activities do not strictly comply with the terms and conditions of the BMW Importer Contract.** The Group has obtained the BMW Waiver Letters from the BMW Group acknowledging the Activities and waiving all the breaches in relation to the Activities under the BMW Importer Contract. Pursuant to the BMW Waiver Letters, the BMW Group confirmed with the Group that BMW AG will not impose any penalty as stipulated in the BMW Importer Contract now or in the future in respect of any breaches whether committed in the past or to be committed in the future, as the BMW Group has tolerated the Activities and will continue to tolerate the Activities in the future unless and until it notifies the Group in writing.

In addition, the Group has obtained legal opinions from its German legal adviser and its PRC legal adviser on the legal effects of the BMW Waiver Letters. According to the German and PRC legal opinions, the BMW Waiver Letters issued by the BMW Group are enforceable and legally binding on BMW AG. According to the German legal opinion dated 19th March, 2002, (i) BMW AG is aware of and has no objections to the Activities carried on and to be carried on by GAPL; (ii) BMW AG waived its contractual rights to impose any penalty stipulated in clause 1 of the BMW Importer Contract on GAPL now or in the future in respect of any breaches committed in the past or to be committed in the future; (iii) BMW AG waived its contractual right to bring any actions or make any claims against GAPL for any past and future breaches which are relevant and/or arising from the Activities; (iv) BMW AG waived its contractual right to terminate the BMW Importer Contract by reasons of the Activities; (v) the BMW AG Waiver Letters effectively authorised GAPL in carrying on the Activities unless and until otherwise notified by BMW AG in writing; and (vi) the BMW AG Waiver Letters are enforceable and legally binding on BMW AG. There are risks to the future business of the Group should BMW AG decide to notify the Group to terminate the Activities at any time in the future as it deems appropriate. Please refer to the paragraph headed “Breach of the BMW Importer Contract” under the section headed “Risk Factors” of this prospectus for further details.

BUSINESS OF THE GROUP

BMW AG has recently announced a preliminary plan to form a potential new joint venture in early 2003 with a PRC company in which each party shall have an equal interest for setting up a manufacturing plant in the PRC. It is intended that such joint venture company will initially produce 3 and 5 Series models of BMW passenger vehicles and such models will be excluded from the list of models to be supplied by BMW AG to the Group under the BMW Importer Contract once such production commences. However, BMW AG indicates to the Group that it will exercise its influence over the management of the joint venture company so that the Group will be offered a dealer license from such joint venture company and engage locally licensed resellers for distribution of locally manufactured BMW passenger vehicles. Nevertheless, Directors expect that the Group will still be able to import from Germany BMW passenger vehicles other than 3 and 5 Series models for import into the PRC after the establishment of such joint venture company. Please refer to the paragraph under “Manufacturing plant set up by BMW and other suppliers in the PRC” in the section headed “Risk Factors” of the prospectus for further details.

Honda passenger vehicles

The Group also became an importer of Honda motor vehicles for the PRC market in November 1995. The Group’s arrangement with Honda Motor Co., Ltd. is made on a case-by-case basis, that is, every order for Honda motor vehicles placed by the Group is negotiated with Honda Motor Co., Ltd. in the absence of any distribution agreement. No restriction as to the resellers and the territories to and in which Honda motor vehicles may be distributed by the Group has been imposed by Honda Motor Co., Ltd.. Honda provides different models of passenger vehicles under different sizes including Accord, Legend, Civic, Odyssey, CR-V, etc. Honda maintains a solid reputation of styling, performance, safety and value.

Land Rover passenger vehicles

In September 1997, the Group was appointed by Land Rover Group as its non-exclusive authorised distributor to distribute Land Rover passenger vehicles in Fujian Province. **The Group breaches the Land Rover distribution agreement by distributing Land Rover motor vehicles outside the contract territory of Fujian Province. However, Land Rover Group has unconditionally and irrevocably waived any past, present and future corresponding liabilities of the Group and allowed the Group to continue such distributing operations.**

The Land Rover brand name is perceived to be of high technical knowhow and luxury in the world. Accordingly, the Directors are confident that the Group will further benefit from the increasing sales of Land Rover motor vehicles in the PRC in the near future.

BUSINESS OF THE GROUP

Other passenger vehicles

Furthermore, the Group also distributes Toyota and Mercedes-Benz motor vehicles and the arrangements to distribute such motor vehicles are also made on a case-by-case basis.

Toyota is the largest car manufacturer in Japan and one of the largest in the world. Since its founding in the 1930's, Toyota's success has been built on a solid reputation for products of high quality, reliability and good resale value.

Mercedes-Benz commenced its production of motor vehicles in 1885. Mercedes-Benz provides wide range of vehicles models and is reputed for their performance, reliability and technological brilliance.

The Directors believe that one of the key factors to the rapid growth of the Group during the Track Record Period is the extensive distribution network of the passenger vehicles, in particular, BMW, Honda and Land Rover passenger vehicles in the PRC established by the Group's business partners. The Directors believe that the Group is able to enhance its business relationship with its major customers by providing quality pre-sales and after-sales services. Repeated orders from these customers are another key factor to the growth of the Group.

The Directors also believe that given the popular brand name and proven quality of BMW, Honda and Land Rover passenger vehicles auto parts, accessories and other products, the Group is well-positioned to benefit from the expected future growth in demand for luxury and mid-market vehicles in the PRC where the number of private enterprises and individual disposable income are expected to continue to increase, especially after the PRC's accession to the WTO.

Distribution Mechanism

The Group mainly distributes imported passenger vehicles to (i) resellers in Hong Kong and (ii) resellers in the PRC whose sales targets are the end customers in the PRC. The supply chain for distribution of passenger vehicles in the PRC involves multiple layers. The Group has diverse alternatives and options in structuring reseller networks for distributing passenger vehicles in the PRC. The distribution of passenger vehicles to Hong Kong resellers, whose sales targets are the end customers in the PRC, is just one of the many distribution and revenue contribution methods currently operated by the Group. The Group also imports passenger vehicles to PRC resellers, and CNA Anhua (Tianjin) also directly import and distribute passenger vehicles to end customers in Tianjin Free Trade Zone of the PRC. The Directors believe that it is to the benefit of the Group to implement all profitable and legally permissible distribution mechanism of passenger vehicles.

The sales derived from distribution of passenger vehicles to resellers in Hong Kong and the PRC accounted for approximately 70.4% and 29.6%, 61.3% and 38.5% respectively of the Group's revenue generated from motor vehicle distribution for each of the two years ended 31st December, 2000 and 2001 respectively.

BUSINESS OF THE GROUP

GAL, a Hong Kong wholly-owned subsidiary of the Company, acts as the centre for distributing passenger vehicles for the Group. The imported motor vehicles are initially delivered to GAL. GAL then distributes the same either to its resellers in the PRC or its resellers in Hong Kong for sale to resellers in the PRC for further distribution to end customers in the PRC. No custom duties are levied on imports and exports of motor vehicles in Hong Kong. In addition, since the imported motor vehicles of the Group are not for use in Hong Kong, the Group will not be subject to first registration tax under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330 of the Laws of Hong Kong). The legal adviser of the Group confirmed that the distribution of BMW passenger vehicles would not be considered as parallel import into the PRC.

For each of the two years ended 31st December, 2000 and 2001, revenues generated from motor vehicles distribution by geographic locations are set out below:

	FY2000		FY2001	
	<i>HK\$'000</i>		<i>HK\$'000</i>	
PRC resellers	25,727	29.6%	84,149	38.5%
Hong Kong resellers ⁽¹⁾	61,282	70.4%	134,148	61.3%
Others	—	—	489	0.2%
Total	<u>87,009</u>	<u>100.0%</u>	<u>218,786</u>	<u>100.0%</u>

Note ⁽¹⁾: Revenue generated in Hong Kong represents sales of passenger vehicles to Hong Kong resellers who target to further distribute the same to end customers in the PRC.

Regulatory Environment

Under the relevant PRC laws and regulations, importing of passenger vehicles and auto parts and accessories should be carried out by foreign trade corporation authorised by MOFTEC, and distribution of both domestic and imported motor vehicles should be carried out by licensed resellers authorised by the State Planning and Development Commission of the PRC and the State Administration of Industry and Commerce of the PRC. As no member of the Group in the PRC is a licensed motor vehicles reseller nor a foreign trade corporation, the Group can only be a supplier to these licensed motor vehicles resellers in the PRC. However, foreign invested enterprises which are incorporated in the free trade zones in the PRC are allowed to import and trade motor vehicles and auto parts and accessories directly to end customers within the free trade zones. CNA Anhua (Tianjin), a 70% owned joint venture of the Company, has obtained such approval from MOFTEC in April 1999 for trading motor vehicles and auto parts and accessories in Tianjin Free Trade Zone. As such, the Group is allowed to distribute motor vehicles, auto parts and accessories directly to end customers in Tianjin Free Trade Zone under the PRC laws and regulations although this is in breach of the BMW Importer Contract. For details regarding to the PRC regulatory environment in relation to the distribution of passenger vehicles, auto parts and accessories, please refer to the section headed "Industry Overview". The sales derived from direct distribution of motor vehicles, auto parts and accessories in Tianjin Free Trade Zone were approximately HK\$9,322,000 and HK\$4,801,000 for each of the two years ended 31st December, 2000 and 2001 respectively. The decrease in direct distribution was due to the decrease in demand of the Group's customers within the zone.

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Resellers

Since 1993, the Group has formed alliances with 13 Hong Kong resellers and 84 PRC resellers which includes 33 wholesalers, North Anhua and the appointed agents of North Anhua for distribution of passenger vehicles, auto parts and accessories through their respective networks in the PRC to end customers. In January 1994, the Group entered into a distribution agreement with North Anhua for a term of 16 years to distribute passenger vehicles for the Group through its distribution network and its appointed agents in the PRC. Under such agreement, North Anhua provides the Group with its distribution network and sales support, while the Group supplies North Anhua with imported BMW, Honda and Land Rover passenger vehicles and after-sale services. Other than North Anhua, the distribution arrangements between the Group and the resellers in Hong Kong and the PRC are made on a case-by-case basis and no formal distribution agreement has been signed.

Relationship with North Anhua

North Anhua, a motor vehicle reseller in the PRC, is formerly an enterprise under the People's Armed Police of the PRC(中國人民武裝警察) with net profit of approximately RMB22 million for the year ended 31st December, 2001 and a net asset value of approximately RMB200 million as at 31st December, 2001. North Anhua subsequently became a wholly-owned subsidiary of CNA in 1999. CNA is principally engaged in research and development, manufacturing, assembly and trading of motor vehicles, auto parts and accessories in the PRC.

North Anhua engages in a wide range of business operations including state-grant import and export business of motor vehicles. It possesses a distribution network for motor vehicles of 72 distribution offices and 50 distribution agents in the PRC (for details please refer to the graph on page 94), which supports the Group distribution operation. Its subsidiaries, namely CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou) who are licensed car rental operators in the PRC, were appointed to operate the car rental business in Beijing, Shanghai and Guangzhou. North Anhua also involves in development project of real estates in the PRC. Currently, its main projects are located in Beijing, Guangzhou and Inner Mongolia. In addition, North Anhua engages in hi-tech environmental protection engineering projects in Tianjin, Shanghai and Beijing.

In January 1994, the Group entered into a distribution agreement with North Anhua for a term of 16 years pursuant which the Group will supply to North Anhua the imported luxury and mid-market passenger vehicles and provide after-sales service including testing, tuning, repair and maintenance of the vehicles through Xiamen BMW and Xiamen Honda. North Anhua, being a foreign trade corporation and a licensed passenger vehicle reseller is responsible for handling the necessary procedures and documentation for importing motor vehicles into the PRC and the logistics in delivering the motor vehicles to its end customers or the end customers of the Group in the PRC. In accordance with the said distribution agreement, the Group has been supplying North Anhua with the imported passenger vehicles.

BUSINESS OF THE GROUP

In 1999, the Group sourced imported vehicles of other brands, including Toyota and Mercedes-Benz for North Anhua's distribution in return for commission income. These vehicles were ordered by North Anhua's discretion for its own distribution. The Group did not obtain title to the vehicles.

In January 2000, the Group further entered into a non-exclusive management consultation and technical service agreement with North Anhua for a term of 5 years. Under such agreement, the Group will provide management consultation, (including sales person training, strategic planning, etc.) and technical assistance to North Anhua for promotion and maintenance of the locally manufactured Honda passenger vehicles sold by North Anhua, whereas North Anhua will pay the Group a technical fee (being a percentage of the sale price of the locally manufactured motor vehicles sold by North Anhua). Such agreement has been approved by MOFTEC. Pursuant to such arrangements with North Anhua, the Group is able to be constantly acquainted with updated market information on the market demand and trends in the PRC market.

Turnover contributed by North Anhua for the two years ended 31st December, 2000 and 2001:

	FY2000 <i>HK\$'000</i>	FY2001 <i>HK\$'000</i>
Technical fee income	27,696	20,413
Distribution of motor vehicles	3,914	—
	<u>31,610</u>	<u>20,413</u>
% of the total Group turnover	25.3%	8.0%
Total Group turnover	<u>124,975</u>	<u>253,784</u>

Among the top 5 customers in the Track Record Period, 福建省金福集團公司 (Fujian Jin Fu Group) was referred by North Anhua. Revenue generated from sales to 福建省金福集團公司 (Fujian Jin Fu Group) represented approximately 2% of total turnover in 2001 and it is forecasted that 3.9% of total turnover will be contributed by 福建省金福集團公司 (Fujian Jin Fu Group) in 2002.

BUSINESS OF THE GROUP

Relationship with North Anhua

The Group entered into various business transactions with North Anhua and/or its related companies, such transactions are summarised below:

Transactions *	Brief description of the transactions	Classification	Transaction Amount (Approximate) <i>HK\$'000</i>
Co-operation projects in Guangdong Province, Fujian Province & Beijing Municipality	<p>CNA Anhua (Hertz) is obliged to refund to the Group approximately HK\$34 million if appropriate land title certificates cannot be obtained in due course.</p> <p>Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group against all loss suffered by it in the event that CNA Anhua (Hertz) fails to obtain the appropriate title certificate or refund to the Group the said HK\$34 million. Such indemnity is secured by the 64,664,000 Shares to be placed with an escrow agent by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh, and HK\$2,035,000 Sale Shares proceeds to be placed with an escrow agent by Loh & Loh. Such 64,664,000 Shares will be placed with the escrow agent as a pledge to the Company immediately after the expiration of the Lock-up Period, when the restriction on the disposal (as defined in the GEM Listing Rules to include the creation of any option, rights or interests over such securities) of such Shares, as imposed by Rule 13.16 of the GEM Listing Rules, ceases after the same period. In addition, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh have further undertaken to the Stock Exchange and the Company that they will not pledge or charge any of such 64,664,000 Shares to any banking institutions during the Lock-up Period. The Sale Share proceeds will be placed in escrow as a security to the Company on the terms that if the Group exercises its right under the indemnity, such amounts as correspond with the terms of indemnity will be released to the Group. (please refer to paragraph headed "Initial Management Shareholders" of "Substantial, Significant and Initial Management Shareholders" section of this prospectus for further details)</p>	Prepaid rental expenses	34,013

BUSINESS OF THE GROUP

Transactions *	Brief description of the transactions	Classification	Transaction Amount (Approximate) <i>HK\$'000</i>
Co-operation project in Fuzhou Municipality	Jin Tian Cheng is obliged to refund to the Group approximately HK\$11 million by October 2002. North Anhua will indemnify the Group against all losses suffered by it if Jin Tian Cheng fails to make such refund.	Prepayments, deposits and other current asses	11,262 (balance as at 31st December, 2001)
	Jin Tian Cheng has refunded HK\$3.297 million on 17th May, 2002.		7,965 (balance as at the Latest Practicable Date)
	Jin Tian Cheng is obliged to repay to the Group approximately HK\$6 million if it fails to perform the agreement or complete the project contemplated thereunder.	Prepaid rental expenses	6,242
	North Anhua has agreed to guarantee the performance and discharge by Jin Tian Cheng of its obligation under the agreement.		
	<p>Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group against all loss in the event that North Anhua fails to repay or refund the Group. Such indemnity is secured by 12,484,000 Shares to be placed with an escrow agent by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh and HK\$7,965,000 Sale Shares proceeds to be placed with an escrow agent by Loh & Loh. Such 12,484,000 Shares will be placed with the escrow agent as a pledge to the Company immediately after the expiration of the Lock-up Period, when the restriction on the disposal (as defined in the GEM Listing Rules to include the creation of any option, rights or interests over such securities) of such Shares, as imposed by Rule 13.16 of the GEM Listing Rules, ceases after the same period. Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh have further undertaken to the Stock Exchange and the Company that they will not pledge or charge any of such 12,484,000 Shares to any banking institutions during the Lock-up Period. The Sale Share proceeds will be placed in escrow as a security to the Company on the terms that if the Group exercises its right under the indemnity, such amounts as correspond with the terms of indemnity will be released to the Group. (please refer to paragraph headed "Initial Management Shareholders" of "Substantial, Significant and Initial Management Shareholders" section of this prospectus for further details)</p>		

BUSINESS OF THE GROUP

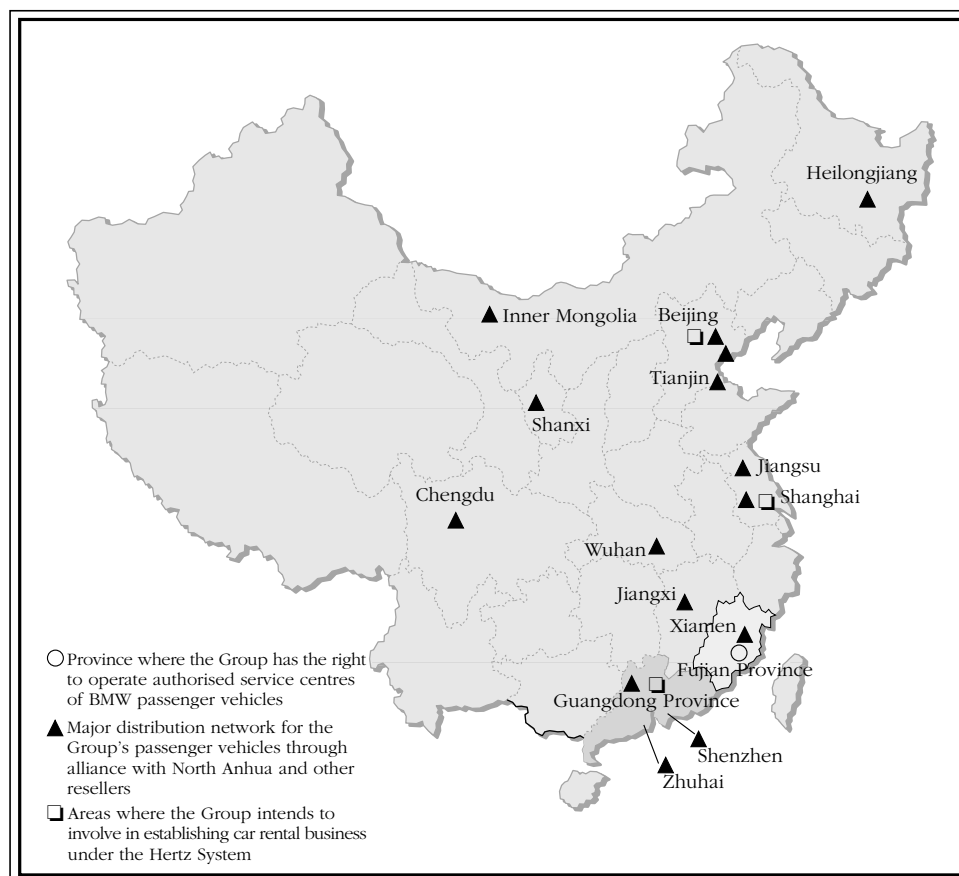
Transactions *	Brief description of the transactions	Classification	Transaction Amount (Approximate) HK\$'000
Bank guarantee that will be provided to CNA Anhua (Beijing), CNA Anhua (Shanghai), CNA Anhua (Guangzhou)	The Group intends to provide financial assistance to its sub-licensees by applying HK\$6 million of net proceeds to guarantee the 3 sub-licensees' facilities.	Future intention	6,000
Bank guarantee provided to Beijing China National Automotive Anhua Spare Parts Ltd.	The bank has agreed to unconditionally release the Directors and the Group as guarantors upon the listing of the Shares.	Contingent liabilities	34,550

* The Company will procure a semi-annual board meeting, to be initiated by independent non-executive Directors, after the listing of the Company on GEM (The executive Directors (Mr. Anthony Chan, Mr. Lob Kim Her and Mr. Lob Nee Peng) will abstain from voting in the board meeting) to review the relevant obligations under the deed of indemnity from Mr. Anthony Chan and Mr. Lob Kim Her (including their individual asset statements to be certified by the certified public accountant on a semi-annual basis after the listing of the Company on GEM) and the outstanding obligations from North Anhua and/or its related companies. In the event if either (i) North Anhua and/or its related companies or (ii) Mr. Anthony Chan and Mr. Lob Kim Her cannot meet their relevant respective obligations, the independent non-executive Directors of the Company will call a special general meeting for all shareholders of the Company. At the special general meeting, a resolution will be passed by the independent Shareholders (with the shareholders who are connected persons to the executive Directors and North Anhua and their respective associates abstaining from voting) as to whether to enforce the deed of indemnity and to decide whether further legal action should be taken.

BUSINESS OF THE GROUP

Distribution Coverage

According to 2000 China Statistical Yearbook, Beijing Municipality, Tianjin Municipality, Shanghai Municipality, Guangzhou Municipality and the Xiamen Special Economic Zone in the PRC are among the top municipals and special economic zones and cities in the PRC in terms of GDP in 2000. The following map illustrates Group's product market in the PRC:



The Group is currently the authorised distributor of BMW passenger vehicles as well as auto parts and accessories in Fujian Province. In order to expand its distribution network to cover the central and western regions of the PRC, the Group is presently in active negotiations with BMW China for a right to operate authorised distributorship in the central region of the PRC.

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2) Marketing and technical assistance

For the year ended 31st December, 2000, the revenue generated from distributing imported Honda passenger vehicles of the Group decreased by 46% compared to the year ended 31st December, 1999. Such decrease was due to the commencement of manufacturing of locally manufactured Honda passenger vehicles in the PRC in 1999. Since the foreign companies are prohibited under the PRC laws from operating trading business and foreign invested domestic companies were prohibited from distributing vehicles in the PRC, the Group cannot distribute locally manufactured Honda passenger vehicles in the PRC. In order to compensate the potential loss of revenue due to the reduction in the share of imported Honda passenger vehicles in the PRC in January 2000, the Group entered into a 5-year non-exclusive management consulting and technical service agreement with North Anhua for the locally manufactured Honda passenger vehicles distributed by North Anhua. North Anhua, acts as one of the resellers of locally manufactured Honda passenger vehicles. The Group does not obtain title to such passenger vehicles.

The Group provides management consulting and technical assistance to North Anhua and its distribution agents for the promotion and maintenance of locally manufactured Honda passenger vehicles distributed by North Anhua in exchange for technical fees. The technical fees are calculated based on a mutually agreed percentage, which is currently around 13% (5% to 15% pursuant to the technical agreement), of the sales of the locally manufactured Honda passenger vehicles distributed by North Anhua. The current percentage is based on the Group's internal pricing model that comprises various kinds of fees including engineers, technicians, administration and marketing, and is calculated on a cost plus margins basis. The current allocation of the 13% technical fees is approximately 5% for engineers, 2% for technicians, 3% for administration and 3% for marketing. The current technical fee is subject to revision should there be a change in the Company's cost structure in providing such services or government regulation. The scope of marketing assistance to North Anhua includes formulating marketing strategy, market positioning, assistance in market study, training of North Anhua's sales persons, etc. Technical services comprise performing pre-sale testing and tuning, pre-delivery inspection, performing after-sale repairs and maintenance services to each vehicle sold by North Anhua on the earliest of either after 1 year from the purchase or when the vehicle runs for 10,000 km, providing technical advice and solutions on technical services, and training of North Anhua's technical staff, etc.

The marketing and technical services provided to North Anhua by the Group are summarised as below:

Marketing consulting services

- Assisting the sales and marketing team of North Anhua to conduct market research on the domestic vehicle market.
- Assessing the market positioning of North Anhua's products for domestic vehicle market by comparing its own products to products of its competitors.
- Formulating marketing strategy to secure a foothold in domestic vehicle market.

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- Sourcing experienced expatriates and local sales staff.
- Providing training program to sales persons, covering sales technique and product knowledge

Technical services

- Performing pre-sale testing and tuning (pre-delivery inspection includes testing of brake system, ventilation system etc).
- Performing after-sale repairs and maintenance services (including engine inspection, steering system inspection etc).
- Providing advice and solutions on technical services to the staff of North Anhua.
- Providing technical training program to staff of North Anhua covering technical knowledge of its own products as well as competitors' products.

For each of the two years ended 31st December, 2000 and 2001, technical fee income received from North Anhua were approximately HK\$27,696,000 and HK\$20,413,000 respectively. Notwithstanding the prohibition under the PRC law, the Group had been providing technical service to North Anhua before it obtained the approval from MOFTEC. However, the Group's PRC legal adviser confirmed that there is no detailed provision in the PRC law concerning the penalty of such violation. In addition, pursuant to the PRC Technology Import and Export Administration Regulations passed by the State Council on 31st October, 2001 (effective as of 1st January, 2002), the MOFTEC registration of the technical service agreement is no longer a condition precedent for the same to become effective. It is the understanding of the PRC legal adviser that the relevant PRC authority will not impose penalty on the Group in respect of the violation committed by the Group prior to the enactment of the said regulations based on precedents and past experience in practice. Please refer to paragraph headed "Violation of certain PRC laws regarding provision of technical services" under the "Risk Factors" section for further details.

3) After-sales service

The Group provides after-sales service such as repair and maintenance services to BMW, Honda and other mid-market motor vehicles by Xiamen BMW and Xiamen Honda in the Xiamen Special Economic Zone in the PRC. The Group established Xiamen BMW, its first authorised service centre of BMW motor vehicles in the Xiamen Special Economic Zone in January 1994. The Group set up, through Xiamen BMW, a branch to operate a Honda authorised service centre in the Xiamen Special Economic Zone in February 1996 for imported Honda passenger vehicles servicing. Such auto service centres are subject to stringent quality control which are reviewed by the management of the Group on a regular basis. The Group intends to, upon the Group's successfully receiving its right of operating authorised service centres in the central region of the PRC from BMW China, establish a BMW authorised service centre in the central region of the PRC.

BUSINESS OF THE GROUP

As most of the passenger vehicles distributed by the Group are mid-market and luxury cars, the Group places great emphasis on achieving a consistently high quality in its after-sales service. The Group received ISO 9002 accreditation in 2000 for its high quality services. It is the Group's policy to continuously update and upgrade the skills of its service centre technicians through internal training and skill trainings offered by BMW AG. In upholding a high standard, the Group also implements certain quality assurance measures and regularly review. The Group also frequently seeks feedback from its customers. The Group generally offers warranty for its services and third party products for a term of one year and the end users are responsible for the relevant cost beyond the warranty period.

Breakdown of cost of maintenance and cost of auto parts including costs incurred for passenger vehicles within and after the warranty period are as follows:

	FY2000 <i>HK'000</i>	FY2001 <i>HK'000</i>
Cost of service & maintenance	3,871	4,632
Cost of sales of auto parts	<u>2,163</u>	<u>7,199</u>
Total	<u><u>6,034</u></u>	<u><u>11,831</u></u>

In respect of the maintenance services performed on BMW passenger vehicles covered under warranty, the amount of cost of spare parts to be reimbursed from BMW AG were HK\$145,000 and HK\$139,000 respectively for the years ended 31st December, 2000 and 2001. The amounts of reimbursement were insignificant, therefore the claims has not been forwarded to BMW AG yet.

Xiamen Honda provides maintenance service to Honda passenger vehicles covered under warranty period, which include but not limited to Honda passenger vehicles sold through North Anhua.

The Directors believe that the Group's commitment to provides quality after-sales service is another factor contributing to its success. As a result of the Group's stringent quality control procedures, operational failure of the repair and maintenance services, delivered by the Group and companies from customers during the Active Business Pursuit Period have been minimal.

BUSINESS OF THE GROUP

Since December 1997, the Group has been offering free comprehensive membership service packages under the GA Privilege Club to owners of the motor vehicles distributed by the Group. Currently the club has more than 500 members. Features of such service package include discounted and several free services, which include engine oil change, collection and delivery, tire rotation, cleaning after car repairment and towing. By offering such membership service, the Directors believe that the end customers will have more confidence in buying the motor vehicles distributed by the Group and hence, increase the sales of the motor vehicles of the Group.

