

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.

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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.

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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.

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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.

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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.

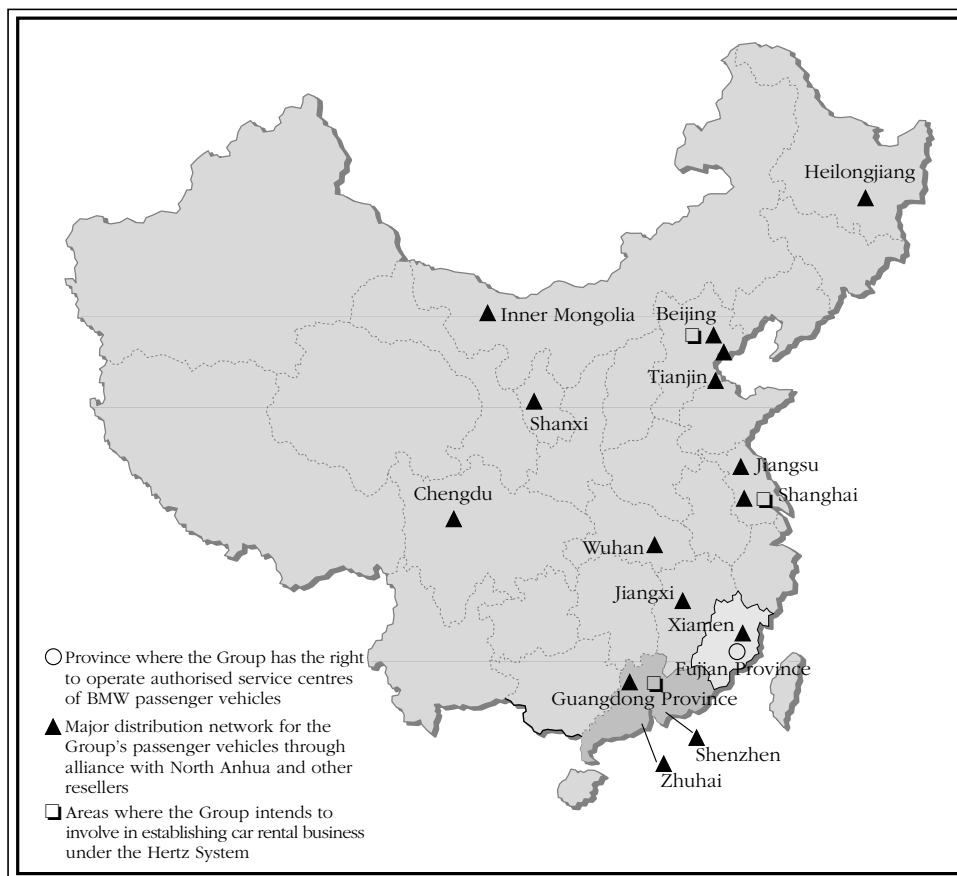
Resellers

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.

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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.

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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 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.

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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.

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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.

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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.

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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>

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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;

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- 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

SUMMARY OF THIS PROSPECTUS

- 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

SUMMARY OF THIS PROSPECTUS

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

SUMMARY OF THIS PROSPECTUS

- 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.)

SUMMARY OF THIS PROSPECTUS

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.*

SUMMARY OF THIS PROSPECTUS

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.

SUMMARY OF THIS PROSPECTUS

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.