# 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)

(Stock Code: 8126)

ANNUAL REPORT **2010**

# Contents

*Pages*

# Corporate Information

## DIRECTORS

Mr. Loh Boon Cha *(Chairman)*
Mr. Loh Nee Peng *(Managing Director)*
Mr. Xu Ming
Mr. Lee Kwok Yung*
Mr. Yin Bin*
Mr. Lin Ju Zheng*
Miss Song Qi Hong*

* *Independent non-executive Directors*

## AUDIT COMMITTEE

Mr. Lee Kwok Yung *(Chairperson)**
Mr. Yin Bin*
Mr. Lin Ju Zheng*
Miss Song Qi Hong*

## REMUNERATION COMMITTEE

Mr. Lee Kwok Yung*
Mr. Yin Bin*
Mr. Lin Ju Zheng*

## NOMINATION COMMITTEE

Mr. Loh Boon Cha *(Chairperson)*
Mr. Yin Bin*
Mr. Lin Ju Zheng*

## COMPLIANCE OFFICER

Mr. Loh Nee Peng

## AUTHORISED REPRESENTATIVES

Mr. Loh Boon Cha
Mr. Yeung Chak Sang Johnson

## QUALIFIED ACCOUNTANT

Mr. Yeung Chak Sang Johnson

## COMPANY SECRETARY

Mr. Yeung Chak Sang Johnson

## AUDITOR

BDO Limited
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Development Bank of Singapore Ltd.
Industrial and Commercial Bank of China,
Singapore Branch
Malayan Banking Berhad (Maybank)
Bank of China

## PRINCIPAL 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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Hopewell Centre 17M Floor
183 Queen's Road East
Wan Chai, Hong Kong

## REGISTERED OFFICE

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

## HEAD OFFICE

51 Goldhill Plaza,
#15-05
Singapore 308900

## PRINCIPAL PLACE OF BUSINESS

Unit 1203, 12th Floor
Eton Tower, No.8 Hysan Avenue
Causeway Bay
Hong Kong

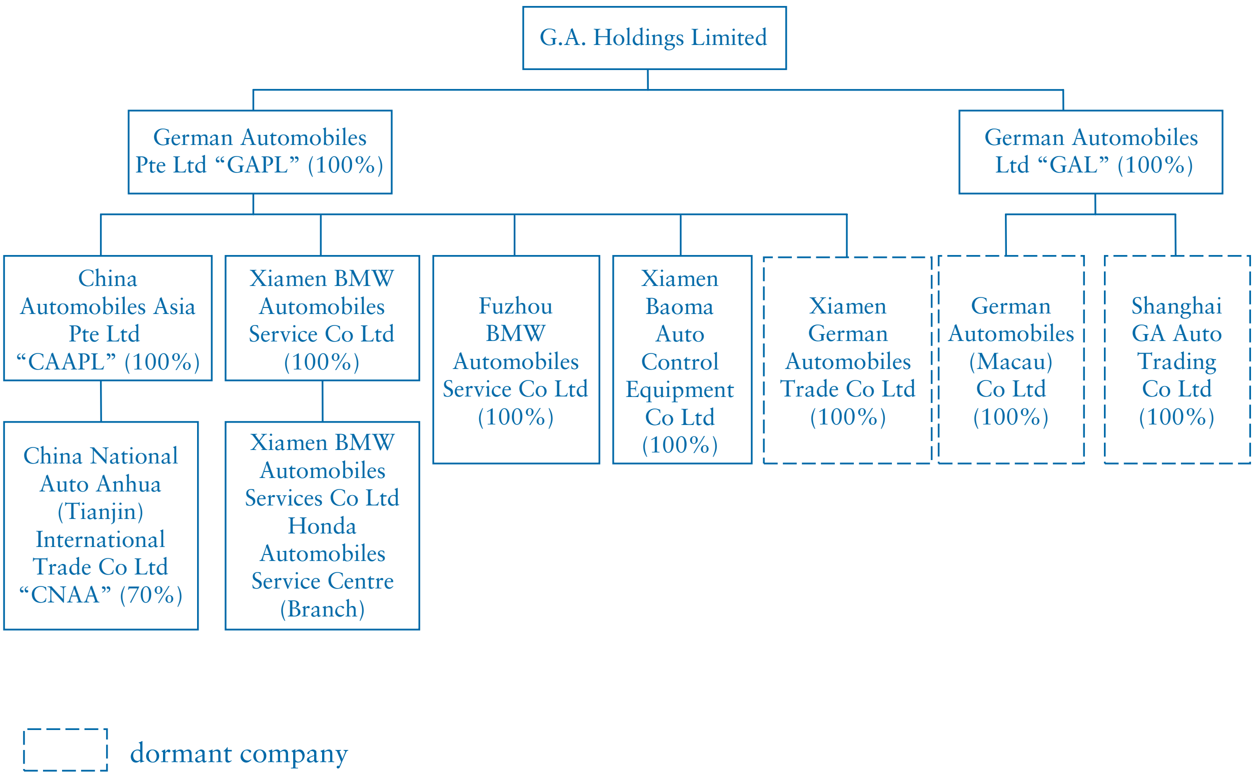
## COMPANY WEBSITE

www.ga-holdings.com.hk

## STOCK CODE

8126

# Group Structure



# Chairman's Statement

*Dear Shareholders,*

I am delighted to present to the shareholders the annual report of GA Holdings Limited (the "Company") and its subsidiaries (the "Group") the Group for the year ended 31 December 2010.

In 2010, China became one of the major and most profitable markets of BMW, after Germany and the US. In particular, China is also the largest market for the BMW's 7-series, the X6 and the 5–Series. By staying at the deluxe automotive sector in mainland China, the Group is continuous to be benefited from the advantage of economy growth in China quickly.

Despite the restriction of new cars in Beijing area implemented early this year, the demand of premium brand cars continues to rise under the strong economy of China. Once again the results of the year 2010 is encouraging as compared to the year 2009. Supplemented by the precious service of the Groups 4S servicing centres, the Group will continue to enhance its competitiveness and market position through its unmatched professional customer services.

On behalf of the Board, I would like to express my gratitude to all our customers, business partners, employees and shareholders for their invaluable support and continued loyalty.



By and on behalf of the Board,
**Loh Boon Cha**
*Chairman*

Hong Kong, 29 March 2011

# Biographical Information of Directors and Senior Management

## DIRECTORS

### Executive directors

**Mr. Loh Boon Cha**, *Chairman*

Mr. Loh Boon Cha, aged 69, is the chairman of the Group and the director of L&B Holdings Pte Ltd ("L&B") in Singapore. He is responsible for the daily operations and business development of L&B. He possesses over 35 years of extensive working experience and knowledge especially in the area in import and export trading in the People's Republic of China. Over the years, he has maintained good and well established working relationships and strategic business connections with various government-linked companies and bankers.

**Mr. Loh Nee Peng**, *Managing Director*

Mr. Loh Nee Peng, aged 43, is the Managing Director and a co-founder of the Group, which was established in August 1993. Mr. Loh is responsible for the business development in the PRC. Mr. Loh gained more than 15 years of experience in the PRC's auto industry. Mr. Loh graduated from the University of San Francisco in 1988 with a bachelor degree in business administration.

**Mr. Xu Ming**

Mr. Xu Ming, aged 40, is an executive director of the Company. He joined the Group in October 2003. Mr. Xu has more than 10 years of experience in managing business in the PRC. Mr. Xu is the founder, chairman and the Chief Executive Officer of Dalian Shide Group Co., Ltd. He also serves as the chairman of the board of Dalian Shide Football Club Co., Ltd., and the vice chairman of the board of Dalian City Commercial Bank. Mr. Xu completed the postgraduate course of Commercial Economy in Dongbei University of Finance.



### Independent non-executive directors

**Mr. Lee Kwok Yung**

Mr. Lee Kwok Yung, aged 55, has been appointed as an independent non-executive director of the Company since June 2002. Mr. Lee is a solicitor admitted to practice law in Hong Kong and a member of the Law Society of Hong Kong. He is currently a partner at Messrs Hau, Lau, Li & Yeung, Solicitors & Notaries in Hong Kong. Mr. Lee has over 15 years of experience in law practicing. He holds a diploma from the College of Radiographers and an honor degree in law from the University of London, and a postgraduate certificate in law from the University of Hong Kong. Mr. Lee is experienced in commercial law, litigation and conveyance.

**Mr. Yin Bin**

Mr. Yin Bin, aged 39, obtained a master degree in Economics from the Hunan University. Mr. Yin is the general manager of a trading financial service agent in the PRC and has extensive experience in trade and finance. He has been appointed as an independent non-executive director of the Company since July 2004.

**Mr. Lin Ju Zheng**

Mr. Lin Ju Zheng, aged 63, holds a bachelor degree in foreign language majoring in English from Fujian No.2 Normal College (福建第二師範學院) (which merged with other colleges to become Fujian Normal University (福建師範大學)). He is a senior economist with over 35 years of experience in banking operations and management. Before joining the Company, Mr. Lin had worked in various senior positions in one of the major banks in China till December 2007. He has been appointed as an independent non-executive director of the Company since June 2010.

# Biographical Information of Directors and Senior Management

**Miss Song Qi Hong**

Ms. Song, aged 39, holds a bachelor degree in economics and a master degree in business administration from Huazhong Agricultural University (華中農業大學). She is a certified tax planner registered with China Enterprise Confederation and a member of each of The Chinese Institute of Certified Public Accountants and The Institute of Internal Auditors. Ms. Song has more than 18 years of experience in the fields of auditing, accounting and financial management. She was a senior project manager of a bank in China and then served as a chief financial officer of in the commercial sector. She is currently the general manager of finance and auditing department and a committee member of the credit guarantee risk appraisal committee of Guangdong Yinda Guaranty Investment Group Company Limited (廣東銀達擔保投資集團有限公司).

She has been appointed as an independent non-executive director of the Company since August 2010.

## SENIOR MANAGEMENT

**Mr. Lim Tee Peng**, aged 48, 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 authorized dealer of European luxurious motor vehicles. Mr. Lim has extensive experience in trading of auto parts and accessories.

**Mr. Tan Cheng Kim**, aged 44, is the general manager of the motor vehicle distribution division of the Group. Mr. Tan has extensive experience in the trading of motor vehicles in the PRC. Prior to joining the Group in August 1993, Mr. Tan was an engineer of an authorized dealer of an European luxurious motor vehicles. Mr. Tan graduated from the Ngee Ann Polytechnic Singapore in 1987 with a diploma in mechanical engineering.