4) Trading of auto parts and accessories

The Directors have observed that original and quality auto parts and accessories are in great demand as a result of increasing sales of luxury and mid-market motor vehicles in the PRC. The Directors believe that trading of auto parts and accessories is an area of tremendous growth potential.

Accordingly, the Group began to import auto parts and accessories from their manufacturing companies such as BMW AG into the PRC market in January 1994. Since the incorporation of GAL in 1997, the Group has been engaged in trading auto parts in Hong Kong and selling of original auto parts to resellers in the PRC and Hong Kong. Incidentally, the Group also sell motor vehicle auto parts through Xiamen BMW in the PRC to resellers and end users for pre-sales service and after-sales repair and maintenance services respectively. The Group also orders parts and accessories from Singapore and Japan, and then deliver to the workshops in the PRC for replacement in repair and maintenance.

5) Car rental service

Leveraging on and while maintaining the Group's core business in the distribution and maintenance services of passenger vehicles in the PRC, the Group has recently diversified into car rental business in the PRC in hope that this can diversify these revenue base by way of sub-licensing the Hertz System and car rental fleets that will be sourced from the Group by the sub-licensees. The car rental operation of the Group's sub-licensees started in January 2002, and the Group has started to provide management consulting service to the sub-licensees. The Group has been appointed by Hertz as its principal licensee and has the right to use and to sub-license its right to use the Hertz System in the operation of car rental business in the PRC for a term of 5 years commencing from 1st August, 2001. The sub-licensees acquired the car rental fleet by utilizing capitals and funds from their parent company, CNA Anhua (Hertz). The Group provided financial assistance to the car rental sub-licensees, who are subsidiaries of North Anhua, for their working capital needs in respect of the HK\$34 million banking facilities guarantee granted to Beijing China National Automotive Anhua Spare Parts Ltd. whose 45% equity interest is held by CNA Anhua (Hertz), a wholly-owned subsidiary of North Anhua to be used in connection with the car rental business operated by the three sub-licensees. Hertz, which was founded in 1918, is the leading vehicle renting organisation in the world with a fleet of approximately 525,000 vehicles in approximately 6,500 locations in over 140 countries. The Directors believe that this is the first move of Hertz to develop its car rental business in the PRC market.

BUSINESS OF THE GROUP

In order to engage in car rental business in the PRC, a company must meet certain prescribed economic and technology requirements and obtain both a License for Operating Road Transportation (道路運輸經營許可證) and a Certificate for Road Transportation (道路運輸證) from the relevant administrative authority. Despite that the Group is currently not a licensed car rental operator in the PRC, the Group has the right pursuant to the agreement with Hertz, with CNA Anhua (Tianjin) as the principal licensee of Hertz, to appoint sub-licensees in the PRC who are licensed car rental operators. Although the scope of business as set out in the business license of CNA Anhua (Tianjin) does not expressly cover car rental operation, the PRC legal adviser of the Group has opined that the sub-licensing of the Hertz System by CNA Anhua (Tianjin) to other PRC companies which are permitted to operate car rental business is not in violation of the PRC law. Effectively, such role of CNA Anhua (Tianjin) as the principal licensee of Hertz involves the provision of co-ordination and consultancy services which falls within the ambit of its scope of business. These sub-licensees have entered into non-exclusive sub-license agreements with Hertz for using the Hertz System to provide car rental service in the PRC. Being the principal licensee, CNA Anhua (Tianjin) is responsible for identifying sub-licensees, appointing sub-licensees to Hertz and providing management consulting, financial assistance and technical expertise which includes strategic planning, staff training and daily supervision of the car rental operation of all sub-licensees.

As such, the Group has appointed 3 licensed car rental operators in the PRC, namely CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou), all of which are subsidiaries of North Anhua, to enter into non-exclusive sub-license agreements with Hertz for five years commencing from 1st August, 2001. As the Group's sub-licensees, they are entitled to use the Hertz System to operate car rental business in the PRC. The sub-licensees are authorised and approved by the State Administration of Industry and Commerce to conduct car rental operations in the PRC. Under this arrangement, these sub-licensees are required to pay Hertz, through the Group, an annual pro-rated license fee for using the Hertz System. The Group, as the principal licensee, acts as a collecting agent for Hertz to collect these license fees from the sub-licensees and pass on the same to Hertz. The Group is required to pay Hertz an one-time initial fee and these sub-licensees are required to pay the Group a one-time initial fee plus a share of their respective annual profit based on the audited net profit derived from these sub-licensees for the management consulting, financial assistance and technical expertise services provided by the Group. Management consulting includes consulting on car rental management and operation, training to car rental personnel customer referral, etc. Whereas technical expertise includes testing, provisions of repairs and maintenance services to car rental fleet. The Group will receive its share of these sub-licensees annual profit at the end of each financial year in December. Currently, the Group does not meet the criteria set out by MOFTEC to invest in the car rental business in the PRC (please refer to "Industry Overview" section of this prospectus for details of the regulations), however, the Group has the intention to acquire 19.8% interest in each of CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou) and the acquisition will only take place until such time the Group meets the criteria.

In January 2002, the Group commenced the provision of management and technical expertise in the operation of the Hertz System to its designated sub-licensees in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality with management consultation support from Hertz. The Directors believe that this will allow the Group to capture the tremendous potential of the PRC car rental market in provision of consulting and technical expertise services and will secure a foothold in the PRC.

BUSINESS OF THE GROUP

The Directors further believe that the Group's alliance with Hertz will enhance its service competence, public reputation and generate business from Hertz's extensive global business connections with foreign investors and tourists coming to the PRC. The Directors also believe that the synergy created from the expertise of Hertz in the car rental business worldwide and the Group's proven knowledge about the PRC motor vehicle market will enable the Group to capitalise on the potential of the car rental market in the PRC, especially after PRC's accession to the WTO. The car rental business will allow the Group to extend its presence to Beijing, Shanghai and Guangzhou to form a car rental network. The Directors believe that this will allow the Group to establish its reputation and recognition in the PRC car rental industry as well as to expand its geographical coverage in respect of its distribution of motor vehicles in the PRC so as to facilitate the Group to attain additional distributorships from other foreign motor vehicle in the future.

SALES AND MARKETING

The Group's sales and marketing activities are carried out by its sales departments in Hong Kong and Xiamen Special Economic Zone of the PRC. As at the Latest Practicable Date, the Group's sales and marketing team comprised 3, 2 and 9 employees in Singapore, Hong Kong and the PRC respectively.

The Group mainly conducts its business through agency sales approach. Each of the Group account managers, who is responsible for a particular region of the Group's agents, contacts the Group's existing and potential licensed distributors on a regular basis and provides them with, among other things, the latest information on new models, government regulations and industrial trends in relation to the luxury and mid-market passenger vehicle market as well as information on products and services offered by BMW AG, Honda Corporation and the Group. The Directors believe that good relationship with the Group's agents can be established through such marketing strategy and consider that the Group's strong agent relationship is one of the key factors for its success. The marketing expense of the Group for the two years ended 31st December, 2000 and 2001 were approximately HK\$711,000 and HK\$772,000 respectively.

CUSTOMERS

There are over 90 resellers in total, distributing imported vehicles for the Group including 13 resellers in Hong Kong, 33 resellers in the PRC, North Anhua and 50 agents appointed by North Anhua. The Group also conducts direct sales in Tinajin Free Trade Zone, however, it is just a special case to the Group's operation as almost all sales were actually sales to distributors.

In formulating its marketing strategies, the Group divides the PRC passenger vehicle market into two targeted segments, namely the upper-end and mid-end segments. The upper-end segment customers refer to enterprises and individuals who are able to afford higher price in return for prestige, luxury and high technology. The mid-end segment customers are enterprises and individuals who are more budget conscious but also value quality and services.

BUSINESS OF THE GROUP

The Group's largest customer, which is a Hong Kong reseller, contributed to approximately 30% and 27% of the Group's turnover for each of the two years ended 31st December, 2000 and 2001 respectively.

The five largest customers including 4 Hong Kong resellers and 1 PRC reseller, contributed to approximately 59% and 52% of the Group's turnover for each of the two years ended 31st December, 2000 and 2001 respectively. Neither the Group nor any of the Directors, their respective associates (as defined in the GEM Listing Rules), has any interests in any of the five largest customers, of the Group for each of the two years ended 31st December, 2000 and 2001.

PRODUCT SOURCING

BMW AG is the Group's major supplier and accounted for approximately 36% and 52% of the Group's total purchases for each of the two years ended 31st December, 2000 and 2001 respectively.

BMW AG

BMW AG was founded in 1916 and was one of the largest passenger vehicle manufacturers. In 2000, BMW products were sold in more than 14 countries worldwide and approximately 70.73% of such products were sold outside Germany.

The sales volume of BMW passenger vehicles in the PRC in 2000 recorded a growth rate of approximately 171% over the previous year. BMW AG expected that sales of BMW passenger vehicles will grow by approximately 54% in 2001 when compared with 2000.

BMW AG has a set of systematic procedures for its authorised distributors to place orders. At the beginning of each year, the Group is required to provide BMW AG with an annual projection of the estimated number of vehicles that it plans to purchase from BMW AG during that year for the PRC market. The Group places orders for motor vehicles with BMW AG on a monthly basis based on its quarterly and monthly projections of customer demand and its target inventory level of auto parts and accessories. The lead time for the delivery of BMW vehicles may range from three to four months and the Group will keep a small volume of inventory.

All orders the Group places with BMW AG are on an "ex-factory" basis. Under such arrangement, the Group is responsible for insurance coverage, shipment transportation to Hong Kong, the Group's logistic hub. Payments are effected by the Group to BMW AG by letters of credit in euro. All orders are payable by the issuing bank acting on behalf of the Group against delivery of certain documents, which typically include shipping invoices and bills of lading. Settlement is normally made within 60 days upon the receipt of the relevant bank instructions and documents.

BUSINESS OF THE GROUP

The Group aims to maintain sufficient stock of BMW auto parts and accessories in the PRC so that such auto parts and accessories would be available when first requested by its customers. The Group places orders for auto parts and accessories with BMW Asia Pte. Ltd in respect of its PRC operations on a monthly basis. Payments are effected by the Group in euro by telegraphic transfer through its banks.

BMW AG warrants that the BMW passenger vehicles distributed by the Group are free of defects for one year. The Group will be reimbursed by BMW AG for all replacement costs of parts incurred in any warranty claim made against the Group during such warranty period.

Honda Motor Co., Ltd.

Honda Motor Co., Ltd. is recognised internationally for its expertise and leadership in developing and manufacturing a wide variety of products, ranging from small general-purpose engines to specialty sports cars that incorporate highly efficient internal combustion engine technology. Approximately 11.5 million Honda engines were sold worldwide during the year ended 31st March, 2001.

The Honda passenger vehicles sold in the PRC are either imported or domestically manufactured in the PRC. The Group places orders to Honda Motor (China) Co., Ltd. for imported Honda passenger vehicles and distributes them through the resellers' network.

The Group became an importer of Honda motor vehicles for the PRC market in November 1995 whereas the Honda agreement was made on a case-by-case basis.

Land Rover Group

Land Rover Group has been manufactured since 1948 and is accredited as the world's leading four-wheel-drive vehicles. The vehicles are designed for on-road and off-road conditions. The manufacturing plant for Land Rover in United Kingdom and all the products are imported from United Kingdom. The Group attained the non-exclusive distributorship of Land Rover in September 1997 when it commenced distribution to Fujian Province in the PRC. Such distribution agreement shall continue until terminated by either party giving 12 months' prior notice. The Group directly places orders with the headquarter of Land Rover in the United Kingdom for the passenger vehicles and distributes them through the reseller's network.

Other brands

The Group distributes other brands, such as Toyota and Mercedes-Benz, from respective dealers to the PRC market. The Group only places orders with the resellers of Toyota and Mercedes-Benz in Hong Kong on a case-by-case basis.

BUSINESS OF THE GROUP

The Directors are confident that the Group is a valued and preferred distributor of BMW AG and importer of Honda passenger vehicles in the PRC market respectively based on:

- its long-standing relationship with BMW AG and Honda Motor (China) Co., Ltd.;
- its experience and successful record in distributing BMW and Honda passenger vehicles in the PRC market, contributing to approximately 41% and 29%, 59% and 9% of the turnover of the Group for the two years ended 31st December, 2000 and 2001 respectively;
- its ability to provide quality after-sales service to its customers and its plans to develop a network of service centres in selected regions in the PRC; and
- its strong working relationship with North Anhua and CNA which have extensive distribution networks in the PRC.

The largest supplier of the Group accounted for approximately 36% and 52% of the Group's turnover for each of the two years ended 31st December, 2000 and 2001 respectively. For each of the two years ended 31st December, 2000 and 2001, the Group's five largest suppliers accounted for approximately 82% and 94% of the total purchases made by the Group respectively. Neither the Group nor any of the Directors, their respective associates (as defined in the GEM Listing Rules), has any interests in any of the five largest suppliers of the Group for each of the two years ended 31st December, 2000 and 2001.

STOCK CONTROL

In order to control the stock levels of motor vehicles, auto parts and accessories so as to achieve minimum stock holding periods and to minimise loss attributable to stock obsolescence in the automobiles industry while being able to meet the client's demand on a timely basis, the Group normally keeps a small volume of inventory and quarterly reviews the level, movements and aging of its inventory. The Group also maintains close contacts with its customers to keep abreast of the latest market trends and potential customer demand. Based on the continuous review on its inventory position and the feedback from its customers, the Group adjusts the types of orders and the amount of such orders it places with its suppliers with a view to optimising the effectiveness of its inventory management. The Group carries out the following measures in controlling stock: (i) placing most of the purchasing orders to the Group's suppliers after reviewing and forecasting the market demand; (ii) analysing and ascertaining the appropriate levels of accessories for each product line based on the past records, and (iii) conducting regular management meetings to enhance communications between the sales department, purchasing and finance departments.

BUSINESS OF THE GROUP

The Group does not make general provision for stock obsolescence. However, specific provision will be made based on regular specific review on the stock movement.

The ability of the Group to maintain effective control on inventory is evidenced by the fact that the provisions for inventory obsolescence made by the Group amounted to HK\$252,000 and HK\$Nil for the two years ended 31st December, 2000 and 2001 respectively, representing less than one per cent. of the Group's total sales during the same year.

CREDIT POLICY

The Group only experienced minimal bad debt during the Track Record Period. Nonetheless, in addition to the careful selection of customers with payment credibility, the senior management of the Group closely monitors the credit terms given to the Group's customers, and the Group does not accept payment by instalment arrangement. For the PRC market, sales of imported vehicles are mostly denominated in euro and HK dollars. Due to the restrictions imposed on the issue of foreign currency denominated letters of credit in the PRC, only certain entities (including foreign trade corporations) which have obtained the relevant approval from the State Administration of Foreign Exchange may apply for the issue of such letters of credit.

The Group's motor vehicle distribution transactions are mainly made on a letters of credit basis, the remaining transactions are settled either on a cash on delivery basis or credit terms. For each of the two years ended 31st December, 2000 and 2001, approximately 41%, 30% and 29% and approximately 59%, 12% and 29% of motor vehicle distribution transaction were settled by letters of credit, cash on delivery basis and credit terms of 60 to 150 days respectively. The majority of the Group's auto parts and accessories trading transactions are made on a cash on delivery basis. For the rest of auto parts and accessories trading transactions, their terms of sale, including the credit terms, generally require the approval of the senior management of the Group. The senior management of the Group reviews on a quarterly basis and, if necessary, makes appropriate adjustments to the credit limits that have been assigned to the Group's customers based on their latest spending and repayment behavior. The senior management of the Group also closely monitors the credit position of the Group and the amount and aging of the receivables due from its customers and, if necessary, takes appropriate action to ensure that effective credit control is implemented.

The Group has established credit control systems to tighten control over accounts receivables. Such systems assist the Group in shortening the receivables settlement periods and improving debt collection. Salient features of such control systems include: (i) transactions with new agents/customers are carried out on a strict cash-term basis; (ii) thorough studies are conducted on the creditworthiness of new agents/customers before credit terms are provided to them; (iii) reminders will be sent to overdue accounts; and (iv) legal advices will be sought for delinquent accounts.

BUSINESS OF THE GROUP

The Group did not make general provision for bad debts in 2000 and approximately 1.9% general provision for bad debts was made for the year ended 31st December, 2001. Specific provision will be made based on quarterly review on the settlement of receivables. For each of the two years ended 31st December, 2000 and 2001, the provision for bad and doubtful debts in the Group's balance sheet amounted to approximately HK\$2,060,000 and HK\$1,556,000 respectively, representing less than 2% of the Group's turnover for each of such periods.

SEASONALITY

To a certain extent, the sales of the Group are subject to seasonal factors. During the second and the fourth quarters of the year, the sales of the Group are generally slower. The Group's sales are positively correlated to its customers' business operating result, since most of their customers made purchases after the announcement of their annual or interim business results, thus, the second and fourth quarters are usually the low season for the Group's sales. Whereas, the peak seasons usually lie in the first and third quarters. Customers place orders in the first and third quarters after the release of their annual and interim business results to assure their financial position in making capital expenses.

STRATEGIC INVESTOR

Comfort Group

Comfort Group, whose shares are listed on the Stock Exchange of Singapore is an indirect substantial shareholder of the Company, through its wholly-owned subsidiary, Comfort (China). Comfort Group is mainly engaged in the taxi and bus operation business in Singapore as well as motor vehicle distribution business in Singapore. Comfort Group engages in taxi and bus operation business in the PRC as well as petrol service station and car and auto parts distribution in Suzhou of the PRC. As Comfort Group's core businesses are different from those of the Group and that the car and auto parts distribution businesses are geographically mutually exclusive from where the Group is operating in the PRC, the Directors believe that there is no competing interest and the relationship with Comfort Group will provide the Group financial support in the future business development of its business in the PRC.

STRATEGIC ALLIANCES

North Anhua

North Anhua was formerly a division-bureau level enterprise under the direct administration of the army headquarters of the Chinese People's Armed Police (中國人民武裝警察). Headquartered in Beijing, North Anhua is currently a subsidiary of CNA, which is one of the 163 key state-owned enterprises affiliated to 中央企業工委管理 (China Central Enterprise Industrial Commission). North Anhua has set up a number of subsidiary enterprises with several local branches being established in China's domestic regions.

BUSINESS OF THE GROUP

North Anhua engages in a wide range of business operations including state-grant import and export business of motor vehicles with net profit of approximately RMB22 million for the year ended 31st December, 2001 and a net asset value of approximately RMB200 million as at 31st December, 2001. The Group has been in close business relationship with North Anhua since 1994 and the Directors believe that the prestigious history and foundation of North Anhua have also been a key element in the business development of Group throughout the period. It possesses a distribution network for motor vehicles of 72 distribution offices and 50 distribution agents in the PRC (for details please refer to the graph on page 94), which supports the Group distribution operation. Its subsidiaries, namely CNA Anhua (Beijing), CNA Anhua (Shanghai) and CNA Anhua (Guangzhou) who are licensed car rental operators in the PRC, were appointed to operate the car rental business in Beijing, Shanghai and Guangzhou. North Anhua also involves in development project of real estates in the PRC. Currently, its main projects are located in Beijing, Guangzhou and Inner Mongolia. In addition, North Anhua engages in hi-tech environmental protection engineering projects in Tianjin, Shanghai and Beijing.

The Group has been in close business relationship with North Anhua in distributing passenger vehicles since 1994. The Directors believe that North Anhua has been a key element in the Group's business development as it assists the Group's distribution of motor vehicles and overcomes various trade barriers for importing motor vehicles as well as facilitates the Group's implementation of its car rental services in the PRC. However, North Anhua currently has no intention to become a shareholder of the Group as at the date of the prospectus.

Hertz

Hertz, which was founded in 1918 is a wholly-owned subsidiary of Ford Motor Company. It is the leading vehicle renting organisation in the world with a fleet of approximately 525,000 vehicles in approximately 6,500 locations in over 140 countries. Hertz has developed and maintained an extensive network of car rental locations around the world, enabling it to provide consistent quality, pricing and service worldwide.

The Directors believe that pursuant to the arrangements between the Group and Hertz in respect of operating car rental business through the sub-licensing arrangements in the PRC, the Group, leveraging on the brand name and the international business contacts of Hertz, and utilising the Hertz System and the Group's expertise and business network in the PRC, will be well-positioned to provide quality management services to meet the needs of its targeted car rental clients.

BUSINESS OF THE GROUP

COMPETITION

The key competitors of the luxury and mid-market passenger vehicles distributed by the Group in the markets in which it operates mainly include other European and Japanese importers and distributors. The Japanese importers and distributors have traditionally enjoyed a competitive advantage, offering relatively more competitive prices. Notwithstanding the difference in initial acquisition costs, the Group intends to principally compete on the basis of:

- the quality of its products, which the Directors believe, are well-recongnised in the market;
- its ability to provide quality after-sales service to its customers in the PRC; and
- its position as one of the leading distributors of BMW in the PRC and one of the importers of Honda motor vehicles in the PRC.

CONNECTED TRANSACTIONS

Prior to the listing of the Shares on GEM, the Group has entered into the following connected transactions (as defined in the GEM Listing Rules):

1. on 3rd April, 1997, a 10-year loan agreement was entered into between Malayan Banking Berhad, Malaysia and GAPL for a term of 10 years in respect of a loan of US\$420,000 for the acquisition of a real estate property in Beijing, PRC. Mr. Anthony Chan and Mr. Loh Nee Peng provided personal guarantee in favour of Malayan Banking Berhad.
2. on 23rd March, 1998, a 10-year loan agreement was entered into between Overseas Union Bank Limited, Singapore and GAPL for a term of 10 years in respect of a loan of US\$147,000 for the acquisition of another real estate property in Beijing, PRC. Mr. Anthony Chan, Mr. Loh Kim Her and Mr. Loh Nee Peng provided unconditional & irrevocable personal guarantee in favour of Overseas Union Bank Limited.
3. on 21st December, 1998 credit facilities in the nature of overdrafts, letters of credit and/or trust receipts and shipping guarantees of SGD5.5 million were granted by Oversea-Chinese Banking Corporation Limited, Singapore to GAPL. The following guarantees were provided in favour of Oversea-Chinese Banking Corporation Limited:
 - Mr. Loh Kim Her, Mr. Loh Nee Peng, Mr. Anthony Chan and Mr. Chan Kung Git, father of Mr. Anthony Chan provided a joint and several personal guarantee for SGD8.985 million;
 - Mr. Loh Boon Cha, brother of Mr. Loh Kim Her provided a personal guarantee for SGD4.867 million;

BUSINESS OF THE GROUP

- L&B provided a corporate guarantee for SGD3.776 million; and
 - Eng Kheng (S) Pte Ltd, a company which is held as to 61% by Mr. Anthony Chan, provided a corporate guarantee for SGD8.302 million.
4. on 27th October, 1999, a loan agreement was entered into between GAPL and Commerzbank Aktiengesellschaft, Singapore branch for a term loan facility in U.S. dollars equivalent to Japanese Yen 767,738,319 and two banker's guarantees in the respective amount of DEM380,000 and SGD10,848. In order to secure full repayment of such banking facilities, the following security was provided in favour of Commerzbank Aktiengesellschaft:
- Mr. Loh Kim Her, Mr. Loh Nee Peng, Mr. Anthony Chan and Mr. Chan Kung Git, father of Mr. Anthony Chan provided two joint and several personal guarantees for an aggregate amount of US\$27.7 million;
 - Mr. Loh Boon Cha, brother of Mr. Loh Kim Her US\$1.54 million at Commerzbank Aktiengesellschaft as security;
 - L&B provided a corporate guarantee for US\$1.925 million;
 - Eng Kheng (S) Pte Ltd, a company which is held as to 61% by Mr. Anthony Chan, provided a corporate guarantee for US\$11 million; and
 - GAPL charged and assigned all its interests, rights in certain of its receivables in favour of Commerzbank Aktiengesellschaft.
5. on 4th January, 2001, banking facilities in the nature of overdraft, letters of credit, trust receipts and/or shipping guarantees of SGD10.5 million were granted by Bank of China, Singapore Branch to GAPL. In order to secure full repayment of such banking facilities, Harley Investment Pte Ltd and Ivory Investment Pte Ltd., companies all shares of which are beneficially owned by Mr. Loh Kim Her, provided legal mortgage over certain properties in Singapore owned by them in favour of Bank of China. Mr. Anthony Chan and Mr. Chan Kung Git, father of his also provided a joint and several personal guarantee in favour of Bank of China to secure the advances, credits and banking facilities extended by Bank of China to GAPL up to sum of S\$11,500,000.
6. on 17th July, 2001, a loan agreement was entered into between Industrial and Commercial Bank of China, Singapore Branch and GAPL for banking facilities of US\$5,000,000 for the operation of the Group. In order to secure full repayment of such banking facilities, Mr. Anthony Chan and Mr. Loh Kim Her provided unconditional & irrevocable personal guarantee in favour of Industrial and Commercial Bank of China, Singapore branch.

BUSINESS OF THE GROUP

7. on 11th June, 1999, a tenancy agreement was entered into between Atland Properties Pte Ltd, a company all shares of which are beneficially held by Ms. Chan Xiao Li, sister of Mr. Anthony Chan, as the lessor and GAPL as the lessee in respect of a premises in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 6th September, 2001 for a term of 12 months from 25th September, 2001 to 24th September, 2002. The monthly rent under such tenancy agreement is SGD3,890, which the Company's property valuer, DTZ Debenham Tie Leung Limited, has opined as an open market rental.
8. on 11th June, 1999, a tenancy agreement was entered into between GAPL as the lessor and Octavus Properties Pte Ltd, a company all shares of which are beneficially held by Mr. Anthony Chan, as the lessee in respect of a premises of approximately 353 sq.ft. in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 10th September, 2001 for a term of 12 months upon its expiration. The monthly rent under such tenancy agreement is SGD800, which the Company's property valuer, DTZ Debenham Tie Leung Limited, has opined as an open market rental.
9. on 11th June, 1999, a tenancy agreement was entered into between GAPL as the lessor and Eng Kheng (S) Pte Ltd, a company which is held as to 61% by Mr. Anthony Chan, as the lessee in respect of a premises of approximately 353 sq.ft. in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 10th September, 2001 for a term of 12 months upon its expiration. The monthly rent under such tenancy agreement is SGD800, which the property valuer, DTZ Debenham Tie Leung Limited, has opined as an open market rental.
10. on 4th October, 1999, a tenancy agreement was entered into between Xiamen L & B Property Co., Ltd, a company which is beneficially held as to 5% by Mr. Loh Kim Her and 95% by his family members, as the lessor and GAPL as the lessee in respect of a premises of 710 sq. metres in Xiamen, for a term of 21 years commencing on 1st November, 1999. Such premises is used as the office of Xiamen BMW and its monthly rent is RMB31,388, which the Company's property valuer, DTZ Debenham Tie Leung Limited, has opined as an open market rental.

Each of the abovementioned banks has confirmed with the Directors that the respective personal guarantees in transactions 1., 2., 3., 4., 5. and 6. above will be released prior to or upon the listing of the Shares on GEM as concurred by the banks and thus such transactions will not constitute connected transactions.

Transactions 7., 8., 9. and 10., above will continue after the listing of the Shares on GEM and thus constitute a continuing connected transaction (as defined in the GEM Listing Rules).

BUSINESS OF THE GROUP

The Directors have confirmed that such continuing connected transactions have been entered into on normal commercial terms, determined on an arm's length basis and are carried out in the usual and ordinary course of business of the Group and the terms of which are fair and reasonable so far as the shareholders of the Company are concerned. The Sponsors and the Directors (including the independent non-executive Directors) are of the opinion that the above transactions have been and will be entered into on normal commercial terms and in the usual and ordinary business of the Group and the terms of which are fair and reasonable so far as the shareholders of the Company are concerned. Each of the above transactions will fall within the exemption under Rule 20.23 of the GEM Listing Rules as the total consideration for each of the transaction is less than HK\$1,000,000 per annum. Accordingly, the transactions will be exempt from the reporting, announcement and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Directors will closely monitor the aggregate of the amounts involved in each of the continuing connected transactions and if the aggregate amount of such transaction exceeds HK\$1,000,000 or if any term of such transaction is altered or if any new connected transaction is entered into in the future, the Company will comply with all applicable requirements of the GEM Listing Rules in connection therewith.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES

It is the mission of the Group to become a leading authorised distributor of luxury passenger vehicles and a leading promoter of the Hertz car rental services in the PRC. To achieve this mission, the Group will focus on maintaining and developing the passenger vehicles distribution agent network by ensuring reliable supply of passenger vehicles as well as providing quality value-added pre-sale and after-sales services, and adding on that, promoting the car rental service of its sub-licensees operated under the Hertz System through CNA Anhua (Tianjin).

According to the US Department of State and US Foreign Commercial Service, the number of cars in the PRC is expected to reach approximately 15 million by 2010. Annual demand of cars, currently at 700,000, is expected to reach 1.2 to 1.6 million in a few years, representing a growth rate of approximately 71%. BMW China stated that the BMW passenger vehicles sold by it in 2000 in the PRC has increased by approximately 100% comparing to that in 1999 and BMW was the best-selling luxury brand with a market share of approximately 24% in 2000. In order to capture such market potential and achieve its overall business objective, the Group intends to focus on the following areas:

- expanding its agent distribution network in the PRC for BMW, Honda and Land Rover passenger vehicles;
- acquiring additional distributorships from foreign motor vehicle manufacturers for which its motor vehicles are in line with the Group's targeted market segments;
- expanding geographical coverage and market share in respect of its distribution of BMW, Honda and Land Rover passenger vehicles through sales partners by establishing showrooms, support centres and service centres in Fuzhou and the central region of the PRC;
- providing management consultancy, financial assistance and technical services to the car rental operators appointed by the Group; and
- establishing joint venture(s) to operate service centre and provide after-sale services in compliance with the regulatory requirement of the PRC law.

BASES AND ASSUMPTIONS

The Group operates in an industry where technology, trends and consumer preferences change rapidly. There can be no assurance that any of the Directors' view of the market potential of the Group and its various products and services will remain unchanged or be realised. In particular, the types of products and services provided by the Group (and their respective contributions to the Group's revenues) may change in the future due to changes in market demands for different motor vehicle products and services. Furthermore, there can be no assurance that any of the general or specific business objectives set out in this section will be attained, realised or remain unchanged over the periods referred to.

STATEMENT OF BUSINESS OBJECTIVES

The Directors have assessed the potential of the market as identified in the Group's statement of active business pursuits during the Forward Looking Period and formulated strategies to achieve the Group's business objectives on the basis of past industry trend, as well as anticipated future growth and expected demand based on the Directors' past experience. The Directors have made the following principal assumptions in making such assessment and formulation:

1. The Group is not affected by any of the risk factors set out under the section headed "Risk Factors".
2. The business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in the light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business objectives in the preceding period or periods. It has also been assumed that the Group does not experience any significant delay in achieving its stated business objectives in any of the specified periods.
3. The Group does not encounter any significant difficulty in the research and development of any of its new products.
4. The Group is not materially adversely affected by any change in political, legal, fiscal or economic conditions in the PRC and the US.
5. The Group is not materially adversely affected by any change in legislation, rules or regulations in the PRC, the Cayman Islands, Singapore and Hong Kong where the Group is established.
6. The businesses to be carried out by the Group in the PRC is not prohibited or restricted under the PRC laws or any other relevant laws or regulations. Should the Group's businesses in the PRC be prohibited or restricted in any respect, the Group may not be able to carry out the business objectives as herein stated.

IMPLEMENTATION PLANS AND STRATEGIES

The Group's business implementation and business plans during the Forward Looking Period from the Latest Practicable Date to 30th June, 2002, and each of the six month period ending 31st December, 2004 are set out below. The Group intends to follow the implementation schedule below in achieving its business objectives based on the current state of the motor vehicle industry. However, the Directors believe that as the motor vehicle industry is a fast changing industry in the PRC and the economic development in the PRC is difficult to predict, the implementation schedule reflects only the Directors' present intention in executing the Group's business objectives. The Directors intend to use their best endeavours to anticipate future changes in the motor vehicle industry and to take appropriate steps to remain flexible and versatile to enable the Group to stay ahead of or to promptly react to such changes.

STATEMENT OF BUSINESS OBJECTIVES

STRATEGIES

Expansion of motor vehicle distribution network in the PRC

Attaining of additional authorised distributorship and regions

The Group intends to negotiate with foreign motor vehicle manufacturers which the Group is presently an authorised distributor thereof for the right of distribution and operation of authorised service centers in more regions in the PRC. The Directors believe that the passenger vehicle market in the PRC will continue to grow tremendously, especially after the PRC's accession into the WTO. Given the rapid growth in the sales of BMW motor vehicles in the PRC in mid 2000, the Group has been negotiating with BMW AG for the distribution right of the BMW motor vehicles in a central region of the PRC.

The Directors are of the view that, based on the development of motor vehicle distribution market in other developed countries, the mid-market and luxury motor vehicle market in the PRC will differentiate into smaller segments such as deluxe sedans, roadster, 4-wheel-drive vehicle, etc. Accordingly, the Group intends to obtain distributorships from other foreign motor vehicle manufacturers whose products and services are complement with the Group's existing targeted market segments for the PRC market in order to satisfy the evolving needs and choices of the Group's targeted customers.

Appointment of additional agents

With the expansion of the distribution network of North Anhua, the Group aims at enhancing its distribution connection. The Group will seek for more connections with Hong Kong and PRC resellers. On the other hand, the Group contemplates to appoint agents in Xiamen Municipality, Fuzhou Municipality and a central region of PRC, etc. The agents possess network in the specific regions and help distributing products effectively. Appointing agents for expanding distribution is considered one of the cost effective way to increase the distribution channel.

Strengthening after-sales service

Establishment of additional authorised service centers

The Group intends to establish additional service centres in Fuzhou Municipality and other cities in the PRC by establishing joint venture in order to complement its motor vehicle distribution business. The Group also intends to constantly upgrade the engineering and computer system in order to provide repairs and maintenance for the newly high-end design of passenger cars.

STATEMENT OF BUSINESS OBJECTIVES

Provision of comprehensive support services

The Group intends to launch a national comprehensive service package to end-customers in the Xiamen Special Economic Zone where the Group operates an authorised service centre including 24-hour emergency breakdown assistance and a bonus reward program, a service and maintenance package and insurance claim assistance.

MANAGEMENT OF CAR RENTAL BUSINESS

In order to rapidly capture the tremendous potential of the PRC car rental market and secure a foothold in the PRC, the Group was appointed by Hertz as its principal licensee and has the right to use and to sub-license the Hertz System to the licensed car rental operators in Beijing Municipality, Shanghai Municipality, Guangdong Province, Tianjin Municipality and the Xiamen Special Economic Zone. So far, the Group has appointed sub-licensees in selected markets including Beijing Municipality, Shanghai Municipality and Guangzhou Municipality and will provide management, consulting and technical expertise including strategic planning, staff training and supervision of the operation as well as financial assistance to the sub-licensees. In respect of the rest of the region, the Group will further appoint sub-licensees for operation of car rental business in the regions. The Directors believe that such strategies will enable the Group to fully capture the market potential of car rental business in the PRC and will allow the Group through sub-licensing establish a national network for its car rental business.

The Directors believe that the Group's alliance with Hertz will enhance the public reputation and generate business opportunities from Hertz's extensive global business connections with foreign investors and tourists in the PRC. The Directors also believe that the synergy created from the expertise of Hertz in the worldwide car rental business and the Group's proven knowledge about the PRC automobile market will enable the Group to capitalise the potential of the car rental market in the PRC, especially after PRC's accession to the WTO.

SALES AND MARKETING

The Group intends to continue to organise effective marketing functions on a regular basis to maintain close working relationship with its existing distribution agents and attract potential agents/customers. The Group also intends to take part in large-scale exhibitions, road shows and test-drive activity to promote its corporate image and motor vehicles distributed by the Group.

STATEMENT OF BUSINESS OBJECTIVES

Period	For the period from the Latest Practicable Date to 30th June, 2002	For the six months ending 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004
Expansion of Distribution Network	<p><i>BMW</i></p> <ul style="list-style-type: none"> To negotiate with BMW China for the authorised distributorship in a central region of the PRC <p><i>Other brand representations</i></p> <ul style="list-style-type: none"> To appoint its licensed PRC resellers as distribution agents in Fuzhou Municipality, Xiamen Special Economic Zone and other cities of the PRC to increase the coverage of the distribution network and improve distribution efficiency 	<p><i>Other brand representations</i></p> <ul style="list-style-type: none"> To initiate negotiations with foreign motor vehicle manufacturer(s) for authorised distributorship in the PRC To finalise negotiations with BMW China for the authorised distributorship in a central region of the PRC To enter into a development co-operation agreement for establishing service centre in the central region of the PRC 	<p><i>BMW</i></p> <ul style="list-style-type: none"> To establish a service centre and distribution offices for distributing the Group's product in Fuzhou Municipality, in Fujian Province through joint venture(s) To acquire machinery, equipment and renovate for the service centre in Fuzhou Municipality and renovation 	<p><i>BMW</i></p> <ul style="list-style-type: none"> To establish distribution offices for distribution of the Group's products in the central region of the PRC through joint venture(s) <p><i>Other brand representations</i></p> <ul style="list-style-type: none"> To finalise negotiations with foreign motor vehicle manufacturer(s) for authorised distributorship in the PRC To initiate negotiations with other foreign motor vehicle manufacturer(s) for authorised distributorship in the PRC 	<p><i>BMW</i></p> <ul style="list-style-type: none"> To appoint licensed PRC resellers distribution agents in the central region of the PRC to further strengthen the Group's distribution network 	<p><i>Other brand representations</i></p> <ul style="list-style-type: none"> To finalise negotiations with foreign motor vehicle manufacturer(s) for authorised distributorship in the PRC
(HK\$ million)						
Use of Proceeds	0	6	5	2	0	0

STATEMENT OF BUSINESS OBJECTIVES

Period	For the period from the Latest Practicable Date to 30th June, 2002	For the six months ending 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004
Enhancement of after-sales service		<ul style="list-style-type: none"> To upgrade continually the computer systems and engineering equipment of the Group's workshops and service centres 	<ul style="list-style-type: none"> To relocate and renovate the existing service centres and workshops in Xiamen into a 3-in-1 complex building which includes an office, a workshop and a service centre with advanced computer systems and engineering equipment To establish a service centre in Fuzhou to enhance the after-sales service in the authorised region To enhance the service package in GA Privilege Club To equip the service centre with advanced computer systems and engineering equipment 	<ul style="list-style-type: none"> To renew the certificate of ISO 9002 to ascertain the quality standard 	<ul style="list-style-type: none"> To operate a service centre in the authorised region in the central part of the PRC through joint venture(s) 	<ul style="list-style-type: none"> To upgrade continually the computer systems and engineering equipment of the Group's workshops and service centres
(HK\$ million)						
Use of Proceeds	0	1	4	0	0	0

STATEMENT OF BUSINESS OBJECTIVES

Period	For the period from the Latest Practicable Date to 30th June, 2002	For the six months ending 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004
Management of Car Rental Business in the PRC	<ul style="list-style-type: none"> To install the Hertz worldwide reservation system and test run of the program for the sub-licensees in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality To provide management consulting to sub-licensees to operate a fleet of about 300 motor vehicles To establish service centre in Beijing Municipality to provide technical expertise to the sub-licensees To provide financial assistance to the sub-licensees of car rental business in the form of bank guarantee 	<ul style="list-style-type: none"> To commence research on applications of service packages of the Hertz System and make necessary adjustments for the PRC market To finance the sub-licensees of car rental business 	<ul style="list-style-type: none"> To launch value-added service packages To enhance the technical expertise to the sub-licensees by establishing service centre in Guangdong Province 	<ul style="list-style-type: none"> To appoint sub-licensees in area of Tianjin Municipality and the Xiamen Special Economic Zone 	<ul style="list-style-type: none"> To commence research on applications of the Global Positioning System the PRC, the system is believed to be a value-added service to the car rental operation 	<ul style="list-style-type: none"> To enhance value-added service packages
(HK\$ million)						
Use of Proceeds	3	3	0	0	0	0

STATEMENT OF BUSINESS OBJECTIVES

Period	For the period from the Latest Practicable Date to 30th June, 2002	For the six months ending 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004
Sales and Marketing	<i>Motor vehicle distribution</i> <ul style="list-style-type: none"> To recruit 2 sales and marketing professionals in the PRC 	<i>Motor vehicle distribution</i> <ul style="list-style-type: none"> To recruit 4 sales and marketing professionals in the PRC To establish close relationship with corporate clients in the PRC for generating recurring sales To hold marketing activities including golf tournament, exhibition, test drive in the PRC 	<i>Car Rental</i> <ul style="list-style-type: none"> To form alliance with travel agents and airline companies for promotion of the Group's corporate image and its car rental services 	<i>Motor vehicle distribution</i> <ul style="list-style-type: none"> To recruit 4 sales and marketing professionals for distribution of motor vehicles in the PRC To hold marketing activities including golf tournament, exhibition, test drive in the PRC 	<i>Motor vehicle distribution</i> <ul style="list-style-type: none"> To launch an advertisement campaign to introduce the service centre in the central region of the PRC and promote group's products 	<i>Motor vehicle distribution</i> <ul style="list-style-type: none"> To recruit 4 sales and marketing professionals for distribution of motor vehicles in the PRC To hold marketing activities including golf tournament, exhibition, test drive in the PRC
(HK\$ million)						
Use of Proceeds	1	0.25	0.5	0.25	0	0

STATEMENT OF BUSINESS OBJECTIVES

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be about HK\$27 million. The Directors presently intend to apply such net proceeds as follows:

- approximately HK\$16 million will be used to enhance the Group's pre-sales and after-sales service, of which HK\$5 million for upgrading the existing authorised service centres of the Group, HK\$2.75 million for establishing a service centre in Fuzhou Municipality, HK\$2 million for establishing a service centre in the central region of the PRC, HK\$6 million for rental expense for the service centre in the central region of the PRC and HK\$0.25 million for acquiring machinery and equipment and renovating the service centre in Fuzhou Municipality;
- approximately HK\$2 million will be used for establishing joint venture(s) to operate the service centre and provide after-sales service in Fuzhou;
- approximately HK\$6 million will be used to provide security free financial assistance to car rental sub-licensee. The Group will deposit approximately HK\$6 million with a bank in Hong Kong as security for banking facilities granted by the correspondent branch of the bank in the PRC to finance the car rental business of certain appointed sub-licensees of the Group. Such arrangement is a non-interest bearing facilities granted throughout the sub-licensing period for 5 years;
- approximately HK\$2 million will be used for marketing and promotional activities; and
- the balance of approximately HK\$1 million will be used as additional working capital required for the anticipated increase in business volume of the Group, such as, operating lease expenses, legal & professional fees for agreements for car rental business, establishing service centre(s) and joint venture(s), freight & transportation, etc.

Schedule of Use of Proceeds

	Period I (HK\$'million) Latest Practicable Date – 30th June, 2002	Period II (HK\$'million) 1st July, 2002 – 31st December, 2002	Period III (HK\$'million) 1st January, 2003 – 30th June, 2003	Period IV (HK\$'million) 1st July, 2003 – 31st December, 2003	Period V (HK\$'million) 1st January, 2004 – 30th June, 2004	Period VI (HK\$'million) 1st July, 2004 – 31st December, 2004	Subtotal by category
Expansion of distribution network	—	6	3	2	—	—	11
Enhancement of after-sales services	—	1	4	—	—	—	5
Provision of financial assistance to Car Rental Business in the PRC	3	3	—	—	—	—	6
Sales and marketing	1	0.25	0.5	0.25	—	—	2
Establishing joint venture(s)	—	—	2	—	—	—	2
Total	<u>4</u>	<u>10.25</u>	<u>9.5</u>	<u>2.25</u>	<u>—</u>	<u>—</u>	<u>26</u>

STATEMENT OF BUSINESS OBJECTIVES

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term interest-bearing deposits with licensed banks and other financial institutions in Hong Kong and Singapore.

According to the present business objectives, the net proceeds raised will not be sufficient to finance all the objectives beyond 2003. The estimated shortfall of fund for objectives in 2004 is approximately HK\$3 million. The Group plans to finance its objectives beyond 2003 by its internal generated capital or the Group's banking facilities. In the event that there is to be any material modification to the use of proceeds as described above, the Company will issue an announcement in respect of the change.

In addition, upon the listing of the Company, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh will place with an escrow agent and pledge to the Company a total of 77,148,000 Shares, and Loh & Loh will place with an escrow agent and pledge to the Company its HK\$10 million proceeds from the Sale Shares as security for the indemnity provided by Mr. Anthony Chan and Mr. Loh Kim Her in relation to the development co-operation projects in Guangdong Province, Fujian Province, Beijing Municipality and Fuzhou Municipality entered into between the Group and North Anhua and/or its related companies. Such 77,148,000 Shares will be placed with the escrow agent and pledged to the Company immediately after the expiration of the Lock-up Period when the restriction on the disposal (as defined in the GEM Listing Rules to include the creation of any option, rights or interests over such securities) of such Shares, as imposed by Rule 13.16 of the GEM Listing Rules, ceases after the same period. In addition, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh have further undertaken to the Stock Exchange and the Company that they will not pledge or charge any of such Shares to any banking institutions during the Lock-up Period. The Sale Share proceeds will be placed in escrow as a pledge to the Company upon its listing on the terms that if the Group exercises its right under the indemnity, such amounts as correspond with the terms of the indemnity will be released to the Group. (Please refer to paragraph headed "Relationship with North Anhua" of the "Business of the Group" section of this prospectus for further details.)

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Loh Kim Her, aged 48, is the managing director and he joined the Group in November 1993. Mr. Loh has over 8 years experience in distribution of passenger vehicles business in the PRC. Mr. Loh is responsible for the overall strategic planning of the business of the Group. Mr. Loh is also responsible for the establishment and operation of the Group's authorised service centres in the PRC.

Mr. Chan Hing Ka, Anthony, aged 34, is a co-founder of the Group and an executive Director. Mr. Anthony Chan is responsible for the finance operation of the Group. Mr. Chan has established and maintained close relationship with BMW AG and Honda Motor (China) Co., Ltd and enabled the Group to secure reliable supply of BMW, Honda and Land Rover passenger vehicles at competitive terms. Mr. Anthony Chan graduated from the University of San Francisco in 1988 with a bachelor's degree in business administration.

Mr. Loh Nee Peng, aged 33, is a co-founder of the Group and an executive Director. He resigned his directorship from the Group in June 2000 with the intention to develop his auto parts business. Since January 2001, Mr. Loh has been serving the Group as a manager for the PRC development. Mr. Loh has over 8 years experience in automobile industry and became the director of 2 subsidiaries of North Anhua, namely CNA Anhua (Hertz) and CNA Anhua (Beijing), without any shareholding after his resignation from the Group. Mr. Loh graduated from the University of San Francisco in 1988 with a bachelor degree in business administration. Mr. Loh Nee Peng is the nephew of Mr. Loh Kim Her.

NON-EXECUTIVE DIRECTOR

Mr. Goh Chee Wee, aged 55, is the chairman of the Group. He has been appointed as the director of GAPL since September 2000. Mr. Goh is also the group managing director and chief executive officer of Comfort Group, a company listed on the Stock Exchange of Singapore and which owns Comfort (China). He is also the deputy chairman and chief executive officer of another listed subsidiary of Comfort Group, namely VICOM Ltd. Mr. Goh is a director of Singapore Labour Foundation, the chairman of Board of Trustees of Singapore National Co-operative Federation Ltd., the chairman of the NTUC Media Co-operative Ltd. and the deputy chairman of NTUC Fairprice Co-operative Ltd. Mr. Goh is also a director of a number of companies listed on the Stock Exchange of Singapore including Stamford Tyres Corporation Ltd., King Wan Corporation Ltd and Chip Eng Seng Corporation Ltd. Prior to joining Comfort Group, Mr. Goh was the Minister of State in the Ministry of Trade and Industry and Ministry of Communications. Mr. Goh holds a bachelor degree of science with first class honours in physics and a diploma in business administration from the University of Singapore, and a master degree of science engineering from the University of Wisconsin. Mr. Goh is the appointed representative of Comfort Group at any meeting of the members of any company in which Comfort Group has an interest and does not participate or exercise such power in day-to-day operation of the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Kwok Yung, aged 46, is an independent non-executive Director. Mr. Lee is a solicitor admitted to practise law in Hong Kong and a member of the Law Society of Hong Kong. He is currently a partner at Messers. Hau, Lau, Li & Yeung, Solicitors & Notaries in Hong Kong. Mr. Lee has over 12 years experience in law practicing. Mr. Lee holds a diploma from the College of Radiographers and a honours degree in law from the University of London and a postgraduate certificate in laws from the University of Hong Kong. Mr. Lee is experienced in commercial law, litigation and conveyancing.

Ms. Lam So Ying, aged 29, is an independent non-executive Director. She is the vice general manager of Palun Development Limited and is responsible for strategic planning of product distribution and supervising the marketing, administration account and logistic departments of the company. Palun Development Limited is a company which is principally engaged in the trading of photographic equipment in the PRC. Prior joining Palun Development Limited in 1994, Ms. Lam was the Vice Manager of a company which is principally engaged in the trading of various consumer goods in the PRC, and was responsible for supervising the sales and shipping department of the company. Ms. Lam has over 10 years experience in the trading and logistic business in the PRC. Ms. Lam graduated from Hong Kong Baptist University with a diploma in business management in 1996 and is a member of the Association of Business Executives (ABE) in United Kingdom.

SENIOR MANAGEMENT

Mr. Lim Tee Peng, aged 38, is the general manager of the auto parts and accessories division of the Group. Prior to joining the Group in August 1993, Mr. Lim was a sales manager of an authorised dealer of European luxury motor vehicle. Mr. Lim has extensive experience in motor vehicle distribution. Mr. Lim was educated in Beijing University in 2001.

Mr. Tan Cheng Kim, aged 35, is the general manager of the motor vehicle distribution division of the Group. Mr. Tan has extensive experience in trading of auto parts and accessories in the PRC. Prior to joining the Group in August 1993, Mr. Tan was an engineer of an authorised dealer of European luxury motor vehicle. Mr. Tan graduated from the Ngee Ann Polytechnic in Singapore in 1987 with a diploma in mechanical engineering.

Mr. Alan John Walker, aged 39, is the general manager of the after-sales division of the Group and is responsible for operation and development of after-sale services. Mr. Walker joined the Group in November 1994. Mr. Walker holds the National Craftsman Certificate issued by National Joint Council for the Motor Vehicle Retail & Repair Industry and is a fellow member of the Institute of Motor Industries, United Kingdom.

Mr. Duncan Anderson Harworth, aged 40, is the service manager of the Group and is responsible for the operations of the Group's service centres in the PRC. Mr. Harworth joined the Group in August 1997. Mr. Harworth is a fellow member of the Institute of Motor Industries, United Kingdom.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Shum Kai Wing, aged 37, is the Financial Controller and the Company Secretary of the Group and is responsible for the overall financial management and accounting function of the Group. He joined the Group in August 2001 and has more than 13 years experience in financial sector, including working for an international audit firm for 4 years. Mr. Shum holds a bachelor degree in accounting from the City University of Hong Kong. He is a fellow member of Chartered Association of Certified Accountants and an associate member of Hong Kong Society of Accountants.

Mr. Choy Choong Yew, aged 48, is the finance and administration manager. Mr. Choy joined the Group in August 1997 and has more than 10 years experience in the finance and accounting area. He is responsible for the finance and accounting functions in Singapore. Mr. Choy graduated from the Royal Technology College in Australia with a master degree in finance.

Mr. Crispino Cabaluna Villondo, aged 41, is the workshop chief technician and is responsible for the technical services provided in the workshop in Fujian Province, the PRC. He joined the Group in October 1995 and has more than 15 years experience in auto servicing industry. Mr. Villondo holds a bachelor degree in science in mechanical engineering from the Adamson University.

Ms. Feng Qi Fei, aged 31, is the distribution manager and is responsible for car distribution in the Northern part of the PRC. She joined the Group in August 1993 and has 10 years experience in marketing in auto industry. Ms. Feng graduated from the Beijing Second Foreign Language Institute.

Ms. Lim Mi Mi, aged 28, is the distribution manager and is responsible for car distribution in the Southern part of the PRC. She joined the Group in May 1994 and has 7 years experience in marketing in auto industry. Ms. Lim holds a bachelor degree in Chinese Language and Literature from the Fuzhou University and a master degree in business management from the Xiamen University.

Mr. Chan Wing Yin, aged 25, is the finance and administration manager and is responsible for the finance and administration in Hong Kong. He joined the Group in April 2001. Mr. Chan holds a bachelor degree in business administration from the Chinese University of Hong Kong.

Mr. Xue Guo Qiang, aged 24, is the assistant finance manager and is responsible for the finance and accounting in the PRC. He joined the Group in April 1999. Mr. Xue holds a bachelor degree in Finance and Accounting from the Industry Technology College of Harbin University.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

ADVISORS

Mr. Li Gang is an advisor to the Group. He is the general manager of North Anhua, a wholly-owned subsidiary of CNA which is a company duly authorised by the MOFTEC for import and export trade of motor vehicles and is granted the distribution right of motor vehicles in the PRC. North Anhua has an alliance arrangement with the Group in distributing the vehicles distributed by the Group in the PRC. Mr. Li will be mainly in a role of advising the Group on motor vehicle distribution expansion in the future.

Mr. Chua Huat Hwee is an advisor to the Group. He is the general manager of Comfort (China), which is a wholly-owned subsidiary of Comfort Group in the PRC and operates taxi services, tour bus services, petroleum section and service centres in Jiangsu Province, Henan Province and Fujian Province. Mr. Chua will be providing advise on the Group's business development in terms of his extensive business connection in the PRC.

COMPANY SECRETARY

Mr. Shum Kai Wing AHKSA FCCA.

QUALIFIED ACCOUNTANT

Mr. Shum Kai Wing AHKSA FCCA.

COMPLIANCE OFFICER

Mr. Loh Kim Her.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at the Latest Practicable Date, the Group had approximately 70 employees. A breakdown of the employees' functions is as follows:

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2000	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	8	—	31
Sales and Marketing	3	1	5	1	—	10
Purchasing	3	1	4	2	—	10
	<u>10</u>	<u>6</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>69</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2001	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at the Latest Practicable Date	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>

Out of the 70 employees of the Group as at the Latest Practicable Date, 10 employees, 7 employees and 53 employees were in Singapore, Hong Kong and the PRC respectively.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

THE COMPANY'S RELATIONSHIP WITH STAFF

The Group recognises the importance of providing training to its staff. Apart from on-the-job training, the Group regularly organises internal and external training for its staff in technical or product knowledge.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme, nor does it have any options or securities in issue which are convertible or exchangeable into Shares. The Company will ensure full compliance with the requirements in respect of share option scheme under the GEM Listing Rules in the event that the Company decides to adopt a share option scheme after its listing on GEM.

RETIREMENT FUND, PROVIDENT FUND AND MEDICAL SCHEMES

The Group is participating in a defined contribution provident fund scheme for its staff in Singapore. The Group makes a monthly contribution at 16% of the employees' total monthly wages as defined under the Contribution Provident Act in Singapore, into a special account of a designated financial organisation in the name of such members of the Group.

The Group has not operated any provident funds for its employees in Hong Kong for the period from 1st January, 2000 to 30th November, 2000. Following the enactment of the Mandatory Provident Fund Scheme Ordinance in Hong Kong, the Group has been participating in an approved mandatory provident fund scheme since 1st December, 2000. Both the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Scheme Ordinance. The respective contributions by the Group and the employees are subject to a statutory maximum of HK\$1,000 per month, contributions in excess of HK\$1,000 per month are made on voluntary basis.

The Group is participating in a social insurance scheme in accordance with the relevant PRC laws and regulations for its PRC employees. The Group is required to contribute at 6% to 30% of the employees' basic salaries.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

The Group established an audit committee on 5th June, 2002 with written terms of reference in compliance with Rule 5.23 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board of Directors of the Company.