**Mr. Yeung Chak Sang Johnson**, aged 46, is the qualified accountant and the company secretary of the Group. He joined the Group in 2005 and has more than 20 years of experience in the field of accounting, auditing and financial management. He holds a bachelor degree in business, and a master degree in science from the Chinese University of Hong Kong. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group has maintained its market share and strategic position by staying at the deluxe automotive sector in mainland China. This strategy allowed us not only survived from the turmoil but picked up the advantage of economy growth in China quickly. The profit of the Group for 2010 increased from S$1,923,000 to S$3,631,000.

The gross profit margin saw an increase from 16.4% in 2009 to 19.7% in 2010. The servicing and sales of auto parts sector recorded a growth of 19.8%. Once again, this is resulted from our continuous effort in strengthening the relationship with our long established customers with high quality after sales services.

## SALES OF MOTOR VEHICLES

The turnover of this segment represented approximately 36.2% of the total Group turnover of the year. As for comparison to the corresponding period last year, there recorded a slight decrease of approximately 3.3% on the composition of turnover. This decrease was mainly due to the change in fiscal policy for the tax incentive in purchasing imported vehicles which directly affected the passenger car market.

## SERVICING OF MOTOR VEHICLES AND SALES OF AUTO PARTS

Turnover generated from the servicing of motor vehicles and sales of auto parts for the year 2010 increased by 19.8%. Servicing income increased to approximately S$22,052,000, contributing 52.3% of the Group's turnover, representing an increment of 2.2%.

## TECHNICAL FEE INCOME

The Group received technical income from Xiamen Zhong Bao Automobiles Co., Ltd. ("Xiamen Zhong Bao") and certain of its subsidiaries, collectively (the "Zhong Bao Group") for providing management consulting and technical assistance for its purchase for the locally assembled BMW motor vehicles sold. The locally assembled BMW motor vehicles were introduced since 2003.

Technical fee income for the year ended 31 December 2010 was approximately S$4,844,000, taking up approximately 11.5% in terms of the Group's turnover composition, as compared to the 10.4% in 2009. The increase was due to the corresponding increase in car sales by Zhong Bao Group during the year.

## CAR RENTAL BUSINESS

The car rental business of the Hong Kong and the Kowloon stations of the Hertz division recorded a steady income in 2010. While the standstill of economy in Macau continuous, the operation has not yet commenced as at year end.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Financial resources and liquidity

As at 31 December 2010, shareholders' fund of the Group amounted to approximately S$42,634,000 (2009: S$38,087,000). Current assets amounted to approximately S$69,591,000 (2009: S$59,627,000). Of which approximately S$16,793,000 (2009: S$13,200,000) were cash and bank deposits. Current liabilities amounted to approximately S$43,077,000 (2009: S$36,240,000) mainly represents trade payables, bills payables, bank loans, accruals and other payables and current account with affiliated companies. The Group had non-current liabilities amounted to approximately S$1,976,000 (2009: S$2,340,000). The net asset value per share as at 31 December 2010 was S$0.095 (2009: S$0.088).

### Capital Structure of the Group

*Placing of 43.3 Million new shares*

On 24 May 2010, the Company and the five independent subscribers ("Subscribers") entered into the subscription agreements in relation to the subscription of an aggregate of 43,300,000 subscription shares by the Subscribers at the subscription price of HK$0.225 per subscription share.

The subscription shares represent about 10.0% of the issued share capital of the Company before enlarged by the subscription shares and about 9.09% of the Company's issued share capital as enlarged by the subscription shares.



The gross proceeds of the subscription amounted to approximately HK$9.74 million. After deducting relevant expenses, the net proceeds of about HK$244,000 from the subscription, the net proceeds from the subscription amounted to approximately HK$9.50 million. The net proceeds from the subscription was applied as general working capital of the Group and may also be used to finance feasible acquisition(s) as identified by the Board in future.

Completion of the subscription of the 43,300,000 subscription shares has taken place on 10 June 2010.

During the year ended 31 December 2010, the Group had no debt securities in issue (2009: Nil).

The Group obtained funding mainly from trade finance. Bank borrowings are denominated in either HKD or SGD.

### Significant Investment

As at 31 December 2010, the Group had no significant investment held (2009: Nil).

### Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year ended 31 December 2010, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies (2009: Nil).

### Employees

As at 31 December 2010, the total number of employee of the Group was approximately 150. For the year ended 31 December 2010, the staff costs including directors' remuneration of the Group amounted to approximately S$3,446,000 (2009: S$3,001,000), maintained at 8.2% of the turnover of the Group and an increase of approximately 0.008% as compared to that of the year ended 31 December 2009. It is the Group policy to review its employer's pay levels and performance bonus system regularly to ensure the remuneration policy is competitive within the industry.

# Management Discussion and Analysis

### Charges on Group Assets

As at 31 December 2010, the Group pledged time deposits of approximately S$3,878,000 (2009: S$3,140,000) to several banks for banking facilities for the Group and a related company of North Anhua Group Corporation ("NAGC"). Leasehold lands and buildings of approximately S$801,000 (2009: S$829,000) and S$138,000 (2009: S$141,000) respectively are pledged to bank to secure banking facilities up to approximately S$28,860,000 (2009: S$22,660,000) granted to Zhong Bao Group at the balance sheet date.

### Material Investments or Capital Assets

As at 31 December 2010, the Group had no future plans for material investment.

### Gearing Ratio

The Group expresses its gearing ratio as a percentage of bills payable, bank borrowings and long-term debts over total assets. As at 31 December 2010, the Group had a gearing ratio of 0.26 (2009: 0.23).

### Foreign Exchange Exposure

During the year ended 31 December 2010, the Group had an exchange loss of approximately S$633,000 (2009: S$996,000 loss), mainly due to the fluctuation of other currencies against RMB, as the Group's main operation was conducted in RMB.



### Contingent Liabilities

As at 31 December 2010, the Group provided a bank guarantee of approximately S$3,601,000 (2009: S$3,934,000) to a bank in respect of banking facilities to a related company of NAGC. As at 31 December 2010, the Group provided bank guarantee amounted to S$33,540,000 in respect of banking facilities to Zhong Bao Group (2009: S$23,896,000).

## BUSINESS PROSPECT

As mentioned in our interim report for the year of 2010, the Group continues to strive for greater breakthrough in its business with its long term business partners, cooperates stably with a win-win situation, expanding its product portfolio to fulfill our customers' desires and needs at appropriate time.

Throughout the year 2010 the commodities markets in China continues growing while the US and Europe dropped due to the financial crisis. In particular, the market of deluxe private car in China keeps surging in the second half of 2010. Though, the China chief of BMW had once expected that its China sales to surge by 30 percent in August of 2010, this target was achieved in the first half year. Even measures to restrict the number of new automobiles in China have been implemented in early 2011, the demand of deluxe automotive China has not slowed down under the eagerness of spending by the customers. Such huge demand of luxury cars also contributes to the related after sales services and supplementary auto parts. The Group is cautiously optimistic about the sustaining market growth in the coming years.

Besides devoting our effort in the sales of automobiles in China, the Group will also explore further the car rental business with its customers so as to enhance the profitability and cashflow of the local business operations.

# Directors' Report

The board of directors ("Directors") is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in distribution of motor vehicles and provision of car-related technical services, servicing of motor vehicles, sales of auto parts.

The business of each subsidiaries and details of its nature of business, country of incorporation or other establishment, and particulars of the issued share capital and debt securities are set out in note 16 to the financial statements. An analysis of the Group's turnover, other income and profit before income tax is set out in notes 5, 7 and 8 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 26.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: Nil).



## DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company had reserves available for distribution to shareholders amounted to approximately S$2,496,000. It comprised share premium of approximately S$6,136,000 less accumulated loss of approximately S$3,640,000.

## SHARE CAPITAL

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

## PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment of the Group during the year ended 31 December 2010 are set out in note 13 to the financial statements.

## DIRECTOR'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests or short positions of Directors in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are notified to the Company and the Stock Exchange pursuant to SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

**Long positions in shares**

| | | Number of ordinary shares held | | | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Capacity** | **Personal Interest** | **Family Interest** | **Corporate Interest** | **Other Interests** | **Total** | **Approximate percentage of shareholding** |
| Loh Nee Peng | Interest of a controlled corporation | – | – | 100,149,480 *(Note 1)* | – | 100,149,480 | 21.03% |
| Loh Boon Cha | Deemed interest | – | 54,865,480 *(Note 2)* | 45,284,000 *(Note 2)* | – | 100,149,480 | 21.03% |

*Notes:*

1. The 100,149,480 shares are held as to 54,865,480 shares by Big Reap International Limited and as to 45,284,000 shares by Loh & Loh Construction Group Ltd., which are interested as to 100% and 15%, respectively by Mr. Loh Nee Peng. By virtue of the SFO, Mr. Loh Nee Peng is deemed to be interested in the shares held by Big Reap International Limited and Loh & Loh Construction Group Ltd.

2. The 100,149,480 shares are held as to 45,284,000 shares by Loh & Loh Construction Group Ltd., which is interested as to 21% by Mr. Loh Boon Cha; and as to 54,865,480 shares by Big Reap International Limited which is interested as to 100% by Mr. Loh Nee Peng. By virtue of SFO, Mr. Loh Boon Cha is deemed to be interested in the shares held by Big Reap International Limited due to family ties as Mr. Loh Boon Cha is the father of Mr. Loh Nee Peng.

Save as disclosed above, as at 31 December 2010, none of the Directors or their associates, has any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which are notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

# Directors' Report

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 31 December 2010, the persons or corporations (other than directors or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

| Name | Capacity | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Loh & Loh Construction Group Ltd. | Beneficial owner *(Note 1)* | 45,284,000 | 9.51% |
| Loh Kim Her | Interest of a controlled corporation *(Note 2)* | 53,284,000 | 11.18% |
| Fang Zhen Chun | Beneficial owner | 90,792,000 | 19.06% |
| Chan Hing Ka Anthony | Beneficial owner and Interest of a controlled corporation *(Note 3)* | 95,141,925 | 19.98% |



*Notes :*

1. Loh & Loh Construction Group Ltd. is held as to 49% by Mr. Chan Hing Ka Anthony, as to 15% by Mr. Loh Kim Her, as to 15% by Mr. Loh Nee Peng and as to 21% by Mr. Loh Boon Cha. Mr. Chan Hing Ka Anthony, Mr. Loh Kim Her and Mr. Loh Nee Peng are Directors and Mr. Loh Boon Cha is the brother of Mr. Loh Kim Her and the father of Mr. Loh Nee Peng.