The following sets out the members of the Group's audit committee:

Name	Position in the audit committee	Position in the Board of Directors
Ms. Lam So Ying	Chairman	Independent non-executive Director
Mr. Lee Kwok Yung	Member	Independent non-executive Director
Mr. Anthony Chan	Member	Executive Director

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, after the completion of the Placing, the only persons directly or indirectly holding interests in 10% or more of the Shares will be:

Name	Number of Shares	Approximate percentage of share holding
Mr. Anthony Chan (<i>Note 1</i>)	106,432,000	26.61%
Loh & Loh (<i>Note 2</i>)	74,432,000	18.60%
Mr. Loh Kim Her (<i>Note 3</i>)	106,432,000	26.61%
Mr. Loh Nee Peng (<i>Note 4</i>)	106,432,000	26.61%
Comfort Group (<i>Note 5</i>)	61,667,570	15.42%
Comfort (China) (<i>Note 5</i>)	61,667,570	15.42%

Notes:

1. Mr. Anthony Chan is beneficially interested in 100% and 49% in the respective entire issued share capitals of Tycoons Investment and Loh & Loh. Accordingly, Mr. Anthony Chan has an effective interest of approximately 17.12% and a deemed interest of approximately 26.61% in the Company immediately after the Placing.
2. Loh & Loh has an effective interest of approximately 18.60% in the Company immediately after the Placing.
3. Mr. Loh Kim Her is beneficially interested in 100%, 18.94% and 15% in the respective entire issued share capitals of Affluence Investment, L&B and Loh & Loh. Accordingly, Mr. Loh Kim Her has an effective interest of approximately 7.55% and a deemed interest of approximately 26.61% in the Company immediately after the Placing.
4. Mr. Loh Nee Peng is beneficially interested in 100% and 15% in the respective issued share capitals of Big Reap Investment and Loh & Loh. Accordingly, Mr. Loh Nee Peng has an effective interest of approximately 10.79% and a deemed interest of approximately 26.61% in the Company immediately after the Placing. Mr. Loh Nee Peng is the nephew of Mr. Loh Kim Her.
5. Comfort (China) has an effective interest of approximately 15.42% in the Company immediately after the Placing. Comfort (China) is a wholly-owned subsidiary of Comfort Group. Accordingly, Comfort Group has an effective and a deemed interests of approximately 15.42% in the Company immediately after the Placing.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing, the following persons (the “Initial Management Shareholders”) are, or are deemed to be, entitled to exercise or control the exercise of five per cent. or more of the voting power at general meetings of the Company and are able, or are deemed to be able, as a practical matter, to direct or influence the management of the Company immediately and/or are members of senior management, directors of the Company or investors with board representation prior to the date of this prospectus and are therefore regarded as initial management shareholders of the Company under the GEM Listing Rules:

Name	Number and percentage holding of Shares immediately before the Placing	Number of Shares immediately after the Placing	Percentage holding of Shares immediately after the Placing
Affluence Investment	16,000,000/5%	16,000,000	4.00%
Mr. Loh Kim Her (<i>Note 1</i>)	33,184,000/10.37%	30,195,200	7.55%
Big Reap Investment	32,000,000/10%	32,000,000	8.00%
Mr. Loh Nee Peng (<i>Note 2</i>)	46,176,000/14.43%	43,164,800	10.79%
Tycoons Investment	32,000,000/10%	32,000,000	8.00%
Mr. Anthony Chan (<i>Note 3</i>)	78,272,000/24.46%	68,471,680	17.12%
Loh & Loh (<i>Note 4</i>)	94,432,000/29.51%	74,432,000	18.60%
L&B (<i>Note 5</i>)	16,000,000/5%	16,000,000	4.00%
Zhongqi Technology (<i>Note 6</i>)	19,200,000/6%	19,196,430	4.80%
Mr. Tan Cheng Kim (<i>Note 6</i>)	9,600,000/3%	9,598,215	2.40%
Mr. Lim Tee Peng (<i>Note 6</i>)	9,600,000/3%	9,598,215	2.40%
Comfort (China) (<i>Note 7</i>)	61,664,000/19.27%	61,667,570	15.42%
Comfort Group (<i>Note 7</i>)	61,664,000/19.27%	61,667,570	15.42%

Notes:

- Mr. Loh Kim Her is beneficially interested in 100%, 18.94% and 15% in the respective entire issued share capitals of Affluence Investment, L&B and Loh & Loh. Accordingly, Mr. Loh Kim Her has an effective interest of approximately 7.55% and a deemed interest of approximately 26.61% in the Company immediately after the Placing. Mr. Loh Kim Her is the uncle of Mr. Loh Nee Peng. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

2. Mr. Loh Nee Peng is beneficially interested in 100% and 15% in the respective entire issued share capitals of Big Reap Investment and Loh & Loh. Accordingly, Mr. Loh Nee Peng has an effective interest of approximately 10.79% and a deemed interest of approximately 26.61% in the Company immediately after the Placing. Mr. Loh Nee Peng is the nephew of Mr. Loh Kim Her. Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and father of Mr. Loh Nee Peng. Mr. Loh Nee Peng is one of the Directors of 2 subsidiaries of North Anhua in which the Group has no equity interest. He is appointed as the Director in view of his provision of technical advice to the company.
3. Mr. Anthony Chan is beneficially interested in 100% and 49% in the respective entire issued share capitals of Tycoons Investment and Loh & Loh. Accordingly, Mr. Anthony Chan has an effective interest of approximately 17.12% and a deemed interest of approximately 26.61% in the Company immediately after the Placing.
4. Loh & Loh is legally and beneficially owned as to 49% by Mr. Anthony Chan, 15% by Mr. Loh Kim Her, 15% by Mr. Loh Nee Peng and 21% by Mr. Loh Boon Cha. Loh & Loh has an effective interest of approximately 18.60% in the Company immediately after the Placing.
5. L&B is legally and beneficially owned as to 18.94% by Mr. Loh Kim Her and 81.06% by the Loh Family. L&B has an effective interest of approximately 4% in the Company immediately after the Placing.
6. The entire issued share capital of Zhongqi Technology is legally and beneficially owned as to 50% by Mr. Tan Cheng Kim, the general manager of motor vehicle distribution division of the Company, and 50% by Mr. Lim Tee Peng, the general manager of auto parts and accessories division of the Company. Zhongqi Technology has an effective interest of approximately 4.80% in the Company immediately after the Placing. As both Mr. Tan Cheng Kim and Mr. Lim Tee Peng are mentioned in this prospectus as senior management of the Company, Zhongqi Technology, Mr. Tan Cheng Kim and Mr. Lim Tee Peng are deemed to be Initial Management Shareholders and each of Mr. Tan Cheng Kim and Mr. Lim Tee Peng has an effective interest in 9,598,215 Shares, representing approximately 2.4% interest in the Company immediately after the Placing.
7. The entire issued share capital of Comfort (China) is owned by Comfort Group. Comfort (China) has an effective interest of approximately 15.42% in the Company immediately after the Placing. Accordingly, Comfort (China) and Comfort Group are deemed to be Initial Management Shareholders and Comfort Group has an effective interest in 61,667,570 Shares, representing approximately 15.42% interest in the Company immediately after the Placing.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

Save and except for Mr. Anthony Chan, Tycoons Investment (as nominee of Mr. Anthony Chan), Mr. Loh Kim Her, Affluence Investment (as nominee of Mr. Loh Kim Her) and to the extent of 29,148,000 Shares held by Loh & Loh as described below, each of the Initial Management Shareholders has undertaken to the Company, the Sponsors and the Stock Exchange, that:

- (i) he/it will place with an escrow agent acceptable to the Stock Exchange his/its relevant securities held by each of them during the Lock-up Period;
- (ii) during the Lock-up Period, he/it will neither, save as provided in the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in the relevant securities; and
- (iii) within the Lock-up Period, he/it shall (a) when he/it pledges or charges any interest in the relevant securities, immediately inform the Company and the Sponsors in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and (b) when he/it received indications, either verbal or written, from any pledgee or chargee that the relevant securities pledged or charged by him/it will be or has been disposed of, immediately inform the Company and the Sponsors in writing of such indications.

Each of Mr. Anthony Chan, Tycoons Investment (as nominee of Mr. Anthony Chan), Mr. Loh Kim Her, Affluence Investment (as nominee of Mr. Loh Kim Her) and Loh & Loh (with respect to its 29,148,000 Shares) has undertaken to the Company, the Sponsors and the Stock Exchange that:

- (i) he/it will place with an escrow agent acceptable to the Stock Exchange his/its relevant securities held by each of them during the Lock-up Period;
- (ii) during the Lock-up Period, he/it will neither dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in the relevant securities;
- (iii) pursuant to the deed of indemnity and guarantee mentioned in sub-paragraph (h) under the paragraph headed “Summary of material contracts” in appendix IV of this prospectus, he/it will place with an escrow agent acceptable to the Stock Exchange his/its relevant securities held by each of them as of the expiry of the Lock-up Period for a further period until all the Indemnifiers’ Obligations (as defined in such deed of indemnity) have been duly performed and discharged or any other date as may be notified by the Company (the “Further Lock-up Period”);
- (iv) during the Further Lock-up Period, he/it will neither dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in the relevant securities; and

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

- (v) within both the Lock-up Period and the Further Lock-up Period, he/it will not pledge or charge any direct or indirect interest in the relevant securities to any authorised institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as security for any bona fide commercial loan.

Loh & Loh has further undertaken to the Company, the Sponsors and the Stock Exchange, that pursuant to the deed of indemnity and guarantee mentioned in sub-paragraph (h) under the paragraph headed “Summary of material contracts” in appendix IV of this prospectus, it will place with an escrow agent acceptable to the Stock Exchange the cash proceeds of approximately HK\$10,000,000 (or such amount as may be adjusted in accordance with the Placing Price) from the placing of the Sale Shares for a period from the Listing Date until all the Indemnifiers’ Obligations (as defined in such deed of indemnity) have been duly performed and discharged or any other date as may be notified by the Company.

Loh & Loh shall place with an escrow agent a sum of HK\$10,000,000, representing the net proceeds arising from the Placing of the Sale Shares. Loh & Loh shall also place with an escrow agent, immediately after the expiration of the Lock-up Period, approximately 7.29% of its direct interest in the relevant securities, representing 29,148,000 Shares, as continuing security for the discharge by Mr. Anthony Chan and Mr. Loh Kim Her of their obligations under the deed of indemnity and guarantee provided in favour of the Group as described in sub-paragraph (h) under the paragraph headed “Summary of material contracts” in appendix IV to this prospectus.

Mr. Loh Kim Her and Mr. Anthony Chan shall place with an escrow agent, immediately after the expiration of the Lock-up Period, their respective 8% and 4% direct interests in the relevant securities, representing 32,000,000 Shares and 16,000,000 Shares respectively as continuing security for the discharge by themselves of their obligations under the deed of indemnity and guarantee provided in favour of the Group as described in sub-paragraph (h) under the paragraph headed “Summary of material contracts” in appendix IV to this prospectus.

SIGNIFICANT SHAREHOLDER

So far as the Directors are aware, immediately after the completion of the Placing, there will be no other persons who directly or indirectly hold interest in 5% or more of the Shares, apart from the Initial Management Shareholders.

SHARE CAPITAL

Authorised share capital: *HK\$*

<u>2,000,000,000</u> Shares	<u>200,000,000</u>
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Issued shares:

<u>320,000,000</u> Shares in issue as at the date of this prospectus	<u>32,000,000</u>
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Shares to be issued:

<u>80,000,000</u> Shares to be issued under the Placing	<u>8,000,000</u>
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Total:

<u>400,000,000</u> Shares	<u>40,000,000</u>
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Under the GEM Listing Rules, the minimum level of public float to be maintained by the Company at all times after listing is 25% of the share capital in issue from time to time.

This table assumes that the Placing becomes unconditional. It takes no account of any Shares which may be issued under the general mandate to issue Shares (see below) or Shares which may be repurchased by the Company (see below).

Ranking

The Placing Shares will rank equally with all Shares now in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

Share Option Scheme

The Company has not adopted any share option scheme nor does it have any other options or securities in issue which are convertible or exchangeable into Shares.

General mandate to issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with (otherwise than by way of rights issues or scrip dividend schemes or other similar arrangements in accordance with the articles of association of the Company) Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing; and

SHARE CAPITAL

- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any). The mandate will remain in effect until:
- the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or
 - it is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting, whichever is the earliest. For further details of this general mandate, see “Written resolutions of the sole shareholder of the Company passed on 5th June, 2002” in appendix IV to this prospectus.

General mandate to repurchase Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal amount of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Placing.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out under “Repurchase by the Company of its own Securities” in appendix IV to this prospectus.

The mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or
- it is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting; whichever is the earliest.

FINANCIAL INFORMATION

INDEBTEDNESS AND BORROWINGS

As at the close of business on 31st March, 2002, the Group had bank borrowings and banking facilities utilised of HK\$128 million. As at that day, the Group had contingent liabilities of HK\$34 million being guarantees provided to Beijing China National Automotive Anhua Spare Parts Ltd. in United States dollars. The guarantees will be released upon listing of the Shares as concurred by the banks.

Disclaimer

Save as aforesaid or otherwise disclosed herein, and apart from any intra-group liabilities and normal trade payables, as at the close of business on 31st March, 2002, neither the Company nor any of its subsidiaries had any outstanding mortgages or charges or debentures or other loan capital or bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptance or credits or any guarantees or material contingent liabilities.

No material adverse change

The Directors have confirmed that, save as disclosed in this “Financial information” section, there has not been any material change in the indebtedness of the Company and its subsidiaries since 31st March, 2002.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st March, 2002, the Group had net current assets of approximately HK\$2.3 million. Current assets comprised cash and bank balances and fixed deposits of approximately HK\$42 million, inventories of approximately HK\$31 million, accounts receivable, deposits and prepayment of approximately HK\$78 million. Current liabilities comprised bank overdraft of approximately HK\$7 million, accounts payable and accrued charges of approximately HK\$13 million, amount due to related companies of approximately HK\$1.4 million, amount due to directors of approximately 0.9 million, bank borrowings of approximately HK\$112 million, taxation of approximately HK\$14 million and dividends payable of approximately HK\$0.4 million.

FINANCIAL INFORMATION

Financial resources

The Group has historically relied on cashflow generated internally and banking facilities provided by its principal bankers in Singapore for its capital expenditures and other capital requirements. Following the Placing, the Group expects to fund its foreseeable expenditures with the net proceeds from the Placing and net operating cash inflow.

Borrowings and banking facilities

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its principal bankers in Singapore.

As at 31st March, 2002, the Group had banking facilities of HK\$191 million. Such banking facilities were utilised to the extent of approximately HK\$128 million as at 31st March, 2002 of which approximately HK\$118 million are repayable within one year and approximately HK\$10 million are repayable after one year.

Foreign exchange risk

During the Track Record Period, approximately 17.3%, 27.5%, 22.9% and 16.4% of the Group's sales were settled in RMB, HK\$, euro and US\$ respectively. Approximately 0%, 13.6%, 52.6% and 25.3% of the Group's purchases were settled in RMB, Hong Kong dollars, euro and US\$ respectively.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at 31st December, 2001, the total advancement, guarantees and receivables provided to and due from North Anhua, its subsidiaries and related companies are in aggregate of approximately HK\$126 million, which exceed the 25% of the Group's net tangible assets. Pursuant to 17.15 of the GEM Listing Rules, the details of the transactions are illustrated and disclosed as follows:

The prepaid rental expenses advanced to CNA Anhua (Hertz) and Jin Tian Cheng as at 31st December, 2001, amounted to approximately HK\$34 million and HK\$6 million respectively, were unsecured, interest free and will be amortized over 50 years and 20 years from the date of completion of the developments respectively. The non-trade advance to Jin Tian Cheng amounted to approximately HK\$11 million was unsecured, interest free and repayable within one year, of which approximately HK\$3.3 million has been received in May 2002.

FINANCIAL INFORMATION

Approximately HK\$34 million guarantees were provided to a bank in respect of banking facilities granted to Beijing China Automotive Anhua Spare Parts Ltd. The bank agreed to unconditionally release the above guarantees upon the listing of the Company. The group does not have any security or receive any considerations from Beijing China Automotive Anhua Spare Parts Ltd. or North Anhua by giving such guarantees.

Approximately HK\$8 million was deposited with various related companies of North Anhua in the PRC for setting up car rental offices. Since the Group is not allowed to operate car rental business directly in the PRC, such amount has been fully repaid subsequent to the financial year end.

The trade receivables due from North Anhua as at 31st December, 2001 amounted to approximately HK\$24 million. The trade receivables due from North Anhua were unsecured, interest free and repayable within one year. Such amount has been fully settled in May 2002.

The other receivables due from North Anhua as at 31st December, 2001 amounted to approximately HK\$9 million, represented the same amount of inventory refunded to North Anhua at cost. This amount was unsecured, interest free and has been settled in March 2002.

FINANCIAL INFORMATION

TRADING RECORD

Summary of combined results of the Group

The table sets out a summary of the audited combined results of the Group for each of the two years ended 31st December, 2000 and 2001 prepared on the assumption that the current structure of the Group was in existence throughout the periods under review and is extracted from and has been prepared in accordance with the basis set out in Note 1 to the Section I of the accountants' report in appendix I to this prospectus.

	FY2000		FY2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>		<i>(Note 1)</i>
Income from fixed price contracts <i>(Note 2)</i>				
– Sales of passenger vehicles	19,342	87,009	50,102	218,786
– Servicing of motor vehicles and sales of auto parts	2,283	10,270	3,340	14,585
Technical fee income <i>(Note 3)</i>	6,157	27,696	4,675	20,413
Total turnover	27,782	124,975	58,117	253,784
Cost of sales	(19,138)	(86,090)	(47,820)	(208,821)
Gross profit	8,644	38,885	10,297	44,963
Other revenues	190	855	90	393
Staff costs	(1,152)	(5,182)	(1,440)	(6,288)
Depreciation expenses	(171)	(768)	(170)	(743)
Minimum lease payments for operating lease	(252)	(1,134)	(453)	(1,978)
Exchange gain, net	912	4,103	494	2,157
Other operating expenses	(3,236)	(14,558)	(1,943)	(8,484)
Profit from operations	4,935	22,201	6,875	30,020
Share of profits of a joint venture <i>(Note 4)</i>	295	1,327	—	—
Finance costs, net	(2,107)	(9,478)	(2,053)	(8,965)
Profit before taxation	3,123	14,050	4,822	21,055
Taxation	(1,968)	(8,853)	(2,056)	(8,976)
Profit after taxation but before minority interests	1,155	5,197	2,766	12,079
Minority interests <i>(Note 5)</i>	(90)	(405)	11	48
Profit attributable to shareholders	<u>1,065</u>	<u>4,792</u>	<u>2,777</u>	<u>12,127</u>
Earnings per share <i>(Note 6)</i>				
– basic (cents)	<u>0.35</u>	<u>1.56</u>	<u>0.87</u>	<u>3.79</u>

FINANCIAL INFORMATION

The profit attributable to shareholders would have been impacted by certain notional adjustments. These adjustments are made for information purposes to reflect the pro forma information detailed in Note 3a, 17b, 18 and 22 of Section I of the accountants' report in appendix I to this prospectus, as if the arrangements set out in these sections had been effected during the two years ended 31st December, 2000 and 2001.

Notes:

1. Translation of amounts from Singapore Dollars ("S\$") into Hong Kong dollars ("HK\$") is for the convenience of readers and has been made at the rates of exchange in effect at 31st December, 2000 of S\$22.23 = HK\$100, and 31st December, 2001 of S\$22.90 = HK\$100. No representation is made that the S\$ amounts could have been, or could be, converted into HK\$ at such rates or at any other rate.
2. The Group's income from fixed price contracts is stated after deducting the PRC value-added tax ("VAT") at 17% of revenue from fixed price contracts, city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount of VAT levied.
3. The technical fee income is earned based on a percentage of the selling prices of PRC locally assembled Honda cars sold by North Anhua.
4. This relates to share of results of a 55% joint venture company, Beijing China National Automotive Anhua Spare Parts Ltd, which was disposed of in the year ended 31st December, 2000.
5. Minority interests relate to minority shareholders' share of subsidiaries' results.
6. The calculation of basic earnings per share for each of the years ended 31st December, 2000 and 2001 is based on the profit attributable to shareholders during the year and on the weighted average number of approximately 306,302,000 Shares and 320,000,000 Shares in issue during the years ended 31st December, 2000 and 2001, respectively, by reference to 320,000,000 Shares in issue as at date of this prospectus. As there are no dilutive potential ordinary shares during the years and as at the end of each year under review, no diluted earnings per share is presented.

Management's discussion and analysis of financial condition and results of operation

Overview

The majority of the Group's turnover during the track record period was derived by German Automobiles Pte Ltd., a subsidiary operating in Singapore.

German Automobiles Pte Ltd. was incorporated on 26th August, 1993. In the years ended 31st December, 2000 and 2001, substantially all activities of German Automobiles Pte Ltd. related to the wholesale of passenger vehicles, including parts and accessories and the provision of agency and technical services through its distribution networks in the PRC and Hong Kong.

FINANCIAL INFORMATION

Year ended 31st December, 2001 compared with year ended 31st December, 2000

Turnover

For the year ended 31st December, 2001, the turnover of the Group amounted to HK\$254 million, an increase of approximately 103% as compared with that of the year ended 31st December, 2000. This is mainly contributed by the increase in the sale of passenger vehicle by 151% during the period, owing to the increase in demand for deluxe BMW passenger vehicles and other brand vehicles including Toyota and Mercedes-Benz arising from product diversification. For the year ended 31st December, 2000, revenues generated from distributing BMW and Mercedes-Benz was approximately HK\$35,565,000 and HK\$26,144,000 respectively and increased to approximately HK\$128,812,000 and HK\$64,522,000 respectively for the year ended 31st December, 2001. The Directors believe such increase was resulted from increasing customers' demand induced by the economic growth of the PRC.

The Group's ability to maintain strong relationships with BMW AG secured the continuous supply of the passenger vehicles to satisfy the continuous growth in the PRC luxury and mid-market passenger vehicles. The Group has strengthened its after-sales services and capabilities to enhance the Group's image and reliability.

Gross Profit

Gross profit margin for income from distribution of passenger vehicles was approximately 8% and 10.5% for the years ended 31st December, 2000 and 2001 respectively. The gross profit margin of technical fee is 100% for each of the years ended 31st December, 2000 and 31st December, 2001. For the years ended 31st December, 2000 and 2001, the gross profit margin of the Group was approximately 31% and 18% respectively.

For the year ended 31st December, 2001, the gross profit of the Group was approximately HK\$45 million, representing an increase of approximately 16% over that of the year ended 31st December, 2000. The decrease in gross profit margin resulted from decrease in technical fee, which recorded a decrease of approximately HK\$7 million or 26% over that of the year ended 31st December, 2000. Technical fee income is earned based on 5% to 15% of the selling prices of PRC assembled Honda cars sold by North Anhua, a major customer. The high technical fee income for the year ended 31st December, 2000 was due to the launch of the locally assembled Honda cars in the PRC. The demand for the locally manufactured cars sold by North Anhua moderated in the year ended 31st December, 2001 and consequently the technical fee income decrease from HK\$28 million in 2000 to HK\$20 million in 2001.

Operating expenses

For the year ended 31st December, 2001, the staff costs of the Group amounted to approximately 2.48% of the turnover of the Group and an increase of approximately HK\$1,106,000 or approximately 21% as compared to that of the year ended 31st December, 2000.

FINANCIAL INFORMATION

For the year ended 31st December, 2001, the exchange gain of the Group amounted to approximately HK\$2,157,000, a decrease of approximately HK\$1,946,000 or approximately 47.43% as compared to that of the year ended 31st December, 2000. The reduction in exchange gain is mainly due to the devaluation of SGD against major currencies at the last quarter of 2001 which gives rise to unrealized exchange loss for other currencies, such as USD and euro on revaluation at the business closing date.

Other operating expenses decrease by approximately HK\$6,074,000 or approximately 41.72% over the year ended 31st December, 2000, owing to the tight control of management on debts collection and inventory control. This resulted in lower bad debts written off, provision for doubtful debts and inventory obsolescence of approximately HK\$4,586,000 during the year ended 31st December, 2001. There were also losses incurred on disposal of a 80% subsidiary and a 55% joint venture, HK\$877,000 of Xiamen Xiangyu Jinbow International Trading Co., Ltd. and HK\$2,906,000 of Beijing China National Automotive Anhua Spare Parts Ltd. respectively, amounting to HK\$3,783,000 during the year ended 31st December, 2000. Since GAL has taken up the role of Xiamen Xiangyu Jinbow International Trading Co., Ltd. of trading auto parts and the management considered the manufacturing of auto parts by Beijing China National Automotive Anhua Spare Parts Ltd. did not align with the core business of the Group, the Group thus decided to dispose both of the entities in 2000.

Profit attributable to shareholders

Profit attributable to shareholders for the year ended 31st December, 2001 is HK\$12,127,000 as compared with that of the year ended 31st December, 2000 of HK\$4,792,000. The profits for 2001 increase by approximately 153% as compared with that of 2000, mainly due to the boost in sales and tightened control on debts collection, inventory management and operating expenses, as well as the absence of non-recurring losses on disposal of a subsidiary and a joint venture in 2000. The joint venture was disposed at approximately HK\$9,096,000, generating a loss on disposal at approximately HK\$2,906,000.

Taxation

German Automobiles Limited, a wholly owned subsidiary of the Company, is an enterprise operating in Hong Kong. Hong Kong profits tax has been provided for each of the two years ended 31st December, 2000 and 2001, at a rate of 16%.

German Automobiles Pte Ltd., a wholly owned subsidiary of the Company, is an enterprise operating in Singapore. Singapore income tax at a rate of 25.5% and 24.5% has been provided for the years ended 31st December, 2000 and 2001 respectively.

Xiamen BMW Automobiles Service Co., Ltd., a cooperative joint venture enterprise established and operating in the Xiamen Special Economic Zone of the PRC since 8th January, 1994 and was subject to the PRC enterprise income tax at a rate of 33%. Xiamen BMW Automobiles Service Co., Ltd. did not generate any assessable profits in the PRC since its incorporation.

FINANCIAL INFORMATION

Xiamen BMW Automobiles Service Co., Ltd. is also subjected to value-added-tax ("VAT") at 17% of revenue from fixed price contracts, city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount VAT levied.

In addition, the Group's employees in the PRC are subject to individual income tax. The Group is obliged to withhold individual income tax from employees' payrolls for payment to the PRC Tax Bureau.

The Group has been delaying its tax payment due to the Inland Revenue Authority of Singapore since 1997 as a result of lacking proper accounting control during the time when the Group's accounting staffs made some injudicious assessments on filing and journalising tax returns in the past. Provision for tax is made every year. The Directors were not informed by the Group's accountants during that time in relation to the actual settlement status of the tax bills and all the outstanding tax balances which had not been paid. Furthermore, the Group's accountants did not draw the Directors' attention to the issue even though the Inland Revenue Authority of Singapore had sent multiple payment reminders to the Group. As a result, the tax payments were past due and delayed.

The Group intends to settle the outstanding tax balance by the end of 2002 by monthly installments, but there is no written confirmation from the Inland Revenue Authority of Singapore for their agreement to the tax repayment schedule. The Directors confirm that since the event, the Group has improved its internal control by hiring an experienced financial controller and professional accountants to oversee its internal operation. The Directors believe that this will improve the internal control of the Group significantly in the future. Please refer to "Risk Factors" section for further details.

As at 31st December, 2001, the tax payable to the Inland Revenue Authority of Singapore amounted to HK\$13,022,000. Such provisions for outstanding tax payment balance have been fully made in the accountants' report, and on the ground of prudence, a maximum of 17% penalty for such late tax payments of approximately HK\$1,528,000 has been provided in the accountants' report.

FOREIGN EXCHANGE

The reduction in exchange gain for the year ended 31st December, 2001 as compared with that of 31st December, 2000 is mainly due to the devaluation of SGD against major currencies at the last quarter of the year 2001 which give rise to unrealized exchange loss for other currencies, e.g. USD and Euro.

PROPERTY INTERESTS

A letter and the summary of valuation issued by DTZ Debenham Tie Leung Limited in respect of the property interests owned and rented/occupied by the Group in Singapore, Hong Kong and the PRC are set out in appendix II to this prospectus.

FINANCIAL INFORMATION

DIVIDENDS

No dividend has been paid or declared by the Company nor any of its subsidiaries during the Track Record Period. The Directors do not expect to pay or declare any dividend for the year ending 31st December, 2002. The amount of any future dividends will be subject to the discretion of the Directors and will be dependent upon the Group's earnings, financial condition, cash requirements and availability and other relevant factors.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 31st March, 2002, the Company had no reserves available for distribution to its shareholders.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31st December, 2001 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st December, 2001	51,052
Unaudited net profit for the 3 months ended 31st March, 2002	1,613
Surplus arising on the revaluation of the Group's property interests as at 31st December, 2001 (<i>Note 1</i>)	575
Estimated net proceeds of the Placing (<i>Note 2</i>)	<u>27,000</u>
Adjusted net tangible assets	<u><u>80,240</u></u>
Adjusted net tangible assets value per share (<i>Note 3</i>)	<u><u>20.06 cents</u></u>

FINANCIAL INFORMATION

Notes:

1. The surplus on the revaluation of the Group's property interests as at 31st December, 2001 will be incorporated into the Company's financial statements for the year ending 31st December, 2002. If such surplus is incorporated into the Group's financial statements for the year ended 31st December, 2001, annual depreciation expenses for the year ended 31st December, 2001 will be increased by approximately HK\$9,000.
2. The estimated net proceeds of the Placing is based on the Placing Price of \$0.50 per Placing Share or total amount of HK\$27 million which will be raised under the Placing by the Company after expenses.
3. The adjusted net tangible assets value per Share is calculated based on 400,000,000 Shares in issue immediate after the Placing.

NO MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st December, 2001 (being the date to which the latest audited combined statements of the Group were made up).

UNDERWRITING

UNDERWRITERS

Cash
First Shanghai Securities Limited
Hooray Securities Limited
JS Cresvale
Shun Loong Securities Company Limited
UOB Kay Hian (Hong Kong) Limited
YF Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement dated 10th June, 2002 between, among others, the Company, the executive Directors and the Underwriters, the Company is offering the Placing Shares for subscription and/or purchase by way of the Placing.