2. The 53,284,000 shares held as to 8,000,000 shares by Affluence Investment International Limited, and as to 45,284,000 shares by Loh & Loh construction Group Ltd., which are interested as to 100% and 15% respectively by Mr. Loh Kim Her. By virtue of the SFO, Mr. Loh Kim Her is deemed to be interested in the shares held by Affluence Investment Limited, and Loh & Loh Construction Group Ltd.

3. The 95,141,925 shares held as to 49,481,925 shares by Tycoons Investment International Limited and as to 45,284,000 shares by Loh & Loh Construction Group Ltd., which are interested as to 100% and 49% respectively by Mr. Chan Hing Ka Anthony, as well as 376,000 shares held directly by Mr. Chan Hing Ka Anthony. By virtue of the SFO, Mr. Chan Hing Ka Anthony is deemed to be interested in the shares by Tycoons Investment International Limited and Loh & Loh Construction Group Ltd.

Save as disclosed above, as at 31 December 2010, the Directors are not aware of any other person or corporation having an interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year ended 31 December 2010 and up to the date of this report are:

*Executive Directors*
Mr. Loh Boon Cha *(Chairman)*
Mr. Loh Nee Peng *(Managing Director)*
Mr. Xu Ming

*Independent Non-executive Directors*
Mr. Lee Kwok Yung
Mr. Yin Bin
Mr. Lin Ju Zheng (appointed on 1 June 2010)
Miss Song Qi Hong (appointed on 1 August 2010)
Mr. Zhang Lei (resigned on 21 June 2010)

In accordance with Article 87 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last re-elections and appointments. In accordance with these provisions, Mr. Xu Ming, Mr. Yin Bin and Mr. Lin Ju Zheng, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Apart from Mr. Xu Ming, the two executive directors, Mr. Loh Nee Peng and Mr. Loh Boon Cha have entered into a service contract with the Company for an initial term of three years, commencing from 1 January 2011 and 4 August 2009 respectively, subject to early termination by the Company giving not less than three months notice of termination or payment in lieu. Mr. Xu Ming, has not entered into any service contract with the Company.

Three independent non-executive directors, Mr. Yin Bin, Mr. Lin Ju Zheng and Miss Song Qi Hong have entered into appointment letters with the Company for a term of five years commencing from 1 July 2006, 1 June 2010 and 1 August 2010 respectively. Another independent non-executive director, Mr. Lee Kwok Yung has entered into appointment letter with the Company for a term of three years commencing from 1 June 2008.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance (as defined in the GEM Listing Rules) to which the Company or any of its subsidiaries was a party in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors and chief executive or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate.

## GROUP'S EMOLUMENT POLICY

The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence.

The emoluments of the directors of the Company are determined with regard to the performance of individuals, the Company's operating results and market standards.

# Directors' Report

## DIRECTORS' EMOLUMENTS AND THE HIGHEST PAID EMPLOYEES

Details of directors' emoluments are set out on note 12 of the financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out in the financial summary on page 88 of this annual report. This summary does not form part of the audited financial statements.

## PENSION SCHEMES

Details of the pension schemes of the Group are set out in note 32 to the financial statements.

## MANAGEMENT OF RISKS

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Directors, and focuses on actively securing the Group's short to medium term cash flows by minimizing the exposure to financial markets. Long term financial investments are management to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

### Credit risk

Credit risk refers to the risk the debtors will default on their obligations to repay the amounts to the Group, resulting in a loss to the Group. The Group's sales are made to luxury car dealers in the PRC. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risks. Generally the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements).

As disclosed in note 33 to the financial statements, the Group made advances to two business partners, NAGC Group and Zhong Bao Group. The Group has been actively monitoring the repayments in order to control the credit risk. In addition, collaterals would be required whenever deem necessary for these advances.

The Group has concentration of credit risk due to its relatively small customer base.

The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

### Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-term obligations. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash-outflows due in day-to-day business, and maintains adequate reserves, banking facilities and reserve borrowing facilities.

Liquidity needs are monitored on a day-to day basis. Long-term liquidity needs are monitored by forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's operations are financed mainly through bank borrowings, finance leases and accumulated profits.



### Foreign exchange risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States Dollars ("US$"), Hong Kong Dollars ("HKD") and RMB. Foreign exchange risk arises from commercial transactions and recognized assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw material denominated in the same currency.

### Interest rate risk

The Group's interest rate risk relates to interest-bearing borrowings which includes bank borrowings and obligations under finance leases. The interest rates and terms of repayment have been disclosed in note 36 to the financial statements.

## SEGMENTAL INFORMATION

Details of the segmental information of the Group are set out in note 6 to the financial statements.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are set out on pages 5 to 6 of this annual report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent according to the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the percentage of sales and purchases attributable to the Group's major customers and suppliers are set out as below:

**Sales**

| | |
|---|---|
| – The largest customer | 10.01% |
| – The total of five largest customers | 41.34% |

**Purchases**

| | |
|---|---|
| – The largest supplier | 42.73% |
| – The total of five largest – suppliers | 87.14% |

As far as the Directors aware, neither the directors nor their associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

# Directors' Report

## AUDITORS

The financial statements of the Company for the year ended 31 December 2010 were audited by BDO Limited, who will retire and a resolution to re-appoint BDO Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

Grant Thornton ("GTHK" now known as JBPB & Co.) resigned as auditors of the Company on 30 November 2010. BDO Limited were appointed as auditor of the Company by shareholder's resolution in Extraordinary General Meeting on 22 December 2010 since then to fill the casual vacancy. The reason for the change of auditors is due to a merger of the practices of GTHK with that of BDO Limited, the Hong Kong member firm of the global BDO network.

## COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Yeung Chak Sang Johnson, aged 46, is the qualified accountant and the company secretary of the Group. He joined the Group in 2005 and has more than 20 years of experience in the field of accounting, auditing and financial management. He holds a bachelor degree in business and a master degree in science from the Chinese University of Hong Kong. He is also an associate member of the Hong Kong Society of Accountants and a fellow member of Association of Chartered Certified Accountants.



## COMPLIANCE OFFICER

Mr. Loh Nee Peng, aged 43, is an executive director of the Company and a co-founder of the Group. He is appointed as the Company's compliance officer on 14 July 2004. Mr. Loh graduated from the University of San Francisco in 1988 with a bachelor degree in business administration, and he gained more than 10 years of experience in the PRC's auto industry.

## COMPETING INTERESTS

None of the directors or the management shareholders of the Company had any interest in a business which competes or may compete with the business of the Group.

## SHARE OPTION SCHEME

For the year ended 31 December 2010, 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 of the Company.

## ADVANCES TO ENTITIES

Pursuant to the Rules 17.16 and 17.17, a disclosure obligation arises where the increment of t advance amount to an entity from the Group exceeds 3% under the assets ratio as defined under Rule 19.07(i) of the GEM Listing Rules (the "Assets Ratio"). As at 31 December 2010, the Company's total assets were approximately S$87,687,000.

| | **31 December 2010** | | **Assets Ratio** | 31 December 2009 | | Increment as compared to Assets Ratio |
|---|---|---|---|---|---|---|
| | **S$'000** | **HK$'000** | **(%)** | S$'000 | HK$'000 | (%) |
| **NAGC Group:** | | | | | | |
| Prepaid rental advances | **6,406** | **38,824** | **7.3%** | 6,559 | 36,238 | N/A |
| Advances to NAGC | **870** | **5,273** | **1.0%** | 450 | 2,486 | 0.4% |
| Guarantee to NAGC | **3,601** | **21,824** | **4.1%** | 3,931 | 21,718 | N/A |
| | **10,877** | **65,921** | **12.4%** | 10,940 | 60,442 | |



| | 31 December 2010 | | Assets Ratio | 31 December 2009 | | Increment as compared to Assets Ratio |
|---|---|---|---|---|---|---|
| | S$'000 | HK$'000 | (%) | S$'000 | HK$'000 | (%) |
| **Zhong Bao Group *:** | | | | | | |
| Advances to Zhong Bao Group | **16,559** | **100,358** | **18.9%** | 19,368 | 107,006 | N/A |
| Guarantees to Zhong Bao Group | **28,860** | **174,909** | **32.9%** | 23,896 | 132,022 | 1.7% |
| | **45,419** | **275,267** | **51.8%** | 43,264 | 239,028 | |
| | **56,296** | **341,188** | **64.2%** | 54,204 | 299,470 | |

Relevant advances in comparison to the previous disclosure are shown below:

| | (Audited) 31 December 2010 | | Assets Ratio | (Unaudited) Previous disclosure 30 September 2010 | | Increment as compared to Assets Ratio |
|---|---|---|---|---|---|---|
| | S$'000 | HK$'000 | (%) | S$'000 | HK$'000 | (%) |
| **NAGC Group:** | | | | | | |
| Prepaid rental advances | **6,406** | **38,824** | **7.3%** | 6,444 | 37,906 | N/A |
| Advances to NAGC | **870** | **5,273** | **1.0%** | 1,357 | 7,982 | N/A |
| Guarantee to NAGC | **3,601** | **21,824** | **4.1%** | 3,685 | 21,676 | N/A |
| | **10,877** | **65,921** | **12.4%** | 11,486 | 67,564 | |
| **Zhong Bao Group *:** | | | | | | |
| Advances to Zhong Bao Group | **16,559** | **100,358** | **18.9%** | 22,882 | 134,600 | N/A |
| Guarantees to Zhong Bao Group | **28,860** | **174,909** | **32.9%** | 22,167 | 130,394 | 6.9% |
| | **45,419** | **275,267** | **51.8%** | 45,049 | 264,994 | |
| | **56,296** | **341,188** | **64.2%** | 56,535 | 332,558 | |

* Being Xiamen Zhong Bao and certain of its subsidiaries and related companies (the "Zhong Bao Group")

### Car Rental Advances, Prepaid Rental Expenses, Guarantee, Advances to NAGC and Zhong Bao Group

The total advances, guarantees provided to and due from NAGC and its subsidiaries or any of their respective associates (collectively the "NAGC") and Zhong Bao Group are in aggregate of approximately S$58,636,000 (equivalent to approximately HK$355,370,000) as at 31 December 2010 (as at 31 December 2009: S$54,204,000; equivalent to approximately HK$299,470,000), representing 66.9% of the Assets Ratio.

NAGC engages in a wide range of business operations including state-grant import and export business of motor vehicles. NAGC Group is the business partner of the Group with a nationwide distribution network in the PRC. It assists the Group in distribution of motor vehicles and setting up car rental business in the PRC.