Subject to the GEM Listing Committee granting listing of, and permission to deal in, the Shares (subject only to allotment) on or before 10th July, 2002, and to certain other conditions set out in the Underwriting Agreement being satisfied as set out therein, the Underwriters have severally agreed to apply, or procure placees, to apply for the Placing Shares which have not been placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers and/or purchasers for the Placing Shares are subject to termination if certain circumstances arise prior to 5:00 p.m. on the date of despatch of Share certificates. The grounds for termination include, inter alia, where:

- (i) the success of the Placing has been or would or might be adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing laws or regulator or change in the interpretation or application thereof or other occurrence of any nature whatsoever in Hong Kong, the PRC, Singapore, the Cayman Islands or any other relevant jurisdictions which may in the sole and absolute opinion of Cash (for itself (in its capacity as the sponsor and the lead manager of the Placing) and on behalf of the Underwriters) materially and adversely affect the business or financial prospects of the Group taken as a whole; or
 - (b) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) of a political military, industrial, financial, economic

UNDERWRITING

or other nature, whether or not sui generis with any of the foregoing, resulting in an adverse change in, or which would in the sole and absolute opinion of Cash, for itself (in its capacity as the sponsor and the lead manager of the Placing) and on behalf of the Underwriters) be expected to result in a material and adverse change in, political, economic or stock market conditions; or

- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lockout shall have occurred, happened or come into effect; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (e) a change or development involving a prospective change in taxation in Hong Kong, the Cayman Islands, Singapore or the PRC or elsewhere or the implementation of exchange controls which shall or would materially and adversely affect the Company or its present or prospective shareholders in their capacity as such; or
- (ii) any change in the conditions of local, national or international securities markets occurs which in the sole and absolute opinion of Cash (for itself (in its capacity as the sponsor and the lead manager of the Placing) and on behalf of the Underwriters) is likely to materially and adversely affect the success of, or makes it inexpedient or inadvisable to proceed with, the Placing; or
- (iii) there comes to the notice of Cash and/or JS Cresvale (for themselves and in their capacities as the sponsors of the Placing and on behalf of the Underwriters) any matter or event showing any of the warranties contained in the Underwriting Agreement to be untrue or inaccurate in any material respect; or
- (iv) any of the executive Directors, the covenantors named in the Underwriting Agreement and/or the Company commits any breach of, or omits to observe in any material respect, any of the obligations or undertakings expressed to assumed by them under the Underwriting Agreement.

Undertakings

- (A) Each of the Initial Management Shareholders has given non-disposal undertakings, details of which are described in the section headed “Initial Management Shareholders” in this prospectus.

UNDERWRITING

- (B) The Company undertakes to the Underwriters that it will not, without the prior written consent of Cash and unless in compliance with the GEM Listing Rules, issue or agree to issue or grant or agree to grant any options or warrants or other rights in or carrying the right to subscribe for, directly or indirectly, conditionally or unconditionally, any Shares or other securities (including securities convertible into or exchangeable for shares) of the Company or any interest therein, or announce any intention to do so within six months from the Listing Date.

- (C) The Company undertakes to the Underwriters that it will not, within six months from the Listing Date, effect any purchase of the Company's own shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 11.23 of the GEM Listing Rules).

Commission and expenses

The Underwriters will receive a commission of 4% of the aggregate Placing Price of all the Placing Shares, out of which each Underwriter will pay its own sub-underwriting commission, if any. In addition, the Sponsors will receive financial advisory and documentation fee for providing advisory services and for acting as the sponsors to the Company. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange transaction levy/trading fee, legal and other professional fees, printing and other expenses relating to the Placing which are currently estimated to be approximately HK\$13 million in aggregate, will be payable by the Company.

Underwriters' interests in the Company

Save as pursuant to the Underwriting Agreement and save as described under "Sponsors' interest in the Company" below, none of the Underwriters is interested, beneficially or non-beneficially, in any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Sponsor's agreement

Under a sponsor's agreement dated 10th June, 2002 and made between Cash and the Company (the "Sponsor's Agreement"), the Company appoints and Cash agrees to act as sponsor to the Company for its listing on GEM and in accordance with the GEM Listing Rules for a fee from the Listing Date to 31st December, 2004 (being the last day of the second full financial year of the Company after its listing on GEM or until the Sponsor's Agreement is terminated upon the terms and conditions set out therein).

UNDERWRITING

Sponsors' interest in the Company

Save for its obligations under the Underwriting Agreement and the Sponsor's Agreement, and interests in securities that may be subscribed for or purchased pursuant to the Placing, neither the Sponsors nor their respective associates have or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of the Sponsors who is involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

Neither the Sponsors nor their respective associates has accrued any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or success fees save and except for the receipt of underwriting commission by the Sponsors as the Underwriters to the Placing and the financial advisory fee to be received by the Sponsors, and save as otherwise disclosed in this prospectus.

No director or employee of the Sponsors has a directorship in the Company or any other company in the Group.

STRUCTURE OF THE PLACING

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares will be conditional on:

- (a) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Placing; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by Cash on behalf of the Underwriters) and not being terminated in accordance with its terms or otherwise, in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 10th July, 2002, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company on the GEM Website on the next day following such lapse. In such event, all application monies will be returned, without interest. The terms on which monies will be returned are set out in the placing letter in respect of the Placing.

Share certificates for the Placing Shares will be issued on 14th June, 2002 and will become valid certificates of title at 9:00 a.m. on 17th June, 2002, provided that (i) the Placing has become unconditional and (ii) the right of termination as described under “Underwriting – Grounds for termination” has not been exercised prior thereto.

THE PLACING

The Placing Shares, totalling 100,000,000 Shares, will comprise the New Shares and the Sale Shares under the Placing. The Placing Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Placing.

The Placing Shares are not available to the Directors, existing beneficial owners of Shares, or the associates (as defined in the GEM Listing Rules) of any of them.

100,000,000 Placing Shares will be conditionally placed by the Underwriters or through selling agents appointed by them to certain professional, institutional and other investors. Such professional, institutional and other investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares will be offered in Hong Kong.

STRUCTURE OF THE PLACING

Commencement of dealings in the Shares

Dealings in the Shares on GEM are expected to commence on 17th June, 2002. The Shares will be traded in board lots of 4,000 each.

Shares will be eligible for admission into CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the GEM as well as compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the GEM or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

**ANDERSEN**

安達信

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

10th June, 2002

The Directors
G. A. Holdings Limited
JS Cresvale International Limited
Celestial Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to G. A. Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31st December, 2000 and 2001 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 10th June, 2002 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 5th July, 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company has not carried on any business since its incorporation, except that on 5th June, 2002 it acquired the entire issued share capital of German Automobiles Pte Ltd. and German Automobiles Limited as described in the Corporate reorganisation in appendix IV and consequently became the holding company of the Group.

As at the date of this report, no audited financial statements have been prepared by the Company as it was not subject to any statutory audit requirements in its jurisdiction of incorporation. We have, however, reviewed all relevant transactions of the Company from the date of incorporation to 31st December, 2001, and carried out such procedures as we considered necessary for inclusion of the financial information relating to the Company in this report.

We have acted as auditors of German Automobiles Pte Ltd. and German Automobiles Limited for the financial years ended 31st December, 2000 and 2001. Prior to 2000, German Automobiles Pte Ltd. and German Automobiles Limited used to adopt 30th September as their financial year end date. In 2000, German Automobiles Pte Ltd. and German Automobiles Limited changed their financial year end date from 30th September to 31st December in order to be co-terminous with that of the other companies within the Group, which are registered and operating in the People's Republic of China ("PRC"). Accordingly, the statutory financial statements

of German Automobiles Pte Ltd. and German Automobiles Limited covered a fifteen-month period from 1st October, 1999 to 31st December, 2000. The statutory financial statements of German Automobiles Pte Ltd. and German Automobiles Limited for the two financial years were prepared in accordance with the applicable accounting standards and relevant financial regulations in Singapore and Hong Kong, respectively.

We were first appointed as auditors of China Automobile Asia Pte Ltd. for the financial year ended 31st December, 2001, upon the retirement of Foo, Kon & Tan (now known as Foo Kon Tan Grant Thornton), Certified Public Accountants in Singapore, who were the auditors for the year ended 31st December, 2000.

Auditors of the companies now comprising the Group (other than German Automobiles Pte Ltd., German Automobiles Limited and China Automobile Asia Pte Ltd.) during the Relevant Periods are summarised as follows:

Name	Financial period	Auditors
Xiamen BMW Automobiles Service Co., Ltd.	Years ended 31st December, 2000 and 2001	Xiamen Dong You Certified Public Accountants Certified Public Accountants in the PRC
Xiamen Xiangyu Jinbow International Trading Co., Ltd.	Period from 1st January, 2000 to 30th June, 2000 (date of disposal)	Xiamen Zhong Lian Xin Public Accountants Certified Public Accountants in the PRC
China National Auto Anhua (Tianjin) International Trade Co., Ltd.	Years ended 31st December, 2000 and 2001	Tianjin GuangXin Certified Public Accountants Certified Public Accountants in the PRC

For the purpose of this report, we have undertaken an independent audit, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA"), of the financial statements of China Automobile Asia Pte Ltd., Xiamen BMW Automobiles Service Co., Ltd., Xiamen Xiangyu Jinbow International Trading Co., Ltd. and China National Auto Anhua (Tianjin) International Trade Co., Ltd. for the Relevant Periods or from their dates of effective acquisition by the Group to 31st December, 2001 or date of effective disposal, where this is a shorter period, for the incorporation of the financial statements of these companies into the combined financial statements of the Group. In addition, we have undertaken an independent audit of the combined financial statements of the companies now comprising the Group, prepared in accordance with accounting principles generally accepted in Hong Kong, for the Relevant Periods.

We have examined the relevant audited financial statements or, where appropriate, unaudited management accounts of all companies now comprising the Group for the Relevant Periods or from their dates of effective acquisition by the Group to 31st December, 2001 or date of effective disposal, where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The combined income statements, combined statements of recognised gains and losses and combined cash flow statements of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31st December, 2000 and 2001 set out in this report have been prepared from the combined management accounts of the companies now comprising the Group and are presented on the basis described in Note 1 to the combined financial statements set out in Section I below for the purpose of preparing our report for inclusion in the Prospectus.

The directors of the respective companies now comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the combined financial statements of the Group as at and for the years ended 31st December, 2000 and 2001. It is our responsibility to form an independent opinion on the combined financial statements of the Group.

In our opinion, the combined financial statements of the Group, for the purpose of this report, give a true and fair view of the combined results and cash flows of the Group for each of the years ended 31st December, 2000 and 2001 and of the combined financial position of the Group as at 31st December, 2000 and 2001.

I. COMBINED FINANCIAL STATEMENTS

The following are the combined financial statements of the Group as at and for the years ended 31st December, 2000 and 2001, prepared on the basis set out in Note 1 below.

Combined income statements

	<i>Note</i>	Years ended 31st December,			
		2000		2001	
		<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
			<i>Note 2(l)</i>		<i>Note 2(l)</i>
Turnover	3, 4	27,782	124,975	58,117	253,784
Cost of sales	3	(19,138)	(86,090)	(47,820)	(208,821)
Gross profit		8,644	38,885	10,297	44,963
Other revenues	3, 5	190	855	90	393
Staff costs		(1,152)	(5,182)	(1,440)	(6,288)
Depreciation expenses		(171)	(768)	(170)	(743)
Minimum lease payments for operating leases	3	(252)	(1,134)	(453)	(1,978)
Exchange gain, net		912	4,103	494	2,157
Other operating expenses		(3,236)	(14,558)	(1,943)	(8,484)
Profit from operations		4,935	22,201	6,875	30,020
Share of profits of a joint venture		295	1,327	—	—
Finance costs, net	6	(2,107)	(9,478)	(2,053)	(8,965)
Profit before taxation	7	3,123	14,050	4,822	21,055
Taxation	10	(1,968)	(8,853)	(2,056)	(8,976)
Profit after taxation but before minority interests		1,155	5,197	2,766	12,079
Minority interests		(90)	(405)	11	48
Profit attributable to shareholders		<u>1,065</u>	<u>4,792</u>	<u>2,777</u>	<u>12,127</u>
Dividends	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share (cents)	12	<u>0.35</u>	<u>1.56</u>	<u>0.87</u>	<u>3.79</u>

Combined statements of recognised gains and losses

	Years ended 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
		<i>Note 2(l)</i>		<i>Note 2(l)</i>
(Losses) Gains from translation of the financial statements of foreign entities not recognised in the combined income statements	(144)	(656)	165	731
Net profit for the year	<u>1,065</u>	<u>4,792</u>	<u>2,777</u>	<u>12,127</u>
Total recognised gains	<u><u>921</u></u>	<u><u>4,136</u></u>	<u><u>2,942</u></u>	<u><u>12,858</u></u>

APPENDIX I

ACCOUNTANTS' REPORT

Combined balance sheets

		As at 31st December,			
		2000		2001	
	Note	S\$'000	HK\$'000	S\$'000	HK\$'000
			Note 2(l)		Note 2(l)
Non-current assets					
Fixed assets	13	4,999	22,488	5,087	22,213
Prepaid rental expenses	14	7,640	34,367	9,099	39,735
Current assets					
Inventories	15	2,681	12,060	4,424	19,319
Accounts receivable, net	16	10,712	48,187	15,269	66,677
Prepayments, deposits and other current assets	14, 17	5,876	26,433	7,381	32,231
Due from related companies	18	266	1,197	35	153
Cash and bank deposits	19	4,180	18,803	8,539	37,288
Total current assets		<u>23,715</u>	<u>106,680</u>	<u>35,648</u>	<u>155,668</u>
Current liabilities					
Accounts payable	20	(1,892)	(8,511)	(1,778)	(7,764)
Accruals and other payables	10	(2,079)	(9,352)	(1,865)	(8,144)
Bills payable to banks	21	(8,309)	(37,377)	(19,693)	(85,996)
Due to related companies	22	(513)	(2,308)	(421)	(1,839)
Due to directors	22	(185)	(832)	(203)	(886)
Bank loans – current portion	21	(91)	(409)	(6,053)	(26,432)
Taxation	10	(2,134)	(9,600)	(3,134)	(13,686)
Dividends payable		(86)	(387)	(86)	(376)
Bank overdrafts	21	(11,156)	(50,184)	(1,804)	(7,878)
Total current liabilities		<u>(26,445)</u>	<u>(118,960)</u>	<u>(35,037)</u>	<u>(153,001)</u>
Net current (liabilities) assets		<u>(2,730)</u>	<u>(12,280)</u>	<u>611</u>	<u>2,667</u>
Total assets less current liabilities					
		<u>9,909</u>	<u>44,575</u>	<u>14,797</u>	<u>64,615</u>
Non-current liabilities					
Bank loans – non-current portion	21	(646)	(2,906)	(2,355)	(10,284)
Deferred taxation	10	—	—	(210)	(917)
Minority interests		(514)	(2,312)	(541)	(2,362)
Net assets		<u>8,749</u>	<u>39,357</u>	<u>11,691</u>	<u>51,052</u>
Capital and reserves					
Share capital	23	7,877	35,434	7,877	34,397
Share premium	23	1,044	4,696	1,044	4,559
Reserves	24	(172)	(773)	2,770	12,096
		<u>8,749</u>	<u>39,357</u>	<u>11,691</u>	<u>51,052</u>

Combined cash flow statements

	<i>Note</i>	Years ended 31st December,			
		2000	2001	2000	2001
		<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
			<i>Note 2(l)</i>		<i>Note 2(l)</i>
Net cash inflow from operating activities	25(a)	2,332	10,487	9,021	39,391
Returns on investments and servicing of finance					
Interest received		145	652	203	887
Interest paid		(2,252)	(10,130)	(2,256)	(9,852)
Net cash outflow from returns on investments and servicing of finance		(2,107)	(9,478)	(2,053)	(8,965)
Taxation					
Overseas tax paid		(36)	(161)	(51)	(222)
Hong Kong profits tax paid		(35)	(157)	—	—
Withholding tax paid		(895)	(4,027)	(795)	(3,470)
Net cash outflow from taxation		(966)	(4,345)	(846)	(3,692)
Investing activities					
Proceeds from disposal of fixed assets		151	679	—	—
Proceeds from disposal of a joint venture		2,022	9,096	—	—
Purchase of fixed assets		(152)	(683)	(82)	(358)
Decrease (Increase) in fixed deposits pledged		1,705	7,670	(1,600)	(6,988)
Net cash inflow (outflow) from investing activities		3,726	16,762	(1,682)	(7,346)
Net cash inflow before financing		2,985	13,426	4,440	19,388
Financing activities					
Increase in share capital	25(c)	1,500	6,748	—	—
(Decrease) Increase in bank loans, net	25(c)	(12,503)	(56,244)	7,671	33,498
Repayment of finance lease liabilities	25(c)	(96)	(432)	—	—
Net cash (outflow) inflow from financing activities		(11,099)	(49,928)	7,671	33,498
(Decrease) Increase in cash and cash equivalents		(8,114)	(36,502)	12,111	52,886
Cash and cash equivalents, beginning of year		(2,538)	(11,415)	(10,652)	(46,515)
Cash and cash equivalents, end of year	25(d)	<u>(10,652)</u>	<u>(47,917)</u>	<u>1,459</u>	<u>6,371</u>

NOTES TO THE FINANCIAL STATEMENTS
1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries (all of which are private companies or, if incorporated or established outside Hong Kong, having substantially the same characteristics as a Hong Kong private company):

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
German Automobiles Pte Ltd.	Singapore 26th August, 1993	S\$7,876,996	100%	Wholesale of motor vehicles
German Automobiles Limited	Hong Kong 3rd October, 1997	HK\$20,000	100%	Sales liaison and trading of spare parts for motor vehicles
Xiamen BMW Automobiles Service Co., Ltd.	The PRC 8th January, 1994	Registered and paid-in capital of US\$3,000,000	100%	Provision of repair and maintenance services for high-end automobiles
China Automobile Asia Pte Ltd.	Singapore 8th March, 1996	S\$2	100%	Investment holding (Currently dormant)
China National Auto Anhua (Tianjin) International Trade Co., Ltd.	The PRC 1st April, 1999	Registered and paid-in capital of US\$1,000,000	70%	Engaged in car related business

The combined results and cash flows include the results of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years covered by this report or since their respective dates of acquisitions by the Group, where this is a shorter period. The combined balance sheets of the Group as at 31st December, 2000 and 2001 have been prepared to present the combined financial position of the companies now comprising the Group as at that date as if the current group structure had been in existence as at 31st December, 2000 and 2001.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report are as follows:

a. Basis of accounting

The combined financial statements have been prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

b. Turnover and revenue recognition

Turnover represents the net invoiced value of merchandise sold and technical services rendered after allowances for returns and discounts.

Revenue is recognised provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Income from sale of goods is recognised upon delivery of goods and acceptance by customers, and income from services is recognised upon the rendering of services.

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. The aggregate cost of incentives on operating leases is recognised as a reduction of rental income over the lease term on a straight-line basis.

c. Subsidiaries

A subsidiary is a company in which the Group governs and controls its financial and operating policies and its board of directors.

d. Joint venture

A joint venture is a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

In the combined financial statements, the Group's interests in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the jointly controlled entity. The Group's share of post-acquisition results of the jointly controlled entity is included in the combined income statements.

e. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

f. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

g. Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

h. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Major expenditures on modification and betterments of fixed assets which will result in future economic benefits are capitalised while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is provided on the straight-line basis to write off the cost less estimated residual value of each asset over its expected useful life. The annual rates of depreciation are as follows:

Leasehold land and buildings	1.5% (over the remaining period of lease term)
Plant and machinery	10% to 33.3%
Motor vehicles	20% to 33.3%
Furniture and equipment	10% to 33.3%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the combined income statements. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the combined income statements.

When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in the combined income statements.

i. Inventories

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

Inventories comprise fully-assembled motor vehicles and auto parts. Cost of fully-assembled motor vehicles is determined on a specific identification basis while the cost of auto parts is determined on the first-in, first-out cost formula. It comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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

j. Provisions and contingencies

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the combined financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the combined financial statements but disclosed when an inflow of economic benefits is probable.

k. Leases**(i) Finance leases**

Finance leases are leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Title may or may not eventually be transferred.

The Group recognises finance leases as assets and liabilities in the combined balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

(ii) Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors.

Lease payments under operating leases are charged to the combined income statements on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

l. Foreign currencies

The books and records of the companies in the Group are maintained in their respective measurement currencies. Transactions in foreign currencies during the year are translated into the respective measurement currencies at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective measurement currencies at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the combined income statements.

On combination, all monetary assets and liabilities of subsidiaries with measurement currencies other than Singapore dollars are translated into Singapore dollars at the applicable rates of exchange in effect at the balance sheet date. Share capital and reserves are translated at historical exchange rates. All of the income and expense items of subsidiaries with measurement currencies other than Singapore dollars are translated into Singapore dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation reserve.

Translation of amounts from Singapore dollars (S\$) into Hong Kong dollars (HK\$) is for the convenience of readers and has been made at the rates of exchange in effect at 31st December, 2000 of S\$22.23 = HK\$100 and 31st December, 2001 of S\$22.90 = HK\$100. No representation is made that the S\$ amounts could have been, or could be, converted into HK\$ at such rates or at any other rate. Such translation does not conform to accounting principles generally accepted in Hong Kong.

m. Segments

Business segments: For management purposes, the Group is organised on a world-wide basis into three major operating businesses. The divisions are the basis upon which the Group reports its primary segment information.

Intersegment transactions: Segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated on combination.

n. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Particulars of significant transactions between the companies now comprising the Group and related companies during the years covered by this report are summarised below:

	<i>Note</i>	Years ended 31st December,			
		2000		2001	
		<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Income					
Continuing –					
Sales to a related company	(a)	26	117	—	—
Rental income from related companies	(b)	21	94	21	92
Expenses					
Continuing –					
Rental expenses to related companies	(c)	<u>170</u>	<u>765</u>	<u>173</u>	<u>755</u>

- (a) Sale of auto parts to China National Automotive Anhua Service Centre Co., Ltd. which is related by virtue of Mr. Loh Nee Peng, a common director.

Sales of auto parts to China National Automotive Anhua Service Centre Co., Ltd were made at cost. Had the sales been made at the average gross margins of about 20%, the Group would have earned an additional profit after tax of approximately S\$4,000 (HK\$18,000) during the year ended 31st December, 2000. There were no transactions during the year ended 31st December, 2001.

- (b) Rental income from Octavus Properties Pte Ltd and Eng Kheng (S) Pte Ltd for sub-lease of office premises in Singapore. Octavus Properties Pte Ltd is 99.9% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka, a director and shareholder of the Company. Eng Kheng (S) Pte Ltd is 61% owned by Mr. Anthony Chan Hing Ka, a director and shareholder of the Company; and 39% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka.

Subsequent to 31st December, 2001, Ms. Chan Xiao Li transferred her 99.9% interest in Octavus Properties Pte Ltd to her brother Mr. Anthony Chan Hing Ka.

DTZ Debenham Tie Leung Limited has given their opinion in a letter dated 27th November, 2001 that the rental was charged at rates which approximate market rates.

- (c) Being rental expenses to Atland Properties Pte Ltd and Xiamen L&B Property Co., Ltd for rental of office and showroom premises in Singapore and Xiamen, the PRC, respectively. Atland Properties Pte Ltd is 99.9% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka, a director and shareholder of the Company. Xiamen L&B Property Co., Ltd is beneficially held as to 5% by Mr. Loh Kim Her and 95% by his family members.

DTZ Debenham Tie Leung Limited has given their opinion in a letter dated 27th November, 2001 that the rental was charged at rates which approximate market rates.

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business of the Group and on normal commercial terms except for the sales of auto parts to China National Automotive Anhua Service Centre Co., Ltd. as mentioned above. Certain of the Group's banking facilities were guaranteed by certain related parties as disclosed in Note 21 to the combined financial statements.

4. TURNOVER

Turnover represents sales of goods and services in the normal course of business. Analysis of turnover is as follows:

	Years ended 31st December,		2001	
	2000			
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Sales of motor vehicles	19,342	87,009	50,102	218,786
Servicing of motor vehicles and sales of auto parts	2,283	10,270	3,340	14,585
Technical fee income	6,157	27,696	4,675	20,413
	<u>27,782</u>	<u>124,975</u>	<u>58,117</u>	<u>253,784</u>

5. OTHER REVENUES

Analysis of other revenues is as follows:

	Years ended 31st December,		2001	
	2000			
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Gain on disposal of fixed assets	86	387	—	—
Rental income	21	94	82	358
Insurance claims	43	193	6	26
Others	40	181	2	9
	<u>190</u>	<u>855</u>	<u>90</u>	<u>393</u>

6. FINANCE COSTS, NET

	Years ended 31st December,		2001	
	2000			
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Interest expenses				
– Bank loans	534	2,402	342	1,493
– Overdrafts	792	3,563	662	2,891
– Bills payable	474	2,132	561	2,450
– Finance leases	8	36	—	—
– Late payment charges	205	922	81	354
– Letters of credit and trust receipts charges	239	1,075	610	2,664
	<u>2,252</u>	<u>10,130</u>	<u>2,256</u>	<u>9,852</u>
Interest income				
– Fixed deposits	(139)	(625)	(194)	(847)
– Bank balances	(6)	(27)	(9)	(40)
	<u>(145)</u>	<u>(652)</u>	<u>(203)</u>	<u>(887)</u>
	<u>2,107</u>	<u>9,478</u>	<u>2,053</u>	<u>8,965</u>

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging (crediting) the following:

	Years ended 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Charging (crediting):				
Auditors' remuneration				
Audit fee	41	184	103	450
Non-audit fee ^(a)	130	585	—	—
Bad debts written off	105	472	—	—
Fixed assets written off	65	292	66	288
Depreciation of fixed assets	171	768	170	743
Exchange gain, net	(912)	(4,103)	(494)	(2,157)
Loss on disposal of a joint venture ^(b)	646	2,906	—	—
Loss on disposal of a subsidiary ^(c)	195	877	—	—
Gain on disposal of fixed assets	(86)	(387)	—	—
Provision for doubtful trade debts	458	2,060	84	369
Provision for doubtful non-trade debts	78	351	15	67
Provision for inventory obsolescence	56	252	—	—
Minimum lease payments for				
operating leases	252	1,134	453	1,978
Staff costs including directors' emoluments	1,152	5,182	1,440	6,288
Write-back of provision for inventory				
obsolescence	—	—	(162)	(707)
Write-back of inventories previously				
written down to net realisable value	—	—	(35)	(154)
Write-back of provision for				
doubtful trade debts	(1)	(4)	(200)	(873)
Write-down of inventories to				
net realisable value	35	157	—	—

(a) Non-audit expenses in relation to the potential initial public offering opportunity in Singapore that the Group explored in the year ended 31st December, 2000.

(b) Relates to the loss on disposal of a 55% joint venture company, Beijing China National Automotive Anhua Spare Parts Ltd.

(c) Relates to the loss on disposal of a 80% subsidiary, Xiamen Xiangyu Jinbow International Trading Co., Ltd.

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- (a) During the Relevant Periods, the Company did not pay any emoluments to the directors of the Company.
- (b) Details of emoluments paid to the executive directors of the Company by the companies now comprising the Group were as follows:

	Years ended 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—	—
Other emoluments				
– Salaries	180	810	144	629
– Bonus	27	122	30	131
– Allowances	—	—	—	—
– Pension fund	23	103	28	122
– Benefits in kind	—	—	—	—
	<u>230</u>	<u>1,035</u>	<u>202</u>	<u>882</u>

Executive director A received emoluments of approximately S\$90,000 (HK\$405,000) and S\$101,000 (HK\$441,000) for the years ended 31st December, 2000 and 2001, respectively. Executive director B received emoluments of approximately S\$90,000 (HK\$405,000) and S\$101,000 (HK\$441,000) for the years ended 31st December, 2000 and 2001, respectively. Executive director C received emoluments of approximately S\$50,000 (HK\$225,000) and S\$Nil (HK\$Nil) for the years ended 31st December, 2000 and 2001, respectively.

No directors waived any emoluments during the years ended 31st December, 2000 and 2001. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the years ended 31st December, 2000 and 2001.