# Directors' Report

Zhong Bao Group engages in the operation of distribution of locally manufactured BMW motor vehicles in the PRC. On the other hand, the Group provides technical expertise and financial assistance to Zhong Bao Group. Technical agreement was entered between Zhong Bao Group and the Group which set out the basis for the amount of technical fee charged by the Group

1) *The details of transactions to NAGC which are of trading nature and remain outstanding as at 31 December 2010 are announced as follows:*

Car Rental Advances due from NAGC

At 31 December 2010, there is no car rental advance provided to NAGC. (as at 31 December 2009: Nil)

Prepaid Rental Expenses due from NAGC

As at 31 December 2010, prepaid rental expenses amounted to approximately S$6,406,000 (equivalent to approximately HK$38,824,000) (as at 31 December 2009: S$6,559,000; equivalent to approximately HK$36,238,000) were made in accordance with the co-operation agreement in March 2000 and entered into between the Group and China National Automatic Anhua Hertz Services Centre Co. Ltd. ("CNA Anhua (Hertz)") a wholly owned subsidiary of NAGC for the construction of three showrooms/service centres and related facilities in the Guangdong Province, Xiamen and Beijing. CNA Anhua (Hertz) is not connected with the Company, the Directors, chief executive, substantial shareholder or management shareholders of the Company and its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules). As further disclosed in the circular under the section headed "Update on Progress of the Co-operation Projects with North Anhua Group Corporation and its Related Companies" issued by the Company dated 6 January 2004 (the "Circular"), according to the supplemental agreement entered between the Group and CNA Anhua (Hertz) dated 15 October 2002, the establishment of a showroom/service centre in Guangdong Province was not pursued. Therefore, the number of service centres was reduced to two. The Directors are of the view that the construction of showrooms/service centres and related facilities under these co-operation projects are important to the Group to achieve its business objectives as mentioned in the Prospectus and the prepaid rental expenses were made under normal commercial terms and in the ordinary course of business of the Group. The prepaid rental expenses entitled the Group to use such facilities for 50 years from the date of completion of the developments. The prepaid rental expense for the development project in Beijing was completed in December 2001. The development project in Haichang, Xiamen was completed in December 2003. The prepaid rental expenses were unsecured and interest free. The prepaid rental expenses for each of the said development project are amortized on a straight line basis over 50 years from the date of completion.

Advances to NAGC

Approximately S$870,000 (equivalent to approximately HK$5,273,000) (as at 31 December 2009: S$450,000; equivalent to approximately HK$2,486,000) were advanced to NAGC Group, representing 1.0% of the Group's Assets Ratio. The advances were for their purchase of automobiles and related import tax expenses so as to leverage the distribution network of NAGC Group for marketing and promotional purposes. As disclosed under the section headed "Risk Factors" of the Prospectus, the PRC imposes restrictions on the imports of motor vehicles. NAGC Group is one of the eligible entities in the PRC which are allowed to distribute imported automobiles in the PRC. The Directors considered that the Group's reliance on NAGC Group in promoting sales of imported cars in the PRC and the provision of advances to NAGC Group by the Group in this regard are normal commercial practice. The advances were unsecured, interest free and repayable in or before June 2011.

Guarantees to NAGC

Guarantees in the amount of approximately S$3,601,000 (equivalent to approximately HK$21,824,000) (as at 31 December 2009: S$3,931,000; equivalent to approximately HK$21,718,000) were provided to a bank in respect of banking facilities granted to NAGC Group. The guarantees were for the banking facilities granted for the use in car rental business by the three sub-licensees. The Group is negotiating with the correspondent bank to release the above guarantees. The Group does not have any security or receive any considerations from NAGC Group by giving such guarantee.

2) *The details of transactions to Zhong Bao Group which are of trading nature and remain outstanding as at 31 December 2010 are announced as follows:*

Advances to Zhong Bao Group

As at 31 December 2010, advances of approximately S$16,559,000 (equivalent to approximately HK$100,358,000) (as at 31 December 2009: S$19,368,000; equivalent to approximately HK$107,006,000) were advanced to Zhong Bao Group, representing 18.9% of the Group's Assets Ratio.

The advances were made for the marketing activities the PRC manufactured BMW motor vehicles in accordance with a co-operation agreement entered between Xiamen Zhong Bao and the Group on 7 October 2008. There comprised a portion were the technical fee income derived from the provision of management consulting and technical assistance to Zhong Bao Group in relation to their sales of the PRC manufactured BMW motor vehicles. The amounts due from Xiamen Zhong Bao were unsecured, interest free and repayable in cash by the end of October 2011.

Guarantees to Zhong Bao Group

Guarantees in the amount of approximately S$28,860,000 (equivalent to approximately HK$174,909,000) (as at 31 December 2009: S$23,896,000; equivalent to approximately HK$132,022,000) were provided to a bank in respect of banking facilities granted to Zhong Bao Group. The guarantees were for the bank facilities granted for the use in car trade business of Zhong Bao Group.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2010.

On behalf of the Board
**Loh Nee Peng**
*Managing Director*

Hong Kong, 29 March 2011

# Corporate Governance Report

## CORPORATE GOVERNANCE REPORT

Pursuant to rule 18.44 (2) and Appendix 16 of the GEM Listing Rules, the Company wish to state that it has complied with all code provisions set out in the Code on Corporate Governance Practices contained in the Appendix 15 of the GEM Listing Rules (the "Code") during the year.

### (1) Corporate Governance Practices

The Group is committed to promoting good corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of the shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Group has applied in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") with these objectives in mind.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Directors holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this announcement, Mr. Loh Boon Cha and Mr. Loh Nee Peng, being the Chairman and Managing Director of the Company respectively, are not subject to retirement by rotation. In order to comply with the code provision A.4.2, Mr. Xu Ming, Mr. Yin Bin and Mr. Lin Ju Zheng will retire at the forthcoming annual general meeting of the Company, and being eligible, will offer themselves for re-election.



### (2) Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the directors of the Company, all directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors.

### (3) Board of Directors

The Board of Directors ("Directors") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the chairman and the management.

## BOARD COMPOSITION

The Board comprises a total of seven directors, with three executive directors, namely, Mr. Loh Boon Cha (Chairman), Mr. Loh Nee Peng (Managing Director), Mr. Xu Ming; and four independent non-executive directors, namely, Mr. Lee Kwok Yung, Mr. Yin Bin, Mr. Lin Ju Zheng and Miss Song Qi Hong. Subject to Rule 5.05 in the GEM Listing Rules, more than one independent non-executive directors have appropriate professional qualifications, accounting and financial management expertise.

Three independent non-executive directors, Mr. Yin Bin, Mr. Lin Ju Zheng and Miss Song Qi Hong have entered into appointment letters with the Company for a term of five years commencing from 1 July 2006, 1 June 2010 and 1 August 2010 respectively. Another independent non-executive director, Mr. Lee Kwok Yung has entered into appointment letter with the Company for a term of three years commencing from 1 June 2008.

# Corporate Governance Report

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of view that all independent non-executive directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

### Relationship

Mr. Loh Boon Cha (Chairman) is the father of Mr. Loh Nee Peng (Managing Director) and the brother of a former director Mr. Loh Kim Her.

### Board Operation

The Board meets regularly over the Company's affairs and operations. In 2010, the Board held ten meetings. The attendance record of each member of the Board is set out below:

| **Executive Directors** | **Attendance** |
|---|---|
| Loh Boon Cha *(Chairman)* | 10/10 |
| Loh Nee Peng *(Managing Director)* | 10/10 |
| Xu Ming | 9/10 |
| | |
| **Independent Non-Executive Directors** | |
| Lee Kwok Yung | 9/10 |
| Yin Bin | 9/10 |
| Lin Ju Zheng (appointed on 1 June 2010) | 5/5 |
| Song Qi Hong (appointed on 1 August 2010) | 2/2 |
| Zhang Lei (resigned on 21 June 2010) | 4/5 |



### Nomination Committee

A Nomination Committee was established during the year which comprises one executive director and two independent non-executive directors, namely Mr. Loh Boon Cha (the Chairman of the Committee), Mr. Yin Bin and Mr. Lin Ju Zheng as members. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors and senior management, making recommendations to the Board on the appointment and succession planning of directors and senior management, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee was established on 29 September 2006 and met three times since its establishment and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company. The Nomination Committee met twice in the year 2010 for the nomination of independent non-executive directors during the year.

# Corporate Governance Report

## Remuneration of Directors

A remuneration committee was formed on 27 September 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment for a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the Board on the remuneration of non-executive directors.

The Remuneration Committee is made up of three of the Company's independent non-executive directors, namely, Mr. Lee Kwok Yung (Chairman), Mr. Yin Bin and Mr. Lin Ju Zheng.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters when needs arise. The Remuneration Committee shall consult the Chairman and/or the Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages.



The Remuneration Committee met twice during the year ended 31 December 2010, and reviewed the remuneration policy and structure of the Company and remuneration packages of the independent non-executive directors and the senior management for the year under review.

## Auditor's Remuneration

The remuneration provision in respect of audit services for the year 2010 as provided by the auditor, BDO Limited, amounted to HK$420,000.

## Audit Committee

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company's Audit Committee was formed on 5 June 2002 and is currently composed of namely, Mr. Lee Kwok Yung, Mr. Yin Bin, Mr. Lin Ju Zheng and Miss Song Qi Hong. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and the internal control procedures of the Group.

In 2010, the Audit Committee held four meetings. The attendance record of each member of the Committee is set out as below:

| | **Attendance** |
|---|---|
| Lee Kwok Yung *(Chairman)* | 4/4 |
| Zhang Lei (resigned on 21 June 2010) | 2/2 |
| Yin Bin | 4/4 |
| Lin Ju Zheng (appointed on 1 June 2010) | 0/2 |
| Song Qi Hong (appointed on 1 August 2010) | 2/2 |

# Corporate Governance Report

The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors during 2010.

A statement of director responsibilities for preparing the financial statements is set out in this Annual Report. The Auditor's Report states auditor's reporting responsibilities.

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including financial, operational and compliance controls and risk management functions.

# Independent auditors' report

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**To the shareholders of G.A. Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of G.A. Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 26 to 87, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

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

# Independent auditors' report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
Certified Public Accountants

**Tsui Ka Che, Norman**
Practising Certificate no. P05057

Hong Kong, 29 March 2011

# Consolidated statement of comprehensive income

*for the year ended 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **Revenue** | 5 | **42,129** | 36,724 |
| Other income | 7 | **9,807** | 9,499 |
| Cost of sales | 8.1 | **(33,835)** | (30,699) |
| Employee benefit expenses | 12 | **(3,446)** | (3,001) |
| Depreciation and amortisation | | **(1,839)** | (1,721) |
| Operating lease charges | | **(1,341)** | (1,207) |
| Exchange differences, net | | **(633)** | (996) |
| Other operating expenses | | **(3,779)** | (3,930) |
| **Profit from operating activities** | | **7,063** | 4,669 |
| Finance costs | 8.2 | **(1,542)** | (1,710) |
| **Profit before income tax** | 8.3 | **5,521** | 2,959 |
| Income tax expense | 9 | **(1,890)** | (1,036) |
| **Profit for the year** | | **3,631** | 1,923 |
| **Other comprehensive income, including reclassification adjustments** | | | |
| Exchange loss on translation of financial statements of foreign operations | | **(821)** | (291) |
| **Other comprehensive income, including reclassification adjustments** | | **(821)** | (291) |
| **Total comprehensive income for the year** | | **2,810** | 1,632 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **3,639** | 1,927 |
| Non-controlling interests | | **(8)** | (4) |
| | | **3,631** | 1,923 |

# Consolidated statement of comprehensive income

*for the year ended 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **2,837** | 1,662 |
| Non-controlling interests | | **(27)** | (30) |
| | | **2,810** | 1,632 |
| **Earnings per share attributable to the owners of the Company for the year (Singapore cent)** | 11 | | |
| Basic | | **0.81** | 0.45 |
| Diluted | | **N/A** | N/A |

# Consolidated statement of financial position

*as at 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 10,992 | 9,752 |
| Leasehold lands | 14 | 801 | 829 |
| Prepaid rental expenses | 15 | 6,300 | 6,455 |
| Non-current receivables | 17 | 3 | 4 |
| | | 18,096 | 17,040 |
| **Current assets** | | | |
| Inventories | 18 | 5,297 | 5,088 |
| Trade receivables | 19 | 15,864 | 14,066 |
| Prepayments, deposits and other current assets | 20 | 31,633 | 27,269 |
| Due from a director | 26 | 4 | 4 |
| Pledged deposits | 21 | 3,878 | 3,140 |
| Cash and cash equivalents | 21 | 12,915 | 10,060 |
| | | 69,591 | 59,627 |
| **Current liabilities** | | | |
| Trade payables | 22 | 2,327 | 1,888 |
| Accruals and other payables | 23 | 11,003 | 10,085 |
| Pension and other employee obligations | 32 | 20 | 28 |
| Bills payables | 24 | 9,494 | 9,931 |
| Borrowings | 24 | 11,139 | 5,427 |
| Due to related companies | 25 | 50 | 50 |
| Due to directors | 26 | 4,004 | 3,095 |
| Tax payable | 28 | 5,040 | 5,736 |
| | | 43,077 | 36,240 |
| **Net current assets** | | 26,514 | 23,387 |
| **Total assets less current liabilities** | | 44,610 | 40,427 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | 1,767 | 2,110 |
| Deferred tax liabilities | 27 | 209 | 230 |
| | | 1,976 | 2,340 |
| **Net assets** | | 42,634 | 38,087 |

# Consolidated statement of financial position

*as at 31 December 2010*

| | Notes | **2010 S$'000** | 2009 S$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Equity attributable to Company's equity holders | | | |
| Share capital | 29 | **10,417** | 9,637 |
| Reserves | 30 | **31,888** | 28,094 |
| | | **42,305** | 37,731 |
| **Non-controlling interests** | | **329** | 356 |
| **Total equity** | | **42,634** | 38,087 |



**Loh Boon Cha**
*Director*

**Loh Nee Peng**
*Director*

# Statement of financial position

*as at 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 16 | 13,257 | 13,254 |
| **Current asset** | | | |
| Due from a subsidiary | 16 | 1,512 | – |
| Other receivables | 20 | 33 | 36 |
| | | 1,545 | 36 |
| **Current liabilities** | | | |
| Other payables | 23 | 265 | 167 |
| Due to subsidiaries | 16 | 887 | 825 |
| Due to directors | 26 | 92 | 92 |
| | | 1,244 | 1,084 |
| **Net current assets/(liabilities)** | | 301 | (1,048) |
| **Net assets** | | 13,558 | 12,206 |
| **EQUITY** | | | |
| Issued capital | 29 | 10,417 | 9,637 |
| Reserves | 30 | 3,141 | 2,569 |
| **Total equity** | | 13,558 | 12,206 |

**Loh Boon Cha**
*Director*

**Loh Nee Peng**
*Director*

# Consolidated statement of changes in equity

*for the year ended 31 December 2010*

| | Equity attributable to equity holders of the Company | | | | | | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | Equity Issued capital S$'000 (note 29) | Share premium* S$'000 (note 30) | Capital reserve* S$'000 (note 30) | Translation reserve* S$'000 (note 30) | Retained profits* S$'000 | Total S$'000 | S$'000 | S$'000 |
| At 1 January 2009 | 9,637 | 5,179 | 1,689 | (1,784) | 21,348 | 36,069 | 386 | 36,455 |
| Profit for the year | – | – | – | – | 1,927 | 1,927 | (4) | 1,923 |
| Other comprehensive income, including reclassification adjustments | | | | | | | | |
| Translation difference | – | – | – | (265) | – | (265) | (26) | (291) |
| Total comprehensive income for the year | – | – | – | (265) | 1,927 | 1,662 | (30) | 1,632 |
| At 31 December 2009 and 1 January 2010 | 9,637 | 5,179 | 1,689 | (2,049) | 23,275 | 37,731 | 356 | 38,087 |
| Proceeds from shares issued | 780 | 974 | – | – | – | 1,754 | – | 1,754 |
| Share issue expenses | – | (17) | – | – | – | (17) | – | (17) |
| Transactions with owners | 780 | 957 | – | – | – | 1,737 | – | 1,737 |
| Profit for the year | – | – | – | – | 3,639 | 3,639 | (8) | 3,631 |
| Other comprehensive income, including reclassification adjustments | | | | | | | | |
| Translation difference | – | – | – | (802) | – | (802) | (19) | (821) |
| Total comprehensive income for the year | – | – | – | (802) | 3,639 | 2,837 | (27) | 2,810 |
| **At 31 December 2010** | **10,417** | **6,136** | **1,689** | **(2,851)** | **26,914** | **42,305** | **329** | **42,634** |

* These reserves accounts comprise the consolidation reserves of S$31,888,000 (2009: S$28,094,000) in the consolidated statement of financial position as at 31 December 2010.

# Consolidated statement of cash flows

*for the year ended 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **5,521** | 2,959 |
| Adjustments for: | | | |
| Interest expense | 8.2 | **1,443** | 1,624 |
| Interest element of finance lease rental payments | 8.2 | **99** | 86 |
| Interest income | 7 | **(35)** | (52) |
| Gain on disposal of property, plant and equipment | 8.3 | **(170)** | (67) |
| Depreciation of property, plant and equipment | 8.3 | **1,671** | 1,538 |
| Amortisation of prepaid rental expenses | 8.3 | **153** | 153 |
| Annual charges of prepaid operating lease payment | 8.3 | **15** | 30 |
| Impairment of inventories | | **80** | 493 |
| Operating profit before working capital changes | | **8,777** | 6,764 |
| Increase in inventories | | **(289)** | (3,510) |
| Increase in trade receivables | | **(1,798)** | (1,490) |
| (Increase)/decrease in prepayments, deposits and other current assets | | **(4,364)** | 8,844 |
| Net movement in balances with directors | | **909** | 585 |
| Increase in trade payables | | **439** | 435 |
| Increase/(decrease) in accruals and other payables | | **918** | (1,758) |
| (Decrease)/Increase in pension and other employee obligations | | **(8)** | 1 |
| Decrease in bills payable | | **(437)** | (1,801) |
| Cash generated from operations | | **4,147** | 8,070 |
| Interest received | | **35** | 52 |
| Interest paid | | **(1,443)** | (1,627) |
| Interest element of finance lease rental payments | | **(99)** | (83) |
| Overseas tax paid | | **(873)** | (928) |
| Hong Kong profit tax paid | | **(219)** | (235) |
| *Net cash generated from operating activities* | | **1,548** | 5,249 |

# Consolidated statement of cash flows

*for the year ended 31 December 2010*

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(2,219)** | (2,892) |
| Proceeds from disposal of property, plant and equipment | | **245** | 241 |
| (Increase)/decrease in pledged deposits | | **(738)** | 2,664 |
| Decrease in non-current receivables | | **1** | – |
| *Net cash (used in)/generated from investing activities* | | **(2,711)** | 13 |
| **Cash flows from financing activities** | | | |
| New bank loans | | **8,945** | 5,414 |
| Repayment of bank loans | | **(5,321)** | (7,673) |
| Capital element of finance lease rental payments | | **(1,490)** | (894) |
| Proceeds from issuance of share capital | | **1,754** | – |
| Share issue expenses | | **(17)** | – |
| *Net cash generated from/(used in) financing activities* | | **3,871** | (3,153) |
| **Net increase in cash and cash equivalents** | | **2,708** | 2,109 |
| **Translation adjustment** | | **15** | 234 |
| **Cash and cash equivalents at the beginning of the year** | | **10,060** | 7,717 |
| **Cash and cash equivalents at the end of the year** | | **12,783** | 10,060 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **12,915** | 10,060 |
| Bank overdrafts | 24.1 | **(132)** | – |
| | | **12,783** | 10,060 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 1. GENERAL INFORMATION

G. A. Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 5 July 2001. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 1203, 12th Floor, Eton Tower, 8 Hysan Avenue, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (the "Group") are principally engaged in the sales of motor vehicles and provision of car-related technical services, servicing of motor vehicles and sales of auto parts.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 29 March 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements on pages 26 to 87 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

The results of subsidiaries disposed of during the year are included in the consolidated statement of comprehensive income up to the effective date of disposal, as appropriate.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.



### 2.3 Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit and loss.

*Non-controlling interests*

Non-controlling interests represent the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the non-controlling interests is presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Foreign currency translation

The consolidated financial statements are presented in Singapore Dollars ("S$"). The functional currency of the Company is Hong Kong Dollars ("HK$").

In the individual financial statements of the subsidiaries, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

In the consolidated financial statements, all individual financial statements of foreign operations originally presented in a currency different from the Group's presentation currency, have been converted into Singapore Dollars. Assets and liabilities have been translated into Singapore Dollars at the closing rate at the reporting date. Income and expenses have been converted into Singapore Dollars at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rate does not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity.



### 2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services, net of rebates and discounts and after eliminating sales within the Group. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Services fee, technical and other service fees and warranty claims are recognised when the relevant services are rendered.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis using the effective interest method.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and impairment losses.