The number of directors whose remuneration falls within the following bands is as follows:

	Years ended	
	31st December,	2001
	2000	2001
Nil – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	—	—
HK\$1,500,001 – HK\$2,000,000	<u>—</u>	<u>—</u>

- (c) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	Years ended 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—	—
Other emoluments				
– Salaries	334	1,502	355	1,550
– Bonus	41	184	57	249
– Allowances	—	—	—	—
– Pension fund	35	158	64	279
– Benefits in kind	—	—	—	—
	<u>410</u>	<u>1,844</u>	<u>476</u>	<u>2,078</u>
Number of directors	3	3	2	2
Number of employees	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the years ended 31st December, 2000 and 2001, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The number of the five highest paid individuals whose remuneration falls within the bands is as follows:

	Years ended	
	31st December,	2001
	2000	2001
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	—	—
HK\$1,500,001 – HK\$2,000,000	<u>—</u>	<u>—</u>

9. RETIREMENT BENEFITS

The Group has not operated any provident funds for its employees in Hong Kong for the period from 1st January, 2000 to 30th November, 2000. Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the subsidiary in Hong Kong participated in the defined contribution Mandatory Provident Fund since 1st December, 2000. Both the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions of the Group and the employees are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

Employees in Singapore participate in a defined contribution provident fund, which is managed by an independent trustee. The employees make monthly contributions of 20% of the employees' basic salaries. The Group makes monthly contributions at 10% of the employees' basic salaries for the period from January to March 2000, thereafter, the contribution rate was revised to 12%. It was further revised to 16% with effect from January 2001. As defined under the Central Provident Fund legislation, the Group's contribution is subject to a cap computed based on S\$1,200 per month.

As stipulated by the rules and regulations in the PRC, the PRC subsidiaries are required to contribute to a state-sponsored social insurance scheme for all of its employees at rates ranging from 6% to 30% of the basic salary of its employees. The state-sponsored retirement plan was responsible for the entire pension obligations payable to all retired employees and the subsidiaries had no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the years ended 31st December, 2000 and 2001, the aggregate amount of the Group's employer contributions amounted to approximately S\$75,000 (HK\$337,000) and S\$166,000 (HK\$727,000), respectively. As at 31st December, 2000 and 2001, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

10. TAXATION

	Years ended 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
Hong Kong profits tax	11	49	156	681
Overseas taxation	1,062	4,777	895	3,908
Withholding tax	895	4,027	795	3,470
Deferred taxation	—	—	210	917
	<u>1,968</u>	<u>8,853</u>	<u>2,056</u>	<u>8,976</u>

a. Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the years.

b. Singapore income tax

Overseas taxation relates to tax calculated based on the estimated assessable profit of Singapore subsidiaries at the rates prevailing of 25.5% and 24.5% for the years ended 31st December, 2000 and 2001, respectively.

As at 31st December, 2000 and 2001, the tax payable to the Inland Revenue Authority of Singapore amounted to approximately S\$2,134,000 (HK\$9,598,000) and S\$2,982,000 (HK\$13,022,000), respectively.

In addition, as at 31st December, 2000 and 2001, the Group had provision for tax penalty of approximately S\$307,000 (HK\$1,381,000) and S\$350,000 (HK\$1,528,000) respectively arising from late tax payment in relation to the years of assessment from 1997 to 2001 and these amounts are included in "Accruals and other payables". The tax penalty of approximately S\$88,000 (HK\$395,000) and S\$43,000 (HK\$188,000) was charged to "Other operating expenses" of the combined income statements for the years ended 31st December, 2000 and 2001, respectively.

c. PRC enterprise income tax

No profits tax has been provided for the PRC subsidiaries as they have been making losses during the years.

d. PRC value-added tax and government surcharges

The PRC subsidiaries are subject to value-added tax ("VAT") at 17% of revenue from sale of merchandise and provision of repair services in the PRC, and city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount of VAT levied. Input VAT paid on purchases can be used to offset the output VAT levied on sales revenue to determine the net VAT payable.

e. Withholding tax

Withholding tax relates to 17% tax withheld in respect of technical fees received by a Singapore subsidiary from a customer in the PRC.

f. Deferred taxation

Deferred taxation represents the taxation effect of temporary differences of general provisions and movements in unrealised exchange differences.

There was no significant unprovided deferred taxation as at and for the years ended 31st December, 2000 and 2001.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

No dividend has been declared by any subsidiary during each of the years ended 31st December, 2000 and 2001.

12. EARNINGS PER SHARE

The calculation of earnings per share for the years ended 31st December, 2000 and 2001 is based on the profit attributable to shareholders during the years and on the weighted average number of approximately 306,302,000 shares and 320,000,000 shares in issue during the years ended 31st December, 2000 and 2001, respectively, by reference to 320,000,000 shares in issue as at the date of this Prospectus.

13. FIXED ASSETS

Movements of fixed assets are as follows:

	Leasehold land and buildings <i>S\$'000</i>	Plant and machinery <i>S\$'000</i>	Motor vehicles <i>S\$'000</i>	Furniture and equipment <i>S\$'000</i>	Total <i>S\$'000</i>
Cost					
As at 1st January, 2000	1,290	4,038	371	483	6,182
Additions	—	110	2	40	152
Disposal	—	—	(193)	(7)	(200)
Translation adjustment	—	61	8	17	86
As at 31st December, 2000	1,290	4,209	188	533	6,220
Additions	—	3	—	79	82
Write-off	—	(69)	—	—	(69)
Reclassification	—	(606)	567	39	—
Translation adjustment	2	237	34	33	306
As at 31st December, 2001	1,292	3,774	789	684	6,539
Accumulated depreciation					
As at 1st January, 2000	44	620	237	247	1,148
Charge for the year	20	65	29	57	171
Disposal	—	—	(128)	—	(128)
Translation adjustment	—	15	5	10	30
As at 31st December, 2000	64	700	143	314	1,221
Charge for the year	20	56	45	49	170
Write-off	—	(3)	—	—	(3)
Translation adjustment	—	33	11	20	64
As at 31st December, 2001	84	786	199	383	1,452
Net book value					
As at 31st December, 2000	<u>1,226</u>	<u>3,509</u>	<u>45</u>	<u>219</u>	<u>4,999</u>
As at 31st December, 2001	<u>1,208</u>	<u>2,988</u>	<u>590</u>	<u>301</u>	<u>5,087</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
As at 1st January, 2000	5,803	18,165	1,669	2,173	27,810
Additions	—	494	9	180	683
Disposal	—	—	(868)	(32)	(900)
Translation adjustment	—	274	36	76	386
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2000	5,803	18,933	846	2,397	27,979
Additions	—	13	—	345	358
Write-off	—	(301)	—	—	(301)
Reclassification	—	(2,646)	2,476	170	—
Translation adjustment	(162)	481	123	75	517
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2001	5,641	16,480	3,445	2,987	28,553
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation					
As at 1st January, 2000	198	2,790	1,066	1,111	5,165
Charge for the year	90	292	130	256	768
Disposal	—	—	(576)	—	(576)
Translation adjustment	—	67	22	45	134
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2000	288	3,149	642	1,412	5,491
Charge for the year	87	245	197	214	743
Write-off	—	(13)	—	—	(13)
Translation adjustment	(9)	51	30	47	119
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2001	366	3,432	869	1,673	6,340
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
As at 31st December, 2000	<u>5,515</u>	<u>15,784</u>	<u>204</u>	<u>985</u>	<u>22,488</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2001	<u>5,275</u>	<u>13,048</u>	<u>2,576</u>	<u>1,314</u>	<u>22,213</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included in fixed assets are machinery, motor vehicles and office equipment amounting to approximately S\$3,385,000 (HK\$15,227,000) and S\$2,447,000 (HK\$10,686,000), which were not depreciated as they were not in use during the years ended 31st December, 2000 and 2001, respectively.

Leasehold land and buildings, located in the PRC, were held under land use rights for 70 years expiring in 2063.

Leasehold land and buildings are pledged to the banks for credit facilities granted to the Group as disclosed in Note 21 to the combined financial statements.

14. PREPAID RENTAL EXPENSES

In March 2000, the Group signed a project development co-operation agreement with China National Automotive Anhua Hertz Services Centre Co., Ltd. ("CNA Anhua (Hertz)"), a subsidiary of North Anhua Group Corporation ("North Anhua"), for the development of land and buildings for use as motor vehicle showrooms, service centres, auto parts factories and other related facilities in Guangdong Province, Fujian Province and Beijing Municipality. Under the agreement, all land title certificates and ownership of facilities will belong to CNA Anhua (Hertz), while the Group will have free use of such facilities for 50 years from the date of completion of the developments. As at 31st December, 2001, the development project in Beijing amounting to approximately S\$4,113,000 (HK\$17,961,000) has been completed.

The Group has also signed another project development co-operation agreement with Jin Tian Cheng Development Co., Ltd. ("Jin Tian Cheng"), another related company of North Anhua in August 2001 for the development of a motor vehicle maintenance and service centre in Fuzhou Municipality of Fujian Province. Under the agreement, all land title certificates and ownership of facilities will belong to Jin Tian Cheng while the Group will have use of such facilities for a nominal consideration of RMB10,000 per month for 20 years from the date of completion of the development.

Accordingly, the advances made in respect of such development projects amounting to approximately S\$7,640,000 (HK\$34,367,000) and S\$9,218,000 (HK\$40,255,000) as at 31st December, 2000 and 2001 have been classified as prepaid rental expenses to be charged to the combined income statements over 20 to 50 years, commencing from the date of completion of the respective development projects.

Total prepayment relating to the development projects in Guangdong Province and Fujian Province as at 31st December, 2000 and 2001 amounted to approximately S\$3,527,000 (HK\$15,865,000) and S\$3,676,000 (HK\$16,052,000) respectively. As at 31st December, 2000 and 2001, approximately S\$Nil (HK\$Nil) and S\$37,000 (HK\$160,000) has been classified as current under "Prepayments, deposits and other current assets".

Total prepayment relating to the development project in Beijing Municipality of 31st December, 2000 and 2001 amounted to approximately S\$4,113,000 (HK\$18,502,000) and S\$4,113,000 (HK\$17,961,000) respectively. As at 31st December, 2000 and 2001, approximately S\$Nil (HK\$Nil) and S\$82,000 (HK\$360,000) has been classified as current under "Prepayments, deposits and other current assets".

Total prepayment relating to the development project in Fuzhou Municipality as at 31st December, 2000 and 2001 amounted to approximately S\$Nil (HK\$Nil) and S\$1,429,000 (HK\$6,242,000) respectively. As at 31st December, 2001, this whole amount is non-current and classified under "Prepaid rental expenses".

15. INVENTORIES

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Motor vehicles	614	2,761	63	275
Motor vehicles in transit	—	—	2,590	11,310
Auto parts and accessories	2,067	9,299	1,771	7,734
	<u>2,681</u>	<u>12,060</u>	<u>4,424</u>	<u>19,319</u>

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The amount of inventories (included above) carried at net realisable value is approximately S\$833,000 (HK\$3,747,000) and S\$1,835,000 (HK\$8,013,000) as at 31st December, 2000 and 2001, respectively.

During the year ended 31st December, 2001, inventory of approximately S\$1,933,000 (HK\$8,677,000) was returned to a supplier, North Anhua, at cost.

16. ACCOUNTS RECEIVABLE, NET

	As at 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
Accounts receivable (<i>Note 21(a)</i>)	11,170	50,247	15,612	68,233
Less: Provision for doubtful debts	(458)	(2,060)	(343)	(1,556)
	<u>10,712</u>	<u>48,187</u>	<u>15,269</u>	<u>66,677</u>

The credit periods of the Group range from 2 to 5 months. The aging analysis of accounts receivable is as follows:

Aged:	As at 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
0 to 1 month	3,650	16,419	1,402	6,123
1 to 2 months	719	3,233	696	3,041
2 to 3 months	485	2,180	5,257	23,002
3 to 6 months	1,309	5,889	3,480	15,200
6 to 9 months	1,362	6,129	1,898	8,291
9 to 12 months	3,499	15,739	1,454	6,352
Over 12 months	146	658	1,425	6,224
	<u>11,170</u>	<u>50,247</u>	<u>15,612</u>	<u>68,233</u>

Note:

The Group has a major customer in the PRC, North Anhua, which accounts for approximately 8% of sales (including 100% of technical fee income) for the year ended 31st December, 2001. As at 31st December, 2001, North Anhua accounted for 35.4% of the gross accounts receivable of the Group.

Other than the accounts receivable as stated above, the Group has the following exposures to North Anhua, its subsidiaries and related companies as at 31st December, 2001:

- 1) Included in "Prepayments, deposits and other current assets" is an amount of approximately S\$1,814,000 (HK\$7,921,000) deposits placed with various related companies of North Anhua in the PRC for the setting up of car rental business;
- 2) Prepaid rental expenses relating to development projects in Guangdong, Fujian, Fuzhou and Beijing of approximately S\$9,218,000 (HK\$40,255,000) was made to CNA Anhua (Hertz), a subsidiary of North Anhua, and Jin Tian Cheng, a related company of North Anhua. The prepaid rental expenses are included in "Prepaid rental expenses" and "Prepayments, deposits and other current assets".
- 3) Non-trade advance of approximately S\$2,579,000 (HK\$11,262,000) included in "Prepayments, deposits and other current assets" had been made to Jin Tian Cheng, a related company of North Anhua.

- 4) Included in "Prepayments, deposits and other current assets" is an amount of approximately S\$1,933,000 (HK\$8,677,000) receivable from North Anhua for the return of inventory; and
- 5) Certain fixed deposits of the Group were pledged to a bank to secure banking facilities of up to approximately S\$7,912,000 (HK\$34,550,000) granted to Beijing China National Automotive Anhua Spare Parts Ltd., a related company of North Anhua.

Two directors, Mr. Anthony Chan Hing Ka and Mr. Loh Kim Her, have undertaken to indemnify the Group against any losses arising from unsettled balances if North Anhua or any of its subsidiaries and related companies default on the repayment of the above balances.

17. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	As at 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
Deposits placed with various companies in the PRC for the setting up of car rental offices (<i>Note a</i>)	1,681	7,562	1,814	7,921
Sundry debtors	1,503	6,761	2,040	8,908
Sundry deposits	142	639	56	244
Prepayments	160	720	985	4,301
Other debtors	2,468	11,102	—	—
Other current asset (<i>Note b</i>)	—	—	2,579	11,262
	5,954	26,784	7,474	32,636
Less: Provision for doubtful debts	(78)	(351)	(93)	(405)
	<u>5,876</u>	<u>26,433</u>	<u>7,381</u>	<u>32,231</u>

Note a: This relates to deposits placed with various companies in the PRC to lay the ground works for setting up car rental offices. Since the Group cannot operate the car rental business directly in the PRC, such amount has been fully repaid subsequent to the year-end.

Note b: This relates to a non-trade advance to Jin Tian Cheng, a related company of North Anhua. The advance is interest-free, repayable within one year and its repayment is guaranteed by North Anhua.

Had interest been charged on the advance outstanding as at 31st December, 2001, based on the interest rate earned by the Group on fixed deposits of approximately 2% per annum, the Group would have earned interest income, net of tax of approximately S\$Nil (HK\$Nil) and S\$43,000 (HK\$188,000) for the years ended 31st December, 2000 and 2001, respectively.

18. DUE FROM RELATED COMPANIES

The outstanding balances as at 31st December, 2000 and 2001 are as follows:

	As at 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
Octavus Properties Pte Ltd.*	24	108	35	153
Beijing China National Automotive Anhua Spare Parts Ltd.**	242	1,089	—	—
	<u>266</u>	<u>1,197</u>	<u>35</u>	<u>153</u>

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Maximum balances during the years ended 31st December, 2000 and 2001 are as follows:

	Years ended 31st December,			
	2000		2001	
	S\$'000	HK\$'000	S\$'000	HK\$'000
Octavus Properties Pte Ltd.*	35	157	35	153
Beijing China National Automotive Anhua Spare Parts Ltd.**	242	1,088	242	1,039

* Octavus Properties Pte Ltd. is 99.9% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka, a director and shareholder of the Company.

Subsequent to 31st December, 2001, Ms. Chan Xiao Li transferred her 99.9% interest in Octavus Properties Pte Ltd. to her brother, Mr. Anthony Chan Hing Ka.

** Beijing China National Automotive Anhua Spare Parts Ltd. was a 55% joint venture company, which was disposed of by the Group during 2000.

The outstanding balances with these related companies are unsecured, interest-free and repayable on demand. Had interest been charged on the outstanding balances due from these related companies based on the interest rate earned by the Group on fixed deposits of approximately 2% per annum, the Group would have earned interest income, net of tax, of approximately S\$4,000 (HK\$18,000), and S\$500 (HK\$2,000) for the years ended 31st December, 2000 and 2001, respectively.

19. CASH AND BANK DEPOSITS

Included in cash and bank deposits are fixed deposits of approximately S\$2,470,000 (HK\$11,111,000) and S\$3,344,000 (HK\$14,602,000) pledged to banks for banking facilities granted to the Group as at 31st December, 2000 and 2001, respectively. In addition, as at 31st December, 2000 and 2001, approximately S\$78,000 (HK\$351,000) and S\$620,000 (HK\$2,707,000), respectively of the cash and bank deposits were denominated in Renminbi, which is not freely convertible to other currencies.

In addition, as at 31st December, 2000 and 2001, fixed deposits of approximately S\$1,119,000 (HK\$5,034,000) and S\$1,840,000 (HK\$8,035,000), respectively were pledged to a bank to secure banking facilities of up to approximately S\$4,848,000 (HK\$21,809,000) and S\$7,912,000 (HK\$34,550,000), respectively granted to Beijing China National Automotive Anhua Spare Parts Ltd. for use in the car rental business by the 3 car rental sub-licensees. A fixed deposit of approximately S\$87,000 (HK\$391,000) and S\$92,000 (HK\$402,000) as at 31st December, 2000 and 2001, respectively was pledged to a bank to secure the bankers' guarantees as disclosed in Note 27(c) to the combined financial statements.

20. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	As at 31st December,			
	2000		2001	
Aged:	S\$'000	HK\$'000	S\$'000	HK\$'000
0 to 1 month	—	—	48	209
1 to 6 months	56	251	346	1,511
6 to 12 months	1	3	105	459
1 to 2 years	1,293	5,815	568	2,478
Over 2 years	542	2,442	711	3,107
	<u>1,892</u>	<u>8,511</u>	<u>1,778</u>	<u>7,764</u>

21. BANK BORROWINGS

As at 31st December, 2000:

	Bills payable to banks (Note a)		Bank loans (Note b)		Bank overdrafts (Note a)		Total	
	S\$'000	HK\$'000	S\$'000	HK\$'000	S\$'000	HK\$'000	S\$'000	HK\$'000
Current portion								
– due within one year	8,309	37,377	91	409	11,156	50,184	19,556	87,970
Non-current portion								
– Due after one year but within two years	—	—	92	414	—	—	92	414
– Due after two years but within five years	—	—	287	1,291	—	—	287	1,291
– Due after five years	—	—	267	1,201	—	—	267	1,201
	—	—	646	2,906	—	—	646	2,906
	<u>8,309</u>	<u>37,377</u>	<u>737</u>	<u>3,315</u>	<u>11,156</u>	<u>50,184</u>	<u>20,202</u>	<u>90,876</u>

As at 31st December, 2001:

	Bills payable to banks (Note a)		Bank loans (Note b)		Bank overdrafts (Note a)		Total	
	S\$'000	HK\$'000	S\$'000	HK\$'000	S\$'000	HK\$'000	S\$'000	HK\$'000
Current portion								
– due within one year	19,693	85,996	6,053	26,432	1,804	7,878	27,550	120,306
Non-current portion								
– Due after one year but within two years	—	—	1,871	8,170	—	—	1,871	8,170
– Due after two years but within five years	—	—	315	1,376	—	—	315	1,376
– Due after five years	—	—	169	738	—	—	169	738
	—	—	2,355	10,284	—	—	2,355	10,284
	<u>19,693</u>	<u>85,996</u>	<u>8,408</u>	<u>36,716</u>	<u>1,804</u>	<u>7,878</u>	<u>29,905</u>	<u>130,590</u>

(a) Bills payable to banks and bank overdrafts

These are secured by the Group's fixed deposits amounting to approximately S\$2,470,000 (HK\$11,111,000) and S\$2,976,000 (HK\$12,996,000) as at 31st December, 2000 and 2001, respectively, fixed deposits amounting to approximately S\$375,000 (HK\$1,687,000) and S\$375,000 (HK\$1,638,000) of a director of the Company as at 31st December, 2000 and 2001, respectively, joint and several guarantees from three directors of the Company, Mr. Chan Kung Git, Mr. Loh Boon Cha, legal mortgage over certain properties belonging to Harley Investment Pte Ltd and Ivory Investments Pte Ltd, as well as corporate guarantees from L&B Holdings Pte Ltd and Eng Kheng (S) Pte Ltd. Mr. Chan Kung Git and Mr. Loh Boon Cha are immediate family members of certain directors. Harley Investment Pte Ltd and Ivory Investments Pte Ltd are companies which are 99.9% owned by Ms. Goh Lan Khiaw, wife of Mr. Loh Kim Her, a director and shareholder of the Company. L&B Holdings Pte Ltd is 18.9% owned by Mr. Loh Kim Her, a director and shareholder of the Company and 0.6% owned by Ms. Goh Lan Kiaw, the wife of Mr. Loh Kim Her and the remaining shareholding is held by the immediate family members of Mr. Loh Kim Her. Mr. Loh Kim Her is also a director of L&B Holdings Pte Ltd. Eng Kheng (S) Pte Ltd is 61% owned by Mr. Anthony Chan Hing Ka, a director and shareholder of the Company; and 39% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka. In addition, the Group charged and assigned all its interests and rights in all of its accounts receivable in favour of a bank.

Subsequent to 31st December, 2001, Ms. Goh Lan Khiaw transferred her 99.9% interest in Harley Investment Pte Ltd and Ivory Investments Pte Ltd to her husband, Mr. Loh Kim Her.

Based on letters from the Group's bankers dated 22nd November, 2001, 6th December, 2001 and 21st December, 2001, the bankers agreed in principle, subject to certain conditions, to release the above guarantees upon the listing of the Company. These conditions mainly pertain to the Company giving the corporate guarantees to the respective banks in place of the guarantees given by the directors and the bankers' satisfaction on the capacity and financial ability of the Company to provide such corporate guarantees.

(b) Bank loans

Bank loans comprise:

- i. A mortgage loan with outstanding balances of approximately S\$493,000 (HK\$2,218,000) and S\$447,000 (HK\$1,952,000) as at 31st December, 2000 and 2001, respectively. This was secured by a legal mortgage on a leasehold property of the Group with net book values of approximately S\$867,000 (HK\$3,900,000) and S\$853,000 (HK\$3,725,000) as at 31st December, 2000 and 2001, respectively and joint and several guarantees by two directors of the Company. The loan is repayable in 120 instalments commencing October 1997 and bears interest at 1.75% per annum above the bank's Singapore Inter-Bank Offered Rates ("SIBOR").

Based on a letter from the Group's banker dated 14th December, 2001, the banker agreed in principle to release the existing personal guarantee of the directors after the listing of the Company in exchange for a guarantee given by the Company.

- ii. A mortgage loan with outstanding balances of approximately S\$244,000 (HK\$1,097,000) and S\$240,000 (HK\$1,048,000) as at 31st December, 2000 and 2001, respectively secured by a legal mortgage on the Group's land and building with net book values of approximately S\$360,000 (HK\$1,619,000) and S\$354,000 (HK\$1,546,000) as at 31st December, 2000 and 2001 and joint and several guarantees by three directors of the Company. The loan is repayable in 120 instalments commencing from February 2000 and bears interest at 1.25% per annum above the bank's prime lending rate.

Based on a letter from the Group's banker dated 19th November, 2001, the banker agreed in principle to release the existing personal guarantee of the directors after the listing of the Company in exchange for a guarantee given by the Company.

- iii. A term loan with an outstanding balance of approximately S\$Nil (HK\$Nil) and S\$7,077,000 (HK\$30,904,000) as at 31st December, 2000 and 2001 bearing interest at 2% above SIBOR or 5% on default and is secured by the following:
 - 1) joint and several personal guarantees from three directors of the Company and Mr. Chan Kung Git, an immediate family member of Mr. Anthony Chan Hing Ka;
 - 2) personal guarantee of Mr. Loh Boon Cha, an immediate family member of a director;
 - 3) corporate guarantee by L&B Holdings Pte Ltd, a corporate shareholder. L&B Holdings Pte Ltd is 18.9% owned by Mr. Loh Kim Her, a director and shareholder of the Company and 0.6% owned by Ms. Goh Lan Kiaw, the wife of Mr. Loh Kim Her and the remaining shareholding is held by the immediate family members of Mr. Loh Kim Her. Mr. Loh Kim Her is also a director of L&B Holdings Pte Ltd; and
 - 4) corporate guarantee by Eng Kheng (S) Pte Ltd which is 61% owned by Mr. Anthony Chan Hing Ka, a director and shareholder of the Company; and 39% owned by Ms. Chan Xiao Li, sister of Mr. Anthony Chan Hing Ka.

Under the terms of the loan agreement, if an initial public offering occurs at any time prior to full repayment of the debt, the Group has to make a mandatory repayment of approximately S\$3,680,000 (HK\$16,070,000) or 75% of the debt then outstanding, whichever is higher. If the bank determines that the debt then outstanding is less than approximately S\$3,680,000 (HK\$16,070,000), the debt shall be repaid in full.

Based on a letter from the Group's banker dated 24th December, 2001, the banker agreed in principle to release the existing personal guarantee of the directors after the listing of the Company in exchange for a guarantee given by the Company.

- iv. Two term loans, drawn in 2001, with a total outstanding balance of approximately S\$644,000 (HK\$2,812,000) as at 31st December, 2001, bearing interest at 4.9% and 6.0% per annum respectively, are secured by a fixed deposit amounting to approximately S\$368,000 (HK\$1,606,000). The term loans are repayable one year from their respective draw down dates.

22. DUE TO RELATED COMPANIES AND DIRECTORS

The amounts due to related companies and directors are unsecured, interest-free and repayable on demand. Had interest been charged on the outstanding balances due to these related companies and directors during the years ended 31st December, 2000 and 2001, based on the Group's overdraft borrowing cost of approximately 5.5% per annum, the Group would have incurred interest expenses, net of tax of approximately S\$29,000 (HK\$131,000) and S\$24,000 (HK\$105,000), respectively.

23. SHARE CAPITAL AND SHARE PREMIUM

The Company was incorporated in the Cayman Islands on 5th July, 2001. As at 31st December, 2001, the Company had authorised share capital of HK\$100,000 divided into 10,000,000 shares with a nominal value of HK\$0.01 each, of which one share was issued but not paid on 16th July, 2001, and accordingly, the Company had no fully paid-up share capital at that date. The balance represents the share capital of German Automobiles Pte Ltd., the subsidiary directly held by the Company.

Share premium arose as a result of issue of 455,396 ordinary shares of S\$1 each at S\$3.294 per share by German Automobiles Pte Ltd. for cash in the year ended 31st December, 2000. The share premium arising thereon is thus approximately S\$1,044,000 (HK\$4,696,000) as at 31st December, 2000.