The gain or loss arising on the retirement of disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the costs over the estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 1.5% per annum |
| Leasehold improvements | 10% to 50% per annum |
| Plant and machinery | 10% to 33.3% per annum |
| Motor vehicles | 20% to 33.3% per annum |
| Furniture and equipment | 10% to 33.3% per annum |

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

Construction in progress, which represents buildings under construction is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

### 2.7 Leasehold land

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.9. Amortisation is calculated on a straight line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Impairment of non-financial assets

The Group's property, plant and equipment, leasehold lands, prepaid rental expenses and the Company's interest in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units with an indefinite useful life and those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions, less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the assets.



An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.9 Leases

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

*(i) Classification of assets leased to the Group*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Leases *(Continued)*

*(ii) Assets acquired under finance leases*

Where the Group acquires the right to use the assets under finance leases, the amounts representing the fair values of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liabilities are reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

*(iii) Operating lease charges as the lessee*

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to the statement of comprehensive income on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

*(iv) Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets

The Group's financial assets include trade and other receivables, amount due from a director and related companies, pledged deposits and cash and bank balances.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

The Group's financial assets are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Derecognition occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit and loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.



### 2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories comprise fully-assembled motor vehicles and auto parts. Cost includes purchase and other costs incurred in bringing the inventories to their present location and condition using First-in First-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### 2.12 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit and loss.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Accounting for income taxes *(Continued)*

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.



Changes in deferred tax assets or liabilities are recognised in the profit and loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

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



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 2.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from equity (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction.

### 2.15 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### 2.16 Retirement benefit costs and short term employee benefits

*Retirement benefits*

Retirement benefits to employees are provided through defined contribution plans.

The Group contributes a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees and those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans is limited to the fixed percentage contributions payable.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Retirement benefit costs and short term employee benefits *(Continued)*

*Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 2.17 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, bills payables, trade and other payables, amounts due to related companies and directors and finance lease liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised with the Group's accounting policy for borrowing costs (see note 2.15).



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

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

*Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

*Trade payables*

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.18 Provisions, contingent liabilities and contingent assets

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

All provision are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

### 2.19 Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(vi) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is related party of the Group.

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

# Notes to the financial statements

*for the year ended 31 December 2010*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised to profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.



### 2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

- Motor vehicles – Sales of motor vehicles and provision of car-related technical services ("Activity 1")
- Servicing – Servicing of motor vehicles and sales of auto parts ("Activity 2")
- Commission income from sales of cars from German Automobiles Pte Ltd. ("GAPL") to German Automobiles Limited ("GAL") (i.e. intra-group) ("Activity 3")

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Segment reporting *(Continued)*

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- rental income
- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets. In addition, corporate assets which are not directly attributable to business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No assymetrical allocation have been applied to reportable segments.



## 3. CHANGE OF ACCOUNTING POLICIES AND ADOPTION OF NEW OR AMENDED HKFRSs

During the year, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting year and relevant to the Group. Except as explained below, the adoption of these new and amended HKFRSs did not result in material changes to the Group's accounting policies.

**HKFRS3 (Revised) – Business Combinations and HKAS27 (Revised) – Consolidated and Separate Financial Statements**

The revised accounting policies are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 3. CHANGE OF ACCOUNTING POLICIES AND ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

**HKFRS3 (Revised) – Business Combinations and HKAS27 (Revised) – Consolidated and Separate Financial Statements** *(Continued)*

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. The adoption of revised HKAS 27 has had no material impact on the Group's financial statements.

**HKAS17 (Amendments) – Lease**

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases in the PRC as operating leases continues to be appropriate, and the change in accounting policy on land leases has no impact on the financial statements.

**Hong Kong Interpretation 5 ("HKInt 5") – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

In November 2010 the HKICPA issued HKInt 5 which is effective immediately and is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. This interpretation sets out that any term loan, which contains a clause giving the lender the unconditional right to demand repayment at any time, shall be classified as current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HKInt 5, the Group has changed its accounting policy on the classification of term loans containing a repayment on demand clause. Under the new policy, term loans with clauses giving the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated statement of financial position. Previously these loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement at the reporting date or otherwise had reason to believe that the lender would not invoke its rights under the immediate repayment clause within the foreseeable future.

The issuance of HKInt 5 has had no material impact on the Group's financial statements as the Interpretation's conclusions were consistent with policies already adopted by the Group.

At the date of this report, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.



## 3. CHANGE OF ACCOUNTING POLICIES AND ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

**Hong Kong Interpretation 5 ("HKInt 5") – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause** *(Continued)*

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the impact of the new and amended HKFRSs upon initial application. So far, the directors of the Company have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the consolidated financial statements. Information on new and amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

**HKFRS9 Financial instruments**

*(i) Financial assets*

This standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. It reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income.

*(ii) Financial liabilities*

Most of the requirements in HKAS 39 for the classification and measurement of financial liabilities, and de-recognition of financial assets and financial liabilities have been carried forward unchanged to HKFRS 9. However changes have been made where an entity chooses to measure its own debts at fair value. HKFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. The only exception to this new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. Under HKAS 39 there is no requirement to identify change in fair value due to change in the entity's own credit risk.

The other key change is the elimination of the exception from fair value measurement of derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. HKFRS 9 requires them to be measured at fair value. HKAS 39 allows those derivatives the fair value of which cannot be reliably measured to be stated at cost.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 3. CHANGE OF ACCOUNTING POLICIES AND ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

**HKFRS9 Financial instruments** *(Continued)*

*(iii) Derecognition of financial assets and financial liabilities*

The requirements relating to de-recognition of financial assets and financial liabilities have been brought forward from HKAS 39.

HKFRS 9 published to date is first mandatory for annual accounting periods beginning on or after 1 January 2013. Entities are required to apply the standard retrospectively in accordance with HKAS 8, changes in accounting estimates and errors together with the specific transition provisions in the standard on the Group's results and financial position in the first year of application.

The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS



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

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Impairment of receivables

Assessment for impairment of receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer and debtor.

### Depreciation

The Group depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives, starting from the date on which the assets are available for productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

### Income taxes

The Group is subject to income taxes in the PRC and Singapore. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.



## 5. REVENUE

The Group is principally engaged in (i) sales of motor vehicles, (ii) provision of car-related technical services and (iii) servicing of motor vehicles and sale of auto parts. Revenue generated from these principal activities, which is also the Group's turnover, recognised during the year is as follows:

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Sales of motor vehicles | **15,233** | 14,491 |
| Technical fee income | **4,844** | 3,832 |
| Servicing of motor vehicles and sales of auto parts | **22,052** | 18,401 |
| | **42,129** | 36,724 |

## 6. SEGMENT INFORMATION

The executive directors have identified the Group's 3 product and service lines as operating segments as further described in note 2.21.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

| | 2010 | | | |
|---|---|---|---|---|
| | Activity 1<br>S$'000 | Activity 2<br>S$'000 | Activity 3<br>S$'000 | Total<br>S$'000 |
| **Revenue** | | | | |
| From external customers | 20,077 | 22,052 | – | 42,129 |
| From other segments | – | – | 477 | 477 |
| **Reportable segment revenue** | 20,077 | 22,052 | 477 | 42,606 |
| **Reportable segment profit** | 2,825 | 4,270 | 477 | 7,572 |
| Bank interest income | 16 | 19 | – | 35 |
| Depreciation and amortisation of non-financial assets | (193) | (1,646) | – | (1,839) |
| Write down of inventories to net realisable value | (80) | – | – | (80) |
| Gain on disposal of property, plant and equipment | – | – | 170 | 170 |
| **Reportable segment assets** | 26,592 | 38,086 | – | 64,678 |
| Addition to non-current segment assets during the year | – | 1,056 | – | 1,056 |
| **Reportable segment liabilities** | 11,653 | 13,420 | 1,805 | 26,878 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 6. SEGMENT INFORMATION *(Continued)*

| | 2009 | | | |
|---|---|---|---|---|
| | Activity 1 S$'000 | Activity 2 S$'000 | Activity 3 S$'000 | Total S$'000 |
| **Revenue** | | | | |
| From external customers | 18,323 | 18,401 | – | 36,724 |
| From other segments | – | – | 533 | 533 |
| **Reportable segment revenue** | 18,323 | 18,401 | 533 | 37,257 |
| **Reportable segment profit** | 2,362 | 3,653 | 533 | 6,548 |
| Bank interest income | 40 | 12 | – | 52 |
| Depreciation and amortisation of non-financial assets | (194) | (572) | – | (766) |
| Write down of inventories to net realisable value | (493) | – | – | (493) |
| Gain on disposal of property, plant and equipment | – | – | 67 | 67 |
| **Reportable segment assets** | 23,410 | 35,812 | – | 59,222 |
| Addition to non-current segment assets during the year | – | 2,758 | – | 2,758 |
| **Reportable segment liabilities** | 11,437 | 7,997 | 1,936 | 21,370 |



## 6. SEGMENT INFORMATION *(Continued)*

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Reportable segment revenues | **42,606** | 37,257 |
| Elimination of inter segment revenues | **(477)** | (533) |
| Group revenues | **42,129** | 36,724 |

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Reportable segment profit | **7,572** | 6,548 |
| Other income | **7,593** | 7,472 |
| Rental income | **2,179** | 1,975 |
| Unallocated corporate expenses | **(9,804)** | (10,793) |
| Finance costs | **(1,542)** | (1,710) |
| Elimination of inter segment profits | **(477)** | (533) |
| Profit before income tax | **5,521** | 2,959 |

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Reportable segment assets | **64,678** | 59,222 |
| Non-current corporate assets | **2,846** | 2,535 |
| Current corporate assets | **20,163** | 14,910 |
| Group assets | **87,687** | 76,667 |

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Reportable segment liabilities | **26,878** | 21,370 |
| Non-current corporate liabilities | **803** | 729 |
| Current corporate liabilities | **17,372** | 16,481 |
| Group liabilities | **45,053** | 38,580 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 6. SEGMENT INFORMATION *(Continued)*

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

| | Revenue from external customer | | Non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **S$'000** | S$'000 | **S$'000** | S$'000 |
| Singapore (domicile) | **–** | – | **206** | 87 |
| The PRC | **42,129** | 36,724 | **15,041** | 14,414 |
| Hong Kong | **–** | – | **2,846** | 2,535 |
| | **42,129** | 36,724 | **18,093** | 17,036 |

The place of domicile is determined based on the location of central management.

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset.

During 2010, S$4,218,000 or 10% of the Group's revenue depended on a single customer in sales of motor car and provision of technical service segment (2009: S$9,746,000 or 27%).

At the reporting date, 18% of the Group's trade receivables were due from this customer (2009: 41%).

## 7. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | **S$'000** | S$'000 |
| Rental income – sublease | **2,179** | 1,975 |
| Interest income on financial assets stated at amortised cost | **35** | 52 |
| Warranty claims | **5,445** | 5,639 |
| Gain on disposal of property, plant and equipment | **170** | 67 |
| Other income | **1,978** | 1,766 |
| | **9,807** | 9,499 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| **8.1 Cost of sales** | | |
| Cost of inventories sold | **14,536** | 14,206 |
| Cost of services rendered (including impairment loss of inventories of S$80,000 (2009: S$493,000) | **19,299** | 16,493 |
| | **33,835** | 30,699 |
| **8.2 Finance costs on financial liabilities stated at amortised cost** | | |
| Interest charges on bank loans, overdrafts and other borrowings wholly repayable within five year | **1,443** | 1,624 |
| Interest element of finance lease rental payments | **99** | 86 |
| | **1,542** | 1,710 |
| **8.3 Other items** | | |
| Auditors' remuneration | **68** | 84 |
| Depreciation of property, plant and equipment* | **1,671** | 1,538 |
| Gain on disposal of property, plant and equipment | **(170)** | (67) |
| Amortisation of prepaid rental expenses | **153** | 153 |
| Annual charges of prepaid operating lease payment | **15** | 30 |

* Amount included depreciation charge of S$558,000 (2009: S$1,027,000) for the Group's leased assets.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rate of tax prevailing in the countries in which the Group operates.

The income tax provision in respect of operations in the PRC is calculated at the applicable rates on the estimated assessable profits for the year based on the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| **Current – Hong Kong** | | |
| Charge for the year | **407** | 282 |
| **Current – Overseas** | | |
| Charge for the year | **1,504** | 772 |
| **Deferred tax (note 27)** | **(21)** | (18) |
| **Total income tax expense** | **1,890** | 1,036 |

Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Profit before income tax | **5,521** | 2,959 |
| Tax on profits before income tax expenses, calculated at the rates applicable to profits in the tax jurisdiction concerned | **1,242** | 830 |
| Non-deductible expenses | **926** | 406 |
| Tax exempt revenue | **(278)** | (200) |
| Income tax expenses | **1,890** | 1,036 |

## 10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR

Of the consolidated profit attributable to the owners of the Company for the year of S$3,639,000 (2009: S$1,927,000), a loss of S$385,000 (2009: S$147,000) has been dealt with in the financial statements of the Company.

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to the equity holders of the Company for the year of approximately S$3,639,000 (2009: S$1,927,000) and on the weighted average number of 451,000,000 (2009: 433,000,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2010 and 2009 was not presented as there was no dilutive potential ordinary share for the year ended 31 December 2010 and 2009.

## 12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Salaries and wages | 2,825 | 2,510 |
| Other benefits | 542 | 419 |
| Pension costs – defined contribution plans | 79 | 72 |
| | 3,446 | 3,001 |

### 12.1 Directors emoluments

*Executive directors and non-executive directors*

| | Fees<br>S$'000 | Salaries, allowances and benefits in kind<br>S$'000 | Bonus<br>S$'000 | Contribution to defined contribution plan<br>S$'000 | Total<br>S$'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Executive directors** | | | | | |
| Mr. Loh Boon Cha | – | – | – | – | – |
| Mr. Loh Nee Peng | – | 180 | – | 8 | 188 |
| Mr. Xu Ming | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Lee Kwok Yung | 21 | – | – | – | 21 |
| Mr. Yin Bin | 36 | – | – | – | 36 |
| Mr. Zhang Lei | 18 | – | – | – | 18 |
| Mr. Lin JuZhang | 18 | – | – | – | 18 |
| Ms. Song Qi Hong | 10 | – | – | – | 10 |
| | 103 | 180 | – | 8 | 291 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### 12.1 Directors emoluments *(Continued)*

*Executive directors and non-executive directors (Continued)*

| | Fees S$'000 | Salaries, allowances and benefits in kind S$'000 | Bonus S$'000 | Contribution to defined contribution plan S$'000 | Total S$'000 |
|---|---|---|---|---|---|
| **2009** | | | | | |
| **Executive directors** | | | | | |
| Mr. Loh Boon Cha | – | – | – | – | – |
| Mr. Loh Nee Peng | – | 180 | – | 8 | 188 |
| Mr. Xu Ming | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Lee Kwok Yung | 22 | – | – | – | 22 |
| Mr. Yin Bin | 38 | – | – | – | 38 |
| Mr. Zhang Lei | 38 | – | – | – | 38 |
| | 98 | 180 | – | 8 | 286 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.



## 12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### 12.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2009: one) director whose emoluments is included in the analysis presented above. The emoluments payable to the remaining four (2009: four) individuals during the year are as follows:

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Basic salaries, allowances and other benefits in kind | 518 | 498 |
| Contributions to pension schemes | 16 | 17 |
| | 534 | 515 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2010 | 2009 |
| Emolument bands | | |
| HK$ Nil to HK$1,000,000 (S$ Nil to S$221,000) | 4 | 4 |

### 12.3 Key management personnel compensation

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Short term employee benefits | 809 | 784 |
| Post-employment benefits | 16 | 17 |
| | 825 | 801 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Building $'000 | Leasehold improvement $'000 | Plant and machinery $'000 | Motor vehicles $'000 | Furniture and equipment $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2008 | | | | | | | |
| Cost | 553 | 2,411 | 2,808 | 5,166 | 1,585 | 1,380 | 13,903 |
| Accumulated depreciation and impairment | (409) | (471) | (1,180) | (2,786) | (1,054) | – | (5,900) |
| Net carrying amount | 144 | 1,940 | 1,628 | 2,380 | 531 | 1,380 | 8,003 |
| Year ended 31 December 2009 | | | | | | | |
| Opening net carrying amount | 144 | 1,940 | 1,628 | 2,380 | 531 | 1,380 | 8,003 |
| Exchange differences | – | (127) | (121) | (146) | (29) | (155) | (578) |
| Additions | – | – | 599 | 1,450 | 127 | 1,863 | 4,039 |
| Disposals | – | – | – | (174) | – | – | (174) |
| Depreciation | (3) | (150) | (284) | (960) | (141) | – | (1,538) |
| Closing net carrying amount | 141 | 1,663 | 1,822 | 2,550 | 488 | 3,088 | 9,752 |
| At 31 December 2009 | | | | | | | |
| Cost | 553 | 2,247 | 3,197 | 5,623 | 1,624 | 3,088 | 16,332 |
| Accumulated depreciation and impairment | (412) | (584) | (1,375) | (3,073) | (1,136) | – | (6,580) |
| Net carrying amount | 141 | 1,663 | 1,822 | 2,550 | 488 | 3,088 | 9,752 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net carrying amount | 141 | 1,663 | 1,822 | 2,550 | 488 | 3,088 | 9,752 |
| Exchange differences | – | (50) | (77) | (236) | (95) | (165) | (623) |
| Additions | – | – | 246 | 1,650 | 344 | 1,369 | 3,609 |
| Transfer from CIP | 4,292 | – | – | – | – | (4,292) | – |
| Disposals | – | – | – | (75) | – | – | (75) |
| Depreciation | (3) | (140) | (353) | (1,014) | (161) | – | (1,671) |
| **Closing net carrying amount** | **4,430** | **1,473** | **1,638** | **2,875** | **576** | **–** | **10,992** |
| At 31 December 2010 | | | | | | | |
| Cost | 4,845 | 2,197 | 3,366 | 6,962 | 1,873 | – | 19,243 |
| Accumulated depreciation and impairment | (415) | (724) | (1,728) | (4,087) | (1,297) | – | (8,251) |
| **Net carrying amount** | **4,430** | **1,473** | **1,638** | **2,875** | **576** | **–** | **10,992** |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The buildings are held under long term lease and located in the PRC. It is pledged to secure the banking facilities of Zhong Bao Group as disclosed in note 33 to the financial statements.

The net carrying amount of the plant and machinery and motor vehicles of the Group includes an amount of approximately S$2,246,000 (2009: S$2,300,000) in respect of assets held under finance leases.

Certain plant and machinery with an aggregate carrying amount of approximately S$1,638,000 (2009: S$1,822,000) and motor vehicles S$39,000 (2009: S$37,000) are pledged to the banks for facilities granted to the Group as disclosed in note 24.1 to the financial statements.

## 14. LEASEHOLD LANDS – GROUP

The Group's interests in leasehold lands represent prepaid operating lease payments and their net carrying amounts are analysed as follows:

| | **2010**<br>**S$'000** | 2009<br>S$'000 |
|---|---|---|
| Outside Hong Kong, held on | | |
| Lease of over 50 years | **801** | 829 |
| Opening net carrying amount at 1 January | **829** | 876 |
| Annual charges | **(15)** | (30) |
| Exchange difference | **(13)** | (17) |
| Closing net carrying amount at 31 December | **801** | 829 |

Leasehold land with carrying amount of approximately S$801,000 (2009: S$829,000) is pledged to secure the banking facilities of Zhong Bao Group as disclosed in note 33 in the financial statements.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 15. PREPAID RENTAL EXPENSES – GROUP

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Opening net carrying amount at 1 January | **6,608** | 6,765 |
| Amortisation for the year | **(153)** | (153) |
| Exchange differences | **(2)** | (4) |
| Closing net carrying amount at 31 December | **6,453** | 6,608 |
| Less: Current portion of prepaid rental expenses (note 20) | **(153)** | (153) |
| Non-current portion | **6,300** | 6,455 |

**China National Automotive Anhua Hertz Service Centre Co., Ltd. ("CNA Anhua (Hertz)")**

In March 2000, the Group entered into a project development co-operation agreement (the "Agreement") with CNA Anhua (Hertz), in which a director of the Company, Mr Loh Nee Peng, had significant influence through his directorship in CNA Anhua (Hertz) before 12 March 2003. Pursuant to the Agreement, CNA Anhua (Hertz) is responsible for the development of land and buildings for use as motor vehicle showrooms, service centres, auto parts factories and other related facilities in the Guangdong Province (the "Guangdong Project"), Fujian Province (the "Fujian Project") and Beijing Municipality (the "Beijing Project"). Pursuant to the Agreement, all land title certificates and ownership of facilities belong to CNA Anhua (Hertz), while the Group has the right to use such facilities for 50 years from the date of completion of the developments without additional consideration.

Accordingly, the advances made in respect of the Agreement have been classified as prepaid rental expenses and have been charged to profit or loss over 50 years, commencing from the date of completion of the respective development projects.

The development in the Beijing Project in respect of prepaid rental expense of approximately S$4,113,000 (2009: S$4,113,000) was completed in 2001 and its charge for the year amounting to S$82,000 (2009: S$82,000). In October 2002, the Group decided to abandon the Guangdong Project. The sum prepaid was transferred for the construction of the enlarged Fujian Project. The Fujian Project in respect of prepaid rental expense of approximately S$3,527,000 (2009: S$3,527,000) was completed in December 2003 and its charge for the year amounting to S$71,000 (2009: S$71,000).