24. RESERVES

	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Capital reserve				
As at 1st January	2	9	—	—
On disposal of a subsidiary	(2)	(9)	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As at 31st December	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cumulative translation reserve				
As at 1st January	59	274	(85)	(382)
Net adjustment during the year	(144)	(656)	165	731
	<u>(85)</u>	<u>(382)</u>	<u>80</u>	<u>349</u>
As at 31st December	<u>(85)</u>	<u>(382)</u>	<u>80</u>	<u>349</u>
(Accumulated losses) Retained profits				
As at 1st January	(1,152)	(5,358)	(87)	(391)
Net profit for the year	1,065	4,792	2,777	12,127
Translation adjustment	—	175	—	11
	<u>(87)</u>	<u>(391)</u>	<u>2,690</u>	<u>11,747</u>
As at 31st December	<u>(87)</u>	<u>(391)</u>	<u>2,690</u>	<u>11,747</u>
	<u>(172)</u>	<u>(773)</u>	<u>2,770</u>	<u>12,096</u>

25. NOTES TO THE COMBINED CASH FLOW STATEMENTS

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	Years ended 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Profit before taxation	3,123	14,050	4,822	21,055
Interest expenses	2,252	10,130	2,256	9,852
Interest income	(145)	(652)	(203)	(887)
Share of profits of a joint venture	(295)	(1,327)	—	—
Gain on disposal of fixed assets	(86)	(387)	—	—
Loss on disposal of a subsidiary	195	877	—	—
Loss on disposal of a joint venture	646	2,906	—	—
Bad debts written off	105	472	—	—
Provision for doubtful trade debts	458	2,060	84	369
Provision for doubtful non-trade debts	78	351	15	67
Provision for inventory obsolescence	56	252	—	—
Write-back of inventories previously written down to net realisable value	—	—	(35)	(154)
Write-down of inventories to net realisable value	35	157	—	—
Write-back of provision for inventory obsolescence	—	—	(162)	(707)
Write-back of provision for doubtful trade debts	(1)	(4)	(200)	(873)
Depreciation of fixed assets	171	768	170	743
Fixed assets written off	65	292	66	288
Increase in prepaid rental expenses	(6)	(27)	(1,459)	(6,371)
Decrease in loan to a related company	1,183	5,322	—	—
Decrease (Increase) in inventories	2,258	10,157	(1,546)	(6,751)
Decrease (Increase) in accounts receivable, net	11,773	52,960	(4,441)	(19,393)
Increase in prepayments, deposits and other current assets	(5,576)	(25,083)	(1,520)	(6,638)
(Increase) Decrease in due from related companies	(161)	(724)	231	1,009
Decrease in accounts payable	(9,006)	(40,513)	(114)	(498)
Decrease in accruals and other payables	(1,403)	(6,311)	(214)	(934)
(Decrease) Increase in bills payable to banks	(3,054)	(13,738)	11,384	49,711
Increase (Decrease) in due to related companies	173	778	(92)	(401)
(Decrease) Increase in due to directors	(484)	(2,177)	18	79
Translation adjustment	(22)	(102)	(39)	(175)
Net cash inflow from operating activities	<u>2,332</u>	<u>10,487</u>	<u>9,021</u>	<u>39,391</u>

b. Analysis of disposal of a subsidiary as at date of disposal

	2000	
	<i>S\$'000</i>	<i>HK\$'000</i>
Inventories	585	2,631
Trade creditors	(123)	(553)
Other creditors	(219)	(985)
	<hr/>	<hr/>
	243	1,093
Minority interests	(48)	(216)
	<hr/>	<hr/>
Loss on disposal of a subsidiary	<u>195</u>	<u>877</u>

c. Analysis of changes in financing

	Share capital	Share premium	Bank loans	Finance lease	Total
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
As at 1st January, 2000	7,421	—	13,240	96	20,757
Issue of share capital	456	1,044	—	—	1,500
Decrease in bank loans, net	—	—	(12,503)	—	(12,503)
Repayment of finance leases	—	—	—	(96)	(96)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2000	7,877	1,044	737	—	9,658
Increase in bank loans, net	—	—	7,671	—	7,671
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2001	<u>7,877</u>	<u>1,044</u>	<u>8,408</u>	<u>—</u>	<u>17,329</u>

	Share capital	Share premium	Bank loans	Finance lease	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1st January, 2000	33,382	—	59,559	432	93,373
Issue of share capital	2,052	4,696	—	—	6,748
Decrease in bank loans, net	—	—	(56,244)	—	(56,244)
Repayment of finance leases	—	—	—	(432)	(432)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2000	35,434	4,696	3,315	—	43,445
Increase in bank loans, net	—	—	33,498	—	33,498
Translation adjustment	(1,037)	(137)	(97)	—	(1,271)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31st December, 2001	<u>34,397</u>	<u>4,559</u>	<u>36,716</u>	<u>—</u>	<u>75,672</u>

d. Analysis of cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, fixed deposits and bank overdrafts. Fixed deposits of approximately S\$3,676,000 (HK\$16,536,000) and S\$5,276,000 (HK\$23,039,000) are excluded from cash and cash equivalents as at 31st December, 2000 and 2001, respectively because they may not be realisable as they are fully pledged to banks for banking facilities granted to the Group as disclosed in Note 19.

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	504	2,267	479	2,093
Unpledged fixed deposits	—	—	2,784	12,156
Bank overdrafts	(11,156)	(50,184)	(1,804)	(7,878)
	<u>(10,652)</u>	<u>(47,917)</u>	<u>1,459</u>	<u>6,371</u>

26. SEGMENT INFORMATION

a. Primary segment

The Group is organised on a worldwide basis into three main business segments, namely:

Activity 1: Sales of motor vehicles and technical fees;

Activity 2: Servicing of motor vehicles and sales of auto parts; and

Activity 3: Commission income from sales of cars from German Automobiles Pte Ltd. to German Automobiles Limited (i.e. inter-group).

An analysis of turnover, profit (loss) from operations, share of profits of a joint venture, finance costs, net, taxation, minority interest and profit (loss) attributable to shareholders according to the three main business segments is as follows. Inter-segment pricing is on an arm's length basis.

APPENDIX I**ACCOUNTANTS' REPORT**

For the year ended 31st December, 2000:

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
Turnover	25,537	2,691	579	(1,025)	<u>27,782</u>
Profit (loss) from operations	6,404	(628)	—	—	5,776
Loss on disposal of a subsidiary	—	—	—	—	(195)
Loss on disposal of a joint venture	—	—	—	—	<u>(646)</u>
					4,935
Share of profits of a joint venture	—	—	—	—	295
Finance costs, net	(2,067)	(40)	—	—	(2,107)
Taxation	(1,957)	(11)	—	—	(1,968)
Minority interests	—	(90)	—	—	<u>(90)</u>
Profit (loss) attributable to shareholders	2,380	(769)	—	—	<u>1,065</u>
Depreciation					<u>171</u>

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	114,876	12,105	2,605	(4,611)	<u>124,975</u>
Profit (loss) from operations	28,809	(2,825)	—	—	25,984
Loss on disposal of a subsidiary	—	—	—	—	(877)
Loss on disposal of a joint venture	—	—	—	—	<u>(2,906)</u>
					22,201
Share of profits of a joint venture	—	—	—	—	1,327
Finance costs, net	(9,298)	(180)	—	—	(9,478)
Taxation	(8,803)	(50)	—	—	(8,853)
Minority interests	—	(405)	—	—	<u>(405)</u>
Profit (loss) attributable to shareholders	10,708	(3,460)	—	—	<u>4,792</u>
Depreciation					<u>768</u>

APPENDIX I

ACCOUNTANTS' REPORT

For the year ended 31st December, 2001:

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
Turnover	54,777	3,505	1,557	(1,722)	<u>58,117</u>
Profit from operations	6,634	241	—	—	6,875
Share of profits of a joint venture	—	—	—	—	—
Finance costs, net	(2,020)	(33)	—	—	(2,053)
Taxation	(1,910)	(146)	—	—	(2,056)
Minority interests	—	11	—	—	<u>11</u>
Profit attributable to shareholders	2,704	73	—	—	<u>2,777</u>
Depreciation					<u>170</u>

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	239,201	15,306	6,797	(7,520)	<u>253,784</u>
Profit from operations	28,969	1,051	—	—	30,020
Share of profits of a joint venture	—	—	—	—	—
Finance costs, net	(8,821)	(144)	—	—	(8,965)
Taxation	(8,340)	(636)	—	—	(8,976)
Minority interests	—	48	—	—	<u>48</u>
Profit attributable to shareholders	11,808	319	—	—	<u>12,127</u>
Depreciation					<u>743</u>

APPENDIX I

ACCOUNTANTS' REPORT

An analysis of the Group's assets, liabilities and capital expenditures is as follows:

For year ended 31st December, 2000:

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
Assets	12,527	6,130	—	—	18,657
Unallocated assets					<u>17,697</u>
Total assets					<u><u>36,354</u></u>
Liabilities	11,174	1,313	—	—	12,487
Unallocated liabilities					<u>15,118</u>
Total liabilities					<u><u>27,605</u></u>
Capital expenditures					<u><u>152</u></u>

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets	56,352	27,575	—	—	83,927
Unallocated assets					<u>79,608</u>
Total assets					<u><u>163,535</u></u>
Liabilities	50,265	5,906	—	—	56,171
Unallocated liabilities					<u>68,007</u>
Total liabilities					<u><u>124,178</u></u>
Capital expenditures					<u><u>683</u></u>

For year ended 31st December 2001:

	Activity 1	Activity 2	Activity 3	Elimination	Total
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
Assets	28,293	10,306	—	—	38,599
Unallocated assets					<u>11,235</u>
Total assets					<u><u>49,834</u></u>
Liabilities	21,288	2,434	—	—	23,722
Unallocated liabilities					<u>14,421</u>
Total liabilities					<u><u>38,143</u></u>
Capital expenditures					<u><u>82</u></u>

APPENDIX I

ACCOUNTANTS' REPORT

	Activity 1 <i>HK\$'000</i>	Activity 2 <i>HK\$'000</i>	Activity 3 <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets	123,550	45,005	—	—	168,555
Unallocated assets					49,061
Total assets					217,616
Liabilities	92,961	10,629	—	—	103,590
Unallocated liabilities					62,974
Total liabilities					166,564
Capital expenditures					358

b. Secondary segment

The Group has business operations in the PRC, Hong Kong and Singapore. An analysis of turnover of the Group by geographical segments is as follows. Turnover is based on the location of customers.

	Years ended 31st December, 2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
The PRC	13,347	60,040	26,490	115,675
Hong Kong	14,435	64,935	31,515	137,620
Philippines and Madagascar	—	—	112	489
	27,782	124,975	58,117	253,784

An analysis of the Group's assets and capital expenditures as at 31st December, 2000 and 2001 by geographical segments is as follows. Assets and capital expenditures are based on the location of those assets.

As at 31st December, 2000:

	Assets		Capital expenditures	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
The PRC	12,623	56,784	139	625
Hong Kong	12,390	55,735	—	—
Singapore	11,341	51,016	13	58
	36,354	163,535	152	683

As at 31st December, 2001:

	Assets		Capital expenditures	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
The PRC	38,156	166,620	80	349
Hong Kong	6,948	30,341	2	9
Singapore	4,730	20,655	—	—
	<u>49,834</u>	<u>217,616</u>	<u>82</u>	<u>358</u>

27. COMMITMENTS AND CONTINGENT LIABILITIES

The Group has the following significant commitments and contingent liabilities which were not provided for in the combined financial statements.

a. Operating leases

The Group has various operating lease agreements for offices and residential premises. Most leases contain renewable options. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

As at 31st December, 2000 and 2001, total future minimum lease payments under non-cancellable operating leases in respect of rented premises are analysed as follows:

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Total future minimum lease payment payable				
Within 1 year	253	1,138	572	2,498
After 1 year but within 5 years	430	1,934	788	3,441
After 5 years	353	1,588	541	2,362
	<u>1,036</u>	<u>4,660</u>	<u>1,901</u>	<u>8,301</u>

The Group has sublet part of a leased property in Singapore to Octavus Properties Pte Ltd and Eng Kheng (S) Pte Ltd, related companies. Sublease income receivables are analysed as follows:

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Total future minimum sublease income receivable				
Within 1 year	21	94	20	89
After 1 year but within 5 years	—	—	15	67
	<u>21</u>	<u>94</u>	<u>35</u>	<u>156</u>

b. Contingent liabilities

As at 31st December, 2000 and 2001, contingent liabilities not provided for are analysed as follows:

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Guarantees provided to a bank in respect of banking facilities granted to a third party*	<u>4,848</u>	<u>21,809</u>	<u>7,912</u>	<u>34,550</u>

* The guarantee is provided to Beijing China National Automotive Anhua Spare Parts Ltd., which was formerly a joint venture of the Group but was disposed of to Super Yield Trading Co., Ltd. in June 2000. Fixed deposits of approximately S\$1,119,000 (HK\$5,034,000) and S\$1,840,000 (HK\$8,035,000) are pledged to secure the banking facilities as at 31st December, 2000 and 2001, respectively.

Based on a letter from the bank dated 10th May, 2002, the bank will unconditionally release the Company as corporate guarantor from the above guarantees upon the listing of the Company.

In addition, the Group as the master licensee of the "Hertz" model of the car rental business ("the Car Rental Business"), has given corporate guarantees to Hertz International Ltd, the principal of the Car Rental Business, guaranteeing the performance and timely payment by the three car rental sub-licensees of all amounts payable under the respective sub-licensees agreements to Hertz International Ltd. These car rental sub-licensees are related companies of North Anhua.

c. Bankers' guarantees

As at 31st December, 2000 and 2001, the Group had the following bankers' guarantees issued to various parties as follows:

	As at 31st December,			
	2000		2001	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
Guarantees provided to the principal of the Car Rental Business*	<u>87</u>	<u>391</u>	<u>92</u>	<u>402</u>
Guarantees provided to a supplier for auto parts purchases	<u>329</u>	<u>1,482</u>	<u>334</u>	<u>1,457</u>

* A fixed deposit of approximately S\$87,000 (HK\$391,000) and S\$92,000 (HK\$402,000) was pledged to a bank to secure the above bankers' guarantees as at 31st December, 2000 and 2001, respectively.

28. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31st December, 2001 and up to the date of this report:

- a. The Group completed a reorganisation in preparation for a listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of appendix IV to the Prospectus; and
- b. Resolutions were passed to effect the transactions set out in the subsection headed "Written resolutions of the sole shareholder of the Company passed on 5th June, 2002" of appendix IV to the Prospectus.

II. FINANCIAL INFORMATION ABOUT THE COMPANY**1. DISTRIBUTABLE RESERVES**

The Company has not carried on any business since its incorporation, except for the acquisition on 5th June, 2002 of the subsidiaries set out in Section I above. Accordingly, the Company had no reserves available for distribution to shareholders as at 31st December, 2001.

2. NET ASSETS OF THE COMPANY

The Company was incorporated on 5th July, 2001. The Company has not carried on any business since its incorporation, except for the acquisition on 5th June, 2002 of the subsidiaries set out in Section I above. The net assets of the Company as at 31st December, 2001, on the basis set out in Note 1 above amounted to approximately S\$11,691,000 (HK\$51,052,000), representing its investments in subsidiaries.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 2001. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 2001.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants
Hong Kong

The following is the text of a letter together with a summary of valuations and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its valuation as at 31st March, 2002 of the property interests of the Group.



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

10th June, 2002

The Directors
G. A. Holdings Limited
Room 2205B, 22nd Floor,
No. 9 Queen's Road
Central,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by G. A. Holdings Limited (as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong, Singapore and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests as at 31st March, 2002 (the "date of valuation").

Our valuation of each of the property interests represent its open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the Group sells the property interests on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to increase the values of the property interests.

In valuing the property interests in Hong Kong which are held under Government Leases expired before 30th June, 1997, we have taken account of the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of People's Republic of China on the Question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

In the course of our valuation of the property interests in the PRC, we have assumed that transferable land use rights in respect of the property interest for its respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the advice given by the Group and its legal advisers on PRC law, Jingtian Associates, regarding the title to the property interest and the interests of the Group in the property. In valuing the property interest, we have assumed that the Group has an enforceable title to the property interest and has free and uninterrupted rights to use, occupy or assign the property interest for the whole of the respective unexpired term as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In forming our opinion of the value of the property interests in Group I which are owned by the Group in the PRC, we have valued each of them on an open market basis by the direct comparison approach assuming sale of the property interest in its existing state by making reference to comparable sales evidence as available in the relevant market.

The property interests in Groups II, III and IV, which are rented/occupied under Co-operation Contract by the Group in Hong Kong, Singapore and the PRC respectively, have no commercial value mainly due to prohibition against assignment or lack of substantial profit rent.

We have not been provided with copies of the title documents relating to the property interests in Hong Kong but have caused searches to be made at the appropriate Land Registries in Hong Kong. In respect of the property interests in Singapore and the PRC, we have been provided with extracts of documents in relation to the titles to the property interests. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given by the Group or its legal adviser and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, identification of buildings, details of tenancies, particulars of occupancy, floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, where possible, the interior of each of the properties. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations are HK\$1=RMB1.07 which was approximately the prevailing exchange rate as at the date of valuation. There has been no significant fluctuation in exchange rate between the date of valuation and the date of this letter.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
Registered Professional Surveyor (GP)
A.H.K.I.S., M.R.I.C.S.
Director

Notes: Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 13 years' experience in valuation of properties in Hong Kong and Singapore and over 11 years' experience in the valuation of properties in the People's Republic of China.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31st March, 2002
GROUP I – PROPERTY INTERESTS OWNED BY THE GROUP IN THE PRC	
1. Type D Villa No. 69, Beijing Riviera, No. 1 Xiangjiang North Road, Chaoyang District, Beijing	HK\$4,300,000
2. Unit No. A307, Level 3, Block No. 1, Beijing Riviera, No. 1 Xiangjiang North Road Chaoyang District, Beijing	Please see note (4) on the certificate
<hr/>	
Sub-total : HK\$4,300,000	
GROUP II – PROPERTY INTERESTS RENTED BY THE GROUP IN HONG KONG	
3. Unit No. 2205B, 22nd Floor, No. 9 Queen's Road Central, Hong Kong	No commercial value
4. Lot No. 568 in Demarcation District No. 114, Shek Kong, Yuen Long New Territories, Hong Kong	No commercial value
5. Flat E on 30th Floor, Block 1 and Car Parking Space No. 36 on 5th Basement, Ronsdale Garden, No. 25 Tai Hang Drive, Tai Hang, Hong Kong	No commercial value

Property	Capital value in existing state as at 31st March, 2002
GROUP III – PROPERTY INTEREST RENTED BY THE GROUP IN SINGAPORE	
6. #02-01, Atland House, 200 Bukit Timah Road, Singapore	No commercial value
GROUP IV – PROPERTY INTERESTS RENTED/OCCUPIED UNDER CO-OPERATION CONTRACT BY THE GROUP IN THE PRC	
7. Unit No. 1407, Level 1, New Car Park, Beijing International Airport, Beijing	No commercial value
8. Portion of Level 1, Beifang Anhua Building, No. 8 Yinghua West Street, No. 15 North 3rd Ring East Road, Beijing	No commercial value
9. Unit Nos. 1-203 and 1-204, No. 102 Tianbao Avenue, Tianjin Harbour Free Trade Zone, Tianjin	No commercial value
10. East Portion of Level 1 and whole of Level 10, Xiamen Zhongzi Building, No. 44 Hubin North Road, Kaiyuan District, Xiamen Fujian Province	No commercial value
11. A vehicle repairing workshop, No. 221 Lianyue Road, Kaiyuan District, Xiamen Fujian Province	No commercial value
<hr/>	
Grand total : <u>HK\$4,300,000</u>	

VALUATION CERTIFICATE

Group I – Property interests owned by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2002
1. Type D Villa No. 69, Beijing Riviera, No. 1 Xiangjiang North Road, Chaoyang District, Beijing	<p>The property comprises a 2-storey villa erected on a site with a site area of approximately 365.10 sq.m. (3,930 sq.ft.). The property was completed in 1996.</p> <p>The property has a gross floor area of approximately 222 sq.m. (2,390 sq.ft.).</p> <p>The land use rights of the property has been granted for a term of 70 years from 30th December, 1993 to 29th December, 2063 for villa use.</p>	The property is currently occupied by the Group as staff quarters.	HK\$4,300,000

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (1999) 0150067, the legal title of the land use rights of the property, with a site area of 365.10 sq.m., is vested in German Automobiles Pte Ltd. The land use term is granted for villa use and is due to expire on 29th December, 2063.
- (2) According to Building Ownership Certificate No. 1050067, the building ownership of the property, with a gross floor area of 222 sq.m. is vested in German Automobiles Pte Ltd.
- (3) According to the Pre-sale Contract for Foreign-sale Commodity Housing in Beijing entered into between Beijing Riviera Real Estate Development Company Limited (Party A) and German Automobiles Pte Ltd. (Party B), Party A has agreed to sell Type D Villa No. 69 of Beijing Riviera with a gross floor area of 231.67 sq.m. to Party B on a consideration of US\$600,000. The land use rights of the property has been granted for a term of 70 years from 30th December, 1993 to 29th December, 2063 for residential use.
- (4) The opinion of the Group's legal adviser states, inter alia, that:
 - (i) German Automobiles Pte Ltd. legally owns the land use rights and building ownership of the property. The property has a site area of 365.10 sq.m. and a gross floor area of 222 sq.m.
 - (ii) The property is subject to a mortgage to Malaysia Bank. After the mortgage is discharged, German Automobiles Pte Ltd. will be entitled to transfer the property to third party.
- (5) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:
 - (i) German Automobiles Pte Ltd. is in possession of a proper legal title to the property and is entered to transfer the property together with the residual term of its land use rights at no extra land premium or other onerous payment to the government;
 - (ii) all land premium and other onerous payments have been settled in full;
 - (iii) the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
 - (iv) the property may be disposed of freely to both local and overseas purchasers.
- (6) The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Pre-sale Contract for Foreign-sale Commodity Housing in Beijing	Yes

Group I – Property interests owned by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2002
2. Unit No. A307, Level 3, Block No. 1, Beijing Riviera, No. 1 Xiangjiang North Road Chaoyang District, Beijing	<p>The property comprises a residential unit on the 3rd level of a 3-storey residential building completed in 1996.</p> <p>The property has a gross floor area of approximately 119.98 sq.m. (1,291 sq.ft.).</p> <p>The land use rights of the property has been granted for a term of 70 years from 30th December, 1993 to 29th December, 2063 for residential use.</p>	The property is currently occupied by the Group as staff quarters.	Please see note (4) below.

Notes:

- (1) According to the Pre-sale Contract for Foreign-sale Commodity Housing in Beijing entered into between Beijing Riviera Real Estate Development Company Limited (Party A) and German Automobiles Pte Ltd. (Party B), Party A has agreed to sell unit No. A307 on Level 3 of Block No. 1 of Beijing Riviera with a gross floor area of 119.98 sq.m. to Party B on a consideration of US\$246,560. The land use rights of the property has been granted for a term of 70 years from 30th December, 1993 to 29th December, 2063 for residential use.
- (2) The opinion of the Group's legal adviser states, inter alia, that:
 - (i) The Pre-sale Contract for Foreign-sale Commodity Housing in Beijing of the property has been registered at Beijing Land and Building Administration Bureau and is valid. The rights of German Automobiles Pte Ltd. under the contract is protected by the PRC laws.
 - (ii) German Automobiles Pte Ltd. is processing the application and would obtain the Certificate for the Use of State-owned Land and Building Ownership Certificate without legal obstacle and payment for other substantial charges.
 - (iii) After the certificate are obtained, German Automobiles Pte Ltd. will be entitled to transfer the property to third party.
- (3) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:
 - (i) German Automobiles Pte Ltd. is in possession of a proper legal title to the property and is entered to transfer the property together with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;
 - (ii) all land premium and other onerous payments have been settled in full;
 - (iii) the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
 - (iv) the property may be disposed of freely to both local and overseas purchasers.
- (4) The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Pre-sale Contract for Foreign-sale Commodity Housing in Beijing	Yes
Certificate for the Use of State-owned Land*	Being applied
Building Ownership Certificate*	Being applied

* The Group currently does not have the legal title certificates for the property. However, the contract entered for acquiring the property has been registered in the relevant government authority in the PRC. The PRC legal adviser opined that there will be no legal impediment for the Group to obtain the relevant title certificates.

In view of the relevant GEM Listing Rules, no value has been ascribed to the property interest.

On the assumption that the legal title certificates were issued, the capital value in existing state as at 31st March, 2002 of the property interest was HK\$1,900,000.

Group II – Property interests rented by the Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
3. Unit No. 2205B, 22nd Floor, No. 9 Queen's Road Central, Hong Kong	<p>The property comprises an office unit on the 22nd floor of a 36-storey (including basement) commercial building completed in 1991.</p> <p>The property has a saleable area of approximately 99.13 sq.m. (1,067 sq.ft.). The property is occupied by the Group as an office.</p> <p>The property is currently leased to the Group from an independent third party from the Group under Tenancy Agreement dated 13th June, 2001 for a term of 2 years from 16th May, 2001 to 15th May, 2003 at a monthly rent of HK\$64,134, exclusive of rates, Government rent, management fees and other outgoings.</p>	No commercial value
4. Lot No. 568 in Demarcation District No. 114, Shek Kong, Yuen Long, New Territories, Hong Kong	<p>The property comprises a piece of agricultural land in Shek Kong, New Territories.</p> <p>The property has a registered site area of approximately 1,092.62 sq.m. (11,761 sq.ft.). The property is occupied by the Group as an open storage of left-hand drive vehicles subject to the terms and conditions of a letter issued by the Town Planning Board dated 11th January, 2002.</p> <p>The property is currently leased to the Group from independent third parties from the Group under Tenancy Agreement dated 22nd October, 2001 for a term of 3 years from 1st July, 2001 to 30th June, 2004 at a monthly rent of HK\$29,000, exclusive of rates. Both the landlord and the tenant are entitled to terminate the tenancy by serving not less than 3 month's written notice to another.</p>	No commercial value

Group II – Property interests rented by the Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
5. Flat E on 30th Floor, Block 1, and Car Parking Space No. 36 on 5th Basement, Ronsdale Garden, No. 25 Tai Hang Drive, Tai Hang, Hong Kong	<p>The property comprises a domestic unit on the 30th floor and a private car parking space on the 5th basement of a 33-storey residential tower erected upon a 7-level car park/common podium. The development was completed in 1986.</p> <p>The property have a gross floor area and a saleable area of approximately 82.31 sq.m. (886 sq.ft.) and 66.05 sq.m. (711 sq.ft.) respectively. The property is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group from independent third parties from the Group under Tenancy Agreement dated 23rd July, 2001 for a term of 2 years from 1st August, 2001 to 31st July, 2003 at a monthly rent of HK\$20,000, inclusive of rates, management fee and Government rent. The tenant is entitled to terminate the tenancy by serving not less than 2 months' written notice after the first 12 months.</p>	No commercial value

Group III – Property interest rented by the Group in Singapore

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
6. #02-01, Atland House, 200 Bukit Timah Road, Singapore	<p>The property comprises an unit on the 2nd floor of a 5-storey residential/office building completed in 1998.</p> <p>The property has a gross floor area of approximately 163.88 sq.m. (1,764 sq.ft.). The property is occupied by the Group as an office.</p> <p>The property is currently leased to the Group from Atland Properties Pte Ltd., a related party of the Group, under Tenancy Agreement dated 11th June, 1999 and Renewal of Tenancy dated 6th September, 2001 for a term of 3 years from 25th September, 1998 to 24th September, 2001 and a renewal term of 1 year from 25th September, 2001 to 24th September, 2002 at a monthly rent of SGD3,890 and a monthly service charge of SGD360.</p> <p>Portion of the property, with a gross floor area of approximately 32.80 sq.m. (353 sq.ft.), is sub-licensed by the Group to Eng Kheng (S) Pte Ltd., a related party of the Group, under Tenancy Agreement dated 11th June, 1999 and Renewal of Tenancy dated 10th September, 2001 for a term of 3 years from 25th September, 1998 to 24th September, 2001 and a renewal term of 1 year from 25th September, 2001 to 24th September, 2002 at a monthly rent of SGD800 and a monthly service charge of SGD50.</p> <p>Another portion of the property, with a gross floor area of approximately 32.80 sq.m. (353 sq.ft.), is sub-licensed by the Group to Octavus Properties Pte Ltd., to another related party of the Group, under Tenancy Agreement dated 11th June, 1999 and Renewal of Tenancy dated 10th September, 2001 for a term of 3 years from 25th September, 1998 to 24th September, 2001 and a renewal term of 1 year from 25th September, 2001 to 24th September, 2002 at a monthly rent of SGD800 and a monthly service charge of SGD50.</p>	No commercial value

Group IV – Property interests rented/occupied under Co-operation Contract by the Group in the PRC

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
7. Unit No. 1407, Level 1, New Car Park, Beijing International Airport, Beijing	<p>The property comprises a shop unit on the 1st level of a single-storey car park completed in 1999.</p> <p>The property has an area of approximately 80 sq.m. (861 sq.ft.). The property is occupied by the Group as a vehicle rental shop.</p> <p>The property is currently leased to the Group for a term of 20 years from 10th June, 2000 to 10th June, 2020 at an annual rent of RMB1,008,000, exclusive of management fees and other outgoings.</p> <p>According to the opinion given by the Company's legal adviser:</p> <ol style="list-style-type: none"> The tenancy agreement is valid, legally binding and enforceable under the PRC laws; The Company is legally entitled to occupy the property under the tenancy agreement. 	No commercial value
8. Portion of Level 1, Beifang Anhua Building, No. 8 Yinghua West Street, No. 15 North 3rd Ring East Road, Beijing	<p>The property comprises portion of the 1st level of a 7-storey plus one level basement commercial and warehouse building completed in 1998.</p> <p>The property has an area of approximately 121 sq.m. (1,302 sq.ft.). The property is occupied by the Group as a vehicle rental shop.</p> <p>The property is currently leased to the Group for a term of 20 years from 16th November, 2000 to 15th November, 2020 at an annual rent of RMB728,722.50, exclusive of management fees and other outgoings.</p> <p>According to the opinion given by the Company's legal adviser:</p> <ol style="list-style-type: none"> The tenancy agreement is valid, legally binding and enforceable under the PRC laws; The Company is legally entitled to occupy the property under the tenancy agreement. 	No commercial value

Group IV – Property interests rented/occupied under Co-operation Contract by the Group in the PRC

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
9. Unit Nos. 1-203 and 1-204, No. 102 Tianbao Avenue, Tianjin Harbour Free Trade Zone, Tianjin	<p>The property comprises 2 office units on the 1st level of a 3-storey commercial building completed in 1996.</p> <p>The property has an area of approximately 17.30 sq.m. (186 sq.ft.). The property is occupied by the Group as an office.</p> <p>The property is currently leased to the Group for a term of 20 years from 17th August, 1999 to 16th August, 2019 at a monthly rent of RMB15,000, exclusive of management fees and other outgoings.</p> <p>According to the opinion given by the Company's legal adviser:</p> <ol style="list-style-type: none"> The tenancy agreement is valid, legally binding and enforceable under the PRC laws; The Company is legally entitled to occupy the property under the tenancy agreement. 	No commercial value

Group IV – Property interests rented/occupied under Co-operation Contract by the Group in the PRC

Property	Description and tenancy particulars	Capital value in existing state as at 31st March, 2002
10. East Portion of Level 1 and whole of Level 10, Xiamen Zhongzi Building, No. 44 Hubin North Road, Kaiyuan District, Xiamen Fujian Province	<p>The property comprises portion of the 1st level and whole of the 10th level of a 12-storey commercial building completed in 1986.</p> <p>The property has a total gross floor area of approximately 710 sq.m. (7,642 sq.ft.). The property is occupied by the Group as an exhibition hall and office.</p> <p>The property is currently leased to the Group for a term of 21 years from 1st November, 1999 to 31st October, 2020 at a monthly rent of RMB31,388, subject to an annual increment of 5% and exclusive of management fees and other outgoings.</p> <p>According to the opinion given by the Company's legal adviser:</p> <ol style="list-style-type: none"> The tenancy agreement is valid, legally binding and enforceable under the PRC laws; The Company is legally entitled to occupy the property under the tenancy agreement. 	No commercial value
11. A vehicle repairing workshop, No. 221 Lianyue Road, Kaiyuan District, Xiamen Fujian Province	<p>The property comprises a single storey industrial building completed in 1990's.</p> <p>The property has a total gross floor area of approximately 1,749 sq.m. (18,826 sq.ft.). The property is occupied by the Group as a workshop and service centre.</p> <p>The property is currently occupied by the Group under a Co-operation Contract with a period of 16 years from 8th January, 1994.</p> <p>The property is used in connection with Xiamen BMW Automobiles Service Co., Ltd.. The opinion of the Group's legal adviser states that the PRC party (Xiamen Economic Special Zone Transportation Corporation) has undertaken to provide the property to the Group for no consideration and the Group's legal adviser confirms that such arrangement complies with the PRC laws.</p> <p>The PRC party does not have the appropriate title certificates. Please refer to paragraph "Lack of appropriate title certificates for the Xiamen BMW service centre" under Risk Factors section.</p>	No commercial value

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the memorandum of association of the Company (the “Memorandum”) and the Articles and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5th July, 2001 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 5th June, 2002. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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- (v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW
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(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

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(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

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(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

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The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;

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- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors; and
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

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No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

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A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this appendix.

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(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

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(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company

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may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

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Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

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:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 17th July, 2001.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5th July, 2001.

The Company has established a place of business in Hong Kong at Room 2205B, 22nd Floor, 9 Queen's Road Central and was registered as an overseas company under Part XI of the Companies Ordinance on 11th October, 2001. In connection with such registration, Mr. Anthony Chan has been appointed as an agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. When the Registrar of Companies in Hong Kong subsequently served a notice to the Company indicating that its English name is the same as or too like the name of a company incorporated in Hong Kong, the Company applied to and was approved by the Registrar of Companies on 23rd January, 2002 for adopting a trading name, German Automobiles International Limited, to carry on business in Hong Kong, so as to avoid any confusion to the public.

As the Company was incorporated in the Cayman Islands and is subject to Cayman Islands company law, its constitution comprises a memorandum of association and the Articles. A summary of certain relevant parts of the Company's constitution and certain relevant aspects of the Cayman Islands company law is set out in appendix III to this prospectus.

Changes in share capital of the Company

At the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 10,000,000 shares of a nominal value of HK\$0.01 each, of which one share was issued nil paid on 16th July, 2001 to Codan Trust Company (Cayman) Limited and subsequently transferred to Mr. Anthony Chan on the same day.

On 5th June, 2002, nine additional shares of HK\$0.01 each were issued nil paid by the Company to Mr. Anthony Chan.

On 5th June, 2002, the authorised share capital (including the issued and unissued share capital) of the Company was consolidated into 1,000,000 Shares of HK\$0.10 each.

On 5th June, 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 Shares.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

On 5th June, 2002, in accordance with the share swap agreement referred to in the paragraph headed “Summary of material contracts” in this appendix, the Company acquired from Mr. Anthony Chan, L&B, Comfort (China), Mr. Loh Kim Her, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin, the entire issued share capital of GAPL, and in consideration thereof (i) 127,419,376, 75,374,927, 61,667,570, 49,508,132, 3,014,997 and 3,014,997 Shares, credited as fully paid up, were allotted and issued to Tycoons Investment (as nominee of Mr. Anthony Chan), L&B, Comfort (China), Affluence Investment (as nominee of Mr. Loh Kim Her), Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin respectively; and (ii) the then existing one consolidated and nil paid Share held by Mr. Anthony Chan was credited as fully paid up at par. Mr. Anthony Chan also transferred such Share to Tycoons Investment.

On 5th June, 2002, in accordance with the share sale agreements referred to in the paragraph headed “Summary of material contracts” in this appendix, 188,316,430 Shares held as to 95,419,377, 59,374,927, 33,508,132, 6,997 and 6,997 Shares respectively by Tycoons Investment, L&B, Affluence Investment, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin were transferred to Loh & Loh, Big Reap Investment, Zhongqi Technology, Mr. Gao Ji Xin, Ms. Yeoh Cheng Yew, Mr. Wong Chi Fung and Mr. Lee Chung as to 94,432,000, 32,000,000, 19,196,430, 12,000,000, 12,000,000, 9,344,000 and 9,344,000 Shares respectively.

Immediately following the completion of the Placing, the authorised share capital of the Company will be HK\$200,000,000 divided into 2,000,000,000 Shares and the issued share capital will be HK\$40,000,000 divided into 400,000,000 Shares (each of which will be fully paid or credited as fully paid) and 1,600,000,000 Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of the general mandate referred to in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 5th June, 2002” in this appendix, the Directors have no present intention to issue any part of the authorised but unissued capital of the Company, and without the prior approval of the members of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

Written resolutions of the sole shareholder of the Company passed on 5th June, 2002

Pursuant to the written resolutions of the sole shareholder of the Company passed on 5th June, 2002, among other matters:

- (a) conditional on the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Cash (for and on behalf of the Underwriters)), and not being terminated in accordance with the terms of that agreement or otherwise, the Placing upon the terms set out in this prospectus was approved.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (b) subject to paragraph (a) above, the proposed issue and allotment of not less than 80,000,000 New Shares by way of new issue and Placing, and the proposed transfer of not less than 20,000,000 Sale Shares by way of offer for sale by Loh & Loh pursuant to the Placing, were approved;
- (c) subject to paragraph (a) above, the listing of the Shares on GEM was approved;
- (d) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to allot, issue and deal with Shares or securities convertible into such Shares in the unissued share capital of the Company, including all powers of the Company to establish any agreements or grant any options to do any of the foregoing, otherwise than by way of rights issue or an issue of Shares pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in accordance with the Articles, was generally and unconditionally authorised, provided that the aggregate nominal amount of the Shares so allotted shall not exceed 20% of the total nominal value of the share capital of the Company in issue immediately after the completion of the Placing, and such mandate to remain in effect until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate (the “Relevant Period”).
- (e) the exercise by the Directors during the Relevant Period of all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange, subject to and in accordance with all applicable laws and/or requirements of the GEM Listing Rules or of any such other stock exchange on which the securities of the Company may be listed as amended from time to time, was authorised, provided that the aggregate nominal amount of securities to be purchased by the Company shall not exceed 10% of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing;

APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (f) the general and unconditional mandate mentioned in paragraph (d) above was extended by the addition thereto of an amount representing the aggregate nominal amount of securities of the Company repurchased by the Company pursuant to the mandate to repurchase securities referred to in paragraph (e) above, provided that such extended amount shall not exceed 10% of total nominal value of the share capital of the Company in issue immediately following completion of the Placing;
- (g) the Company adopted the new Articles.

Corporate reorganisation

The companies comprising the Group underwent a Reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on GEM. The Reorganisation involved the following:

- (a) On 5th July, 2001, the Company was incorporated.
- (b) On 5th June, 2002, pursuant to a share swap agreement referred to in subparagraph 2. of the paragraph headed “Summary of material contracts” in this appendix, all of the then existing 7,876,996 shares of SGD1.00 each in GAPL held as to 3,136,506, 1,855,400, 1,517,985, 1,218,673, 74,216 and 74,216 shares respectively by the then existing shareholders Mr. Anthony Chan, L&B, Comfort (China), Mr. Loh Kim Her, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin were transferred to the Company, in consideration of which 127,419,376, 75,374,927, 61,667,570, 49,508,132, 3,014,997 and 3,014,997 new Shares, credited as fully paid up, were issued and allotted by the Company to Tycoons Investment (as nominee of Mr. Anthony Chan), L&B, Comfort (China), Affluence Investment (as nominee of Mr. Loh Kim Her), Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin respectively, and the then existing one nil paid Share held by Mr. Anthony Chan was credited as fully paid up. Such Share was also immediately transferred by Mr. Anthony Chan to Tycoons Investment.
- (c) On 5th June, 2002, pursuant to share sale agreements referred to in subparagraph 3. of the paragraph headed “Summary of material contracts” in this prospectus, 188,316,430 Shares held as to 95,419,377, 59,374,927, 33,508,132, 6,997 and 6,997 Shares respectively by Tycoons Investment, L&B, Affluence Investment, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin were transferred to Loh & Loh, Big Reap Investment Limited, Zhongqi Technology, Mr. Gao Ji Xin, Ms. Yeoh Cheng Yew, Mr. Wong Chi Fung and Mr. Lee Chung as to 94,432,000, 32,000,000, 19,196,430, 12,000,000, 12,000,000, 9,344,000 and 9,344,000 Shares respectively.

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- (d) On 5th June, 2002, pursuant to a sale and purchase agreement referred to in subparagraph (e) of the paragraph headed “Summary of material contracts” in this appendix, all of the existing 20,000 shares of HK\$1.00 each in GAL held by GAPL were transferred to the Company, for a cash consideration of HK\$20,000.

Following the Reorganisation, the Company became the holding company of the Group.

Changes in the share capital of subsidiaries

The Company’s subsidiaries are referred to in the accountants’ report, the text of which is set out in appendix I to this prospectus.

Save as disclosed in the paragraph headed “Corporate reorganisation” in this appendix, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus for the purposes of the listing of Shares mentioned in this prospectus.

Subsidiaries in which the Company has investment in the PRC

Brief particulars of the operating subsidiaries of the Company set up in the PRC are set out below:

- (a) **China National Auto Anhua (Tianjin) International Trade Co., Ltd. (中汽安華(天津)國際貿易有限公司)**

Date of establishment:	1st April, 1999
Place of establishment:	the PRC
Nature:	sino-foreign equity joint venture
Chinese partner:	North Anhua Group Corporation (北方安華集團公司)
Scope of business:	international trade, simple processing, development of high technology product and provision of related consultancy services, provision of bonded warehouse storage agency services, display of automobiles and related accessories
Registered capital:	US\$1,000,000
Total amount of investment:	US\$1,000,000
Term:	10 years from 1st April, 1999 to 31st March, 2009
Directors:	Anthony Chan, Loh Kim Her, Loh Nee Peng (directors nominated by the Group) Li Gang, Zhao Gui Ming (directors nominated by the Chinese party)

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(b) **Xiamen BMW Automobiles Service Co., Ltd. (廈門寶馬汽車維修有限公司)**

Date of establishment:	8th January, 1994
Place of establishment:	the PRC
Nature:	sino-foreign co-operative joint venture
Chinese partner:	Xiamen Economic Special Zone Transportation Corporation (廈門經濟特區運輸總公司)
Scope of business:	provision of repair and maintenance services for high-end automobiles
Registered capital:	US\$3,000,000 (solely contributed by the Group) (The Chinese partner provided co-operative condition in the form of a land use right)
Total amount of investment:	US\$3,000,000
Term:	16 years from 8th January, 1994 to 8th January, 2010
Directors:	Anthony Chan, Loh Kim Her, Chan Xiao Li (directors nominated by the Group) Gao Wenzhen, Liu Yong Bing (directors nominated by the Chinese party)
Profit sharing terms:	During the first 3 years after incorporation, the Chinese partner is entitled to a fixed annual amount of US\$50,000. Commencing from the 4th year and thereafter, the Chinese partner is entitled to such fixed annual amount plus a 5% increment per year. The Group is entitled to all balances after the Chinese partner's share of such profits

APPENDIX IV STATUTORY AND GENERAL INFORMATION

REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) **The GEM Listing Rules**

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions. The most important of which are summarised below:

(i) *Shareholders' approval*

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Note: Pursuant to the written resolutions of the sole shareholder of the Company passed on 5th June, 2002, a general unconditional mandate was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the SFC and the Stock Exchange of up to 10% of the total nominal value of the share capital of the Company in issue immediately after completion of the Placing, at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the passing of an ordinary resolution of shareholders of the Company in general meeting revoking, varying or renewing such mandate, whichever occurs first (the "Buyback Mandate").

(ii) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum of association and articles of association of the Company and the applicable laws of the Cayman Islands.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

(iii) *Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange. A company may only purchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange), whichever is higher; and (2) the company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the Company will not be reduced.

(v) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's half-year report or quarterly report, a company may not purchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM Listing Rules.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

(vi) *Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) *Connected parties*

Under the GEM Listing Rules, a company shall not knowingly purchase shares from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the company. As at the Latest Practicable Date and to the best of the knowledge of the Directors, having made all reasonable enquires, none of the Directors or their associates (as defined under the GEM Listing Rules) has a present intention to sell Shares to the Company.

(b) **Exercise of the Buyback Mandate**

Exercise in full of the Buyback Mandate, on the basis of 400,000,000 Shares in issue immediately after listing of the Shares (taking no account of any Shares which may be issued upon the exercise the Over-allotment Option if applicable) could accordingly result in up to 40,000,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

(c) **Reasons for repurchases**

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

(d) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and Articles and the applicable laws and regulations of the Cayman Islands.

(e) General

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the memorandum of association of the Company and Articles and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell any Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share transfer agreement dated 4th July, 2000 between GAPL, North Anhua, Sunlung Distributions Ltd. and Xiamen Xiangyu Jinbow under which the group disposed of its 80% equity interest in Xiamen Xiangyu Jinbow to Sunlung Distributions Ltd.;
- (b) a subscription agreement dated 22nd August, 2000 between Comfort (China) and GAPL under which Comfort (China), in anticipation of GAPL's proposed listing on the Singapore Exchange Securities Trading Limited, agreed to subscribe for 455,396 shares in GAPL for a cash consideration;










APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (c) a share swap agreement dated 5th June, 2002 between the Company, Mr. Anthony Chan, L&B, Comfort (China), Mr. Loh Kim Her, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin under which the Company agreed to purchase all shares in GAPL, in consideration of which the Company issued new Shares to Tycoons Investment, L&B, Comfort (China), Affluence Investment, Mr. Henry Tan Song Kok and Mr. Sitoh Yih Pin;
- (d) share sale agreements dated 5th June, 2002 between Tycoons Investment, L&B, Affluence Investment, Mr. Henry Tan Song Kok, Mr. Sitoh Yih Pin, Loh & Loh, Big Reap Investment, Zhongqi Technology, Mr. Gao Ji Xin, Ms. Yeoh Cheng Yew, Mr. Wong Chi Fung and Mr. Lee Chung under which sale and purchase of 188,316,430 Shares were effected among the parties;
- (e) a sale and purchase agreement dated 5th June, 2002 between the Company and GAPL under which GAPL agreed to transfer all shares in GAL to the Company;
- (f) the Underwriting Agreement dated 10th June, 2002 entered into between the Company, the covenantors as defined therein, the executive Directors and the Underwriters referred to in the section headed “Underwriting” in this prospectus;
- (g) a deed of indemnity dated 5th June, 2002 given by Mr. Anthony Chan and Mr. Loh Kim Her in favour of the Group, containing, among other things, indemnities in respect of taxation referred to in the paragraph headed “Estate duty, tax and other indemnities” in this appendix;
- (h) a deed of indemnity and guarantee dated 5th June, 2002 given by Mr. Anthony Chan, Mr. Loh Kim Her and Loh & Loh in favour of the Group, containing, among other things, indemnities in respect of the CNA Anhua (Hertz)’s and North Anhua’s failure to obtain appropriate title certificates for the co-operation projects referred to in the paragraph headed “Estate duty, tax and other indemnities” in this appendix;
- (i) a sale share proceeds escrow agreement dated 5th June, 2002 between Loh & Loh, the Group and Scotiitrust (Asia) Limited under which Loh & Loh placed in escrow HK\$10 million in connection with its role as a guarantor in the deed of indemnity and guarantee mentioned in paragraph (h) above;
- (j) three further escrow agreements dated 5th June, 2002 between Mr. Anthony Chan, Mr. Loh Kim Her, Tycoons Investment, Affluence Investment, Loh & Loh and Scotiitrust (Asia) Limited under which 77,148,000 Shares were placed in escrow as security in favour of the Group pursuant to the deed of indemnity and guarantee mentioned in paragraph (h); and
- (k) a sponsor’s agreement dated 10th June, 2002 between the Company and Cash under which the Company agreed to appoint and Cash agreed to accept the appointment as sponsor of the Company for the term commencing on 17th June, 2002 and expiring on 31st December, 2004.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Intellectual property

As at the Latest Practicable Date, the Group has applied for the trademark registration of the following trademarks:

Trademark	Class	Application number	Application date	Place of Application
	12 <i>Note 1</i>	2001/15205	18th September, 2001	Hong Kong
	35 <i>Note 2</i>	2001/15206	18th September, 2001	Hong Kong
	37 <i>Note 3</i>	2001/15207	18th September, 2001	Hong Kong
	12 <i>Note 1</i>	T01/14963J	20th September, 2001 (priority date: 18th September, 2001)	Singapore
	35 <i>Note 2</i>	T01/14964I	20th September, 2001 (priority date: 18th September, 2001)	Singapore
	37 <i>Note 3</i>	T01/14965G	20th September, 2001 (priority date: 18th September, 2001)	Singapore
	12 <i>Note 1</i>	2001192636	17th October, 2001 (priority date: 18th September, 2001)	China
	35 <i>Note 2</i>	2001192637	17th October, 2001 (priority date: 18th September, 2001)	China
	37 <i>Note 3</i>	2001192638	17th October, 2001 (priority date: 18th September, 2001)	China

Notes:

- Principal types of products/services cover devices, accessories, parts and fittings of automobiles, vehicles and motor cars including bodies, upholstery, tyres, hoods, chassis thereof etc.
- Principal types of products/services cover import and export agency services, wholesaling, rental store services, retail services for, distribution of and provision of marketing information relating to motor vehicles and parts and fittings thereof etc.
- Principal types of products/services cover repair and maintenance of motor vehicles, building construction, installing services, advisory and consultancy services relating to motor vehicles and parts and fittings thereof etc.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Each of the executive Directors is, to such extent as relevant to him, interested in the material contracts set out in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in this appendix.

Save as disclosed below, immediately following completion of the Placing, none of the Directors and chief executive has any beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Name of Director	Type of interest	Number of Shares	Approximate percentage of Shareholding
Mr. Loh Kim Her	Corporate ⁽¹⁾	106,432,000	26.61%
Mr. Anthony Chan	Corporate ⁽²⁾	106,432,000	26.61%
Mr. Loh Nee Peng	Corporate ⁽³⁾	106,432,000	26.61%

Notes:

- (1) The registered holders of 16,000,000 Shares, 74,432,000 Shares and 16,000,000 Shares are Affluence Investment, Loh & Loh and L&B, respectively. Mr. Loh Kim Her beneficially holds 100%, 15% and 18.94% equity interests in Affluence Investment, Loh & Loh and L&B, respectively. The remaining 81.06% equity interest in L&B is beneficially held by the Loh family. As Mr. Loh Kim Her is entitled to exercise more than one third of the voting power of Affluence Investment, and that Loh & Loh and L&B are accustomed to act in accordance with Mr. Loh Kim Her's directions, he is deemed to be interested in 106,432,000 Shares held by these three companies.
- (2) The registered holders of 32,000,000 Shares and 74,432,000 Shares are Tycoons Investment and Loh & Loh, respectively. Mr. Anthony Chan beneficially holds 100% and 49% equity interests in Tycoons Investment and Loh & Loh, respectively, and is deemed to be interested in 106,432,000 Shares held by Tycoons Investment and Loh & Loh under the SDI Ordinance as he is entitled to exercise more than one third of the voting power of these two companies.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (3) The registered holders of 32,000,000 Shares and 74,432,000 Shares are Big Reap Investment and Loh & Loh, respectively. Mr. Loh Nee Peng beneficially holds 100% and 15% equity interests in Big Reap Investment and Loh & Loh, respectively and is deemed to be interested in 106,432,000 Shares held by Big Reap Investment and Loh & Loh under the SDI Ordinance, as Mr. Loh Nee Peng is entitled to exercise more than one third of the voting power of Big Reap Investment and that Loh & Loh is accustomed to act in accordance with Mr. Loh Nee Peng's directions.

Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company. Particulars of these agreements, except as indicated, are in all material respects identical and are set out below:

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years subject to early termination by the Company giving not less than three months notice of termination or payment in lieu. Each of the executive Directors except for Mr. Goh Chee Wee, is entitled to the respective basic salaries and allowances set out below (such basic salaries are subject to an annual increment after the end of 2003 and after each completed year of service at a rate to be determined at the sole and absolute discretion of the Board of Directors, provided that such increase shall not exceed 25% of the then current monthly salary of the relevant Director). In addition, the executive Directors are also entitled, to a bonus for the year from 1st January, 2002 to 31st December, 2003, which shall be calculated as 1% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for that financial year, which amount shall be paid after the end of that financial year. An executive Director may not vote on any resolution of the Directors regarding the amount of the salary, bonus, allowances and any other amount payable to him in respect of his appointment under his service agreement. The current basic annual salaries and allowance of the executive Directors for the year ending 31st December, 2002 are as follows:

Name	Amount (SGD)
Mr. Anthony Chan	210,000
Mr. Loh Kim Her	210,000
Mr. Loh Nee Peng	210,000
Mr. Goh Chee Wee	nil

Save as disclosed, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation).

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Directors' remuneration

- (a) Approximately HK\$1,035,000 and HK\$882,000 were paid to the Directors as remuneration for each of the years ended 31st December, 2000 and 2001 respectively. Further information in respect of the Directors' remuneration is set out in appendix I to this prospectus.
- (b) It is expected that an aggregate sum of approximately HK\$2,892,000 will be paid to the Directors as remuneration by the Group in respect of the year ending 31st December, 2002 pursuant to the present arrangement including management bonus.
- (c) Approximately HK\$122,000 and HK\$131,000 were paid to the Directors as discretionary or performance bonus for each of the years ended 31st December, 2000 and 2001 respectively.
- (d) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the years ended 31st December, 2000 and 2001 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended 31st December, 2000 and 2001.

Agency fees or commissions received

The Underwriters will receive a commission of 4% of the Issue Price of all the Shares under the Placing underwritten by them, out of which they will pay any sub-underwriting commission, if any. The Sponsors will also receive a documentation fee and be reimbursed for its expenses. Such commission, documentation fee and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$13 million, will be payable by the Company.

Substantial shareholders

As far as the Directors are aware, after the Placing, no person (other than Mr. Anthony Chan, Mr. Loh Nee Peng, Mr. Loh Kim Her, Loh & Loh, Comfort (China) and Comfort Group as disclosed in the paragraph headed "Substantial shareholders" under the section headed "Substantial, Significant and Initial Management Shareholders") will be directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in Note 3 to Section 1 of the accountants' report set out in appendix I to this prospectus, the paragraph headed "Connected transactions" in the section headed "Business of the Group".

Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executive of the Company has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;
- (b) none of the Directors or any of the persons whose names are listed in the subparagraph headed "Consent of experts" under the paragraph headed "Other information" in this appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors or any of the persons whose names are listed in the paragraph headed "Consents of experts" under the paragraph headed "Other Information" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons whose names are listed in the paragraph headed "Consents of experts" under the paragraph headed "Other information" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (e) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation);

APPENDIX IV STATUTORY AND GENERAL INFORMATION

- (f) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transactions as mentioned in this prospectus; and
- (g) none of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders of the Company who are interested in 5% or more of the issued share capital of the Company so far as is known to the Directors have any interests in the five largest customers or suppliers of the Group.

OTHER INFORMATION

Estate Duty, tax and other indemnities

Mr. Anthony Chan and Mr. Loh Kim Her (the “Indemnifiers”) entered into a deed of taxation indemnity with and in favour of the Group (being material contract (g) as referred to in the paragraph headed “Summary of material contracts” in this appendix) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance of the Laws of Hong Kong) to any member of the Group on or before the date on which the Placing becomes unconditional.

Under the deed of taxation indemnity, the Indemnifiers have also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional (“Effective Date”).

The aforesaid indemnities do not apply in certain circumstances including (i) where such liability for taxation would not have arisen but for some act or omission of or transaction voluntarily effected by any member of the Group (whether alone or in conjunction with any other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers otherwise than (a) in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or (b) pursuant to a legally binding commitment created on or before the Effective Date; or (c) any member of the Group ceasing or being deemed to cease to be a member of the Group or being associated with any other company for taxation purposes; and (ii) where provisions have been made in the audited accounts of the Group up to 31st December, 2001. Further, the said deed of indemnity does not cover any Taxation Claim (as defined therein) to the extent that such Taxation Claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice by the Hong Kong Inland Revenue Department or any of the relevant authorities coming into force after the Effective Date or to the extent that such Taxation Claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

The Company has been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, Singapore, Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

The Indemnifiers and Loh & Loh also entered into a deed of indemnity and guarantee with and in favour of the Group (being material contract (h) as referred to in the paragraph headed “Summary of material contracts” in this appendix) to provide indemnities in respect of, among other things, any depletion in or reduction in the value of assets, costs fees, expenses, claims, losses and liabilities of any nature whatsoever which might be incurred or suffered by the Group in connection with or arising out of or as result of (whether direct or indirect) CNA Anhua (Hertz)’s and North Anhua’s failure to obtain title certificates for the co-operation projects, North Anhua’s failure to repay and refund to the Group under the guarantee, as described in the section headed “Risks factors” of this prospectus.

Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Sponsors

The Sponsors have made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

Cash will receive normal professional fees in connection with the advisory services to be provided to the Company for a term period covering the remainder of the financial year ending 31st December, 2002 and the two financial years thereafter.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$13 million and are payable by the Company.

Promoters

The promoters of the Company are Mr. Anthony Chan and Mr. Loh Kim Her. Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoters in connection with the Placing or the related transactions described in this prospectus.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Registration procedures

Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.

Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
JS Cresvale	Registered investment adviser and securities dealer
Cash	Registered investment adviser and securities dealer
Arthur Andersen & Co	Certified public accountants
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
DTZ Debenham Tie Leung Limited	Property valuer
Jingtian Gongcheng Associates	Legal adviser on PRC laws
Simmons & Simmons Düsseldorf	Legal adviser on German laws

Consents of experts

Each of JS Cresvale, Cash, Arthur Andersen & Co, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited, Simmons & Simmons Düsseldorf and Jingtian Gongcheng Associates has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

Particulars of the Vendor

The following are the particulars of the vendor of the Sale Shares:

Name	Registered address	Description	Number of Sale Shares
Loh & Loh	Omar Hodge Building Wickhams Cay 1 P. O. Box 362 Road Town Tortola British Virgin Islands	Corporation	20,000,000

Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.
- (b) None of JS Cresvale, Cash, Arthur Andersen & Co, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited, Simmons & Simmons Düsseldorf and Jingtian Gongcheng Associates:
- (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (c) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of, inter alia, the written consents referred to in the paragraph headed “Consents of experts” in appendix IV, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix IV and a statement of certain particulars of the Vendor.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen’s Road, Hong Kong during normal business hours up to and including 24th June, 2002:

- the memorandum of association of the Company and the Articles;
- the accountants’ report prepared by Arthur Andersen & Co, the text of which is set out in appendix I to this prospectus;
- the consolidated audited accounts of the Group for each of the years ended 31st December, 2000 and 2001;
- the letter, summary of valuation and valuation certificates relating to the property interest of the Group, the texts of which are set out in appendix II to this prospectus, which are prepared by DTZ Debenham Tie Leung Limited;
- the Companies Law;
- the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to at the end of appendix III to this prospectus;
- the service contracts referred to in the sub-paragraph headed “Particulars of service agreements” in appendix IV to this prospectus;
- the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix IV to this prospectus;
- the written consents referred to in the paragraph headed “Consents of experts” in appendix IV to this prospectus; and
- a statement of certain particulars of the Vendor referred to in the paragraph headed “Particulars of the Vendor” in appendix IV to this prospectus.