## 16. INTERESTS IN SUBSIDIARIES

| | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|
| Unlisted shares, at cost | **7,882** | 7,882 |
| Due from a subsidiary | **5,120** | 5,120 |
| Financial guarantee issued | **255** | 252 |
| | **13,257** | 13,254 |

The amount due from a subsidiary is unsecured, interest-free and is not repayable within one year. In the opinion of directors, the settlement of this amount due from the subsidiary is neither planned nor likely to occur in the foreseeable future and in substance, this amount is extension of the Group's investments in this subsidiary.

The other amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

Details of the subsidiaries at the reporting date are as follows:

| Name of subsidiary | Place of incorporation/ registration and operations | Particulars of issued capital | Percentage of issued capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| GAPL[###] | Singapore | 7,876,996 shares of S$1 each | 100% | – | Distribution of motor vehicles and provision of technical services |
| GAL[###] | Hong Kong | 20,000 ordinary shares of HK$1 each | 100% | – | Sales liaison and trading of spare parts for motor vehicles and provision of technical services |
| Xiamen BMW Automobiles Service Co., Ltd. [#] | The PRC | Paid-in capital of US$11,200,000 | – | 100% | Provision of repair and maintenance services of high-end automobiles |
| Fuzhou BMW Automobiles Service Co., Ltd. [#] | The PRC | Registered and paid-in capital of US$5,100,000 | – | 100% | Provision of repair and maintenance services of high-end automobiles |
| China Automobile Asia Pte Ltd. [###] | Singapore | 2 shares of S$1 each | – | 100% | Investment holding |
| China National Auto Anhua (Tianjin) International Trade Co., Ltd. [##] | The PRC | Registered and paid-in capital of US$1,000,000 | – | 70% | Car related business |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

# registered as a wholly foreign-owned enterprise under the PRC law

## registered as a sino-foreign joint venture under the PRC law

### incorporated as a limited liability company under local jurisdiction

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

## 17. NON-CURRENT RECEIVABLES

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| Advances to NAGC Group | (a) | **870** | 450 |
| Advances to Zhong Bao Group | (b) | **16,559** | 19,368 |
| | | **17,429** | 19,818 |
| Portion classified as current assets (note 20) | (c) | **(17,426)** | (19,814) |
| Non-current portion | | **3** | 4 |

Notes:

(a) The advances made to North Anhua Group Corporation ("NAGC") and certain of its subsidiaries and related companies ("NAGC Group") were principally for the operations of the distribution of motor vehicles business in the PRC. The amounts due from NAGC Group are unsecured and interest-free. During the year, the maximum outstanding balance due from NAGC Group was S$1,417,000.

On 25 March 2011, the Group entered into an agreement (the "NAGC Payment Agreement") with NAGC in respect of the settlement of the outstanding receivables from NAGC Group as at 31 December 2010. Pursuant to the NAGC Payment Agreement, NAGC agreed to settle the outstanding balance amounted to S$80,000 as at 31 December 2010 by monthly instalments by 30 June 2011.

(b) The Group has established a close working relationship with Xiamen Zhong Bao Automobiles Co., Limited ("Xiamen Zhong Bao") and certain of its subsidiaries and related companies ("Zhong Bao Group"), in which Mr Loh Nee Peng, a director of the Company, is a director and shareholder. In the opinion of the directors of the Company, Zhong Bao Group is the key partner of the Group in developing the Group's potential business in the distribution of locally manufactured BMW motor vehicles.



## 17. NON-CURRENT RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) Pursuant to a technical and management service agreement (the "Technical Agreement") entered into between the Group and Xiamen Zhong Bao on 7 October 2003, the Group would provide technical expertise and financial assistance to Zhong Bao Group. Advances were made by the Group for the operations of the distribution of locally manufactured BMW motor vehicles in the PRC by Zhong Bao Group. On 28 September 2004, the Group entered into a supplementary agreement to the Technical Agreement with Xiamen Zhong Bao which set out the basis for the amount of technical fee charged by the Group to Xiamen Zhong Bao. The charge is based on agreed terms with reference to the monthly closing balance of the current accounts between the Group and Zhong Bao Group. On 7 March 2007, the Group entered into agreements with Quanzhou Fubao Automobiles Co., Ltd and Tianjin Tianbao Automobiles Co., Ltd (entities within the Zhong Bao Group) and the terms of these agreements were similar to those agreed with Xiamen Zhongbao. During the year, the maximum outstanding balance due from Zhong Bao Group was S$23,491,000.

On 25 March 2011, the Group entered into agreements (the "ZB Payment Agreements") with Xiamen Zhong Bao in respect of the settlement of the outstanding receivables from Zhong Bao Group as at 31 December 2010 (the "ZB Advance"). Pursuant to the ZB Payment Agreements, Xiamen Zhong Bao agreed to settle the outstanding balance amounted to S$5,523,000 as at 31 December 2010 to the Group by monthly instalments by 31 October 2011. All of the existing motor vehicles purchased by Xiamen Zhong Bao have been pledged to the Group. The Group has taken physical possession of the motor vehicles purchased by Xiamen Zhong Bao as well as the related title documents of these motor vehicles. Prior to the full settlement of the ZB Advance by Xiamen Zhong Bao, all of the motor vehicles to be purchased by Xiamen Zhong Bao will also be pledged to the Group. The Group will take physical possession of the motor vehicles to be purchased by Xiamen Zhong Bao as well as the related title documents of these motor vehicles. The Group will release the motor vehicles and the related title documents to Xiamen Zhong Bao upon receiving 80% of the sales proceeds of the respective motor vehicles.

(c) The directors believe that these advances are crucial to the Group in coping with the anticipated tremendous growth of the motor vehicles distribution and related business in the forthcoming years in the PRC. In view of the satisfactory settlement record, the directors are of the opinion that the balances due from NAGC Group and Zhong Bao Group will ultimately be recovered.

## 18. INVENTORIES – GROUP

| | **2010** | 2009 |
|---|---|---|
| | **S$'000** | S$'000 |
| Motor vehicles | **1,759** | 2,339 |
| Auto parts and accessories | **3,538** | 2,749 |
| | **5,297** | 5,088 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 19. TRADE RECEIVABLES

At 31 December 2010, the ageing analysis of trade receivables was as follows:

| | 2010 S$'000 | 2009 S$'000 |
|---|---|---|
| 0 – 90 days | 5,174 | 4,250 |
| 91 – 180 days | 3,368 | 4,208 |
| 181 – 365 days | 4,455 | 3,496 |
| Over 1 year | 3,449 | 2,698 |
| | 16,446 | 14,652 |
| Less: allowance for impairment of receivables | (582) | (586) |
| | 15,864 | 14,066 |



In addition to the advances to NAGC Group and Zhong Bao Group as disclosed in note 17, the Group's trade receivables included trade debts of S$5,296,000 (2009: S$5,711,000) due from Zhong Bao Group as at 31 December 2010.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amounts are remote, in which case the impairment losses are written off against trade receivables directly. The movement in the allowance for impairment of trade receivables is as follows:

| | 2010 S$'000 | 2009 S$'000 |
|---|---|---|
| At 1 January | 586 | 591 |
| Exchanges differences | (4) | (5) |
| At 31 December | 582 | 586 |

At each reporting date, the Group's trade receivables were individually determined to assess if they are impaired. The individually impaired receivables are recognised based on the credit history of the customers.

Except for the collateral as stated in note 17(b), none of the Group's financial assets are secured by collateral or other credit enhancements.

## 19. TRADE RECEIVABLES *(Continued)*

The majority of the Group's sales are on letter of credit. The Group allows a credit period from 3 months to 9 months to its trade customers. The ageing analysis of trade receivables that are past due but not impaired is as follows:

| | Notes | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|---|
| Neither past due nor impaired | (a) | **13,007** | 10,376 |
| 1 – 90 days past due | (a) | **792** | 2,018 |
| 91 – 180 days past due | (a) | **408** | 168 |
| Over 180 days past due | (b) | **1,657** | 1,504 |
| | | **2,857** | 3,690 |
| | | **15,864** | 14,066 |

(a) The directors of the Group are of the opinion that no further impairment of trade receivables is necessary as there was no recent history of default in respect of these trade receivables.

(b) The directors are of the opinion that the amount over 180 days past due was not impaired due to full settlement after the reporting date.

As at 31 December 2010, trade receivables of S$13,007,000 (2009: S$10,376,000) were neither past due nor impaired. These related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a certain number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 20. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **S$'000** | S$'000 | **S$'000** | S$'000 |
| Current portion of non-current receivables (note 17) | **17,426** | 19,814 | **–** | – |
| Current portion of prepaid rental expenses (note 15) | **153** | 153 | **–** | – |
| Other prepayments, deposits and current assets | **13,961** | 7,302 | **33** | 36 |
| Financial guarantee granted | **93** | – | **–** | – |
| | **31,633** | 27,269 | **33** | 36 |



## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS – GROUP

| | Notes | 2010<br>S$'000 | 2009<br>S$'000 |
|---|---|---|---|
| Cash and bank balances | | 12,915 | 10,060 |
| Pledged deposits: | | | |
| For banking facilities granted to the Group (note 24) | | 1,010 | 1,094 |
| Guarantee money in respect of security of suppliers | (a) | 1,385 | 433 |
| For banking facilities granted to NAGC Group | (b) | 1,483 | 1,613 |
| | | 3,878 | 3,140 |
| | | 16,793 | 13,200 |

Notes:

(a) Some bank deposits of the Group were pledged in respect of providing security to suppliers.

(b) The banking facilities were granted up to approximately S$3,601,000 (2009: S$3,931,000) which were fully utilised as at 31 December 2010.



## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS – GROUP *(Continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits are made for various periods of one month to one year and earn interest at rates ranging from 0.7% to 1% (2009: 0.02% to 6%) per annum.

At the reporting date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately S$15,511,000 (2009: S$10,072,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 22. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **S$'000** | S$'000 |
| 0 – 30 days | **677** | 928 |
| 31 – 180 days | **289** | 293 |
| 181 – 365 days | **257** | 25 |
| 1 – 2 years | **123** | 256 |
| Over 2 years | **981** | 386 |
| | **2,327** | 1,888 |

The trade payables are generally with credit terms of 3 months.

## 23. ACCRUALS AND OTHER PAYABLES – GROUP AND COMPANY

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **S$'000** | S$'000 | **S$'000** | S$'000 |
| Accruals | **6,401** | 5,181 | **42** | 37 |
| Deposit received | **2,493** | 2,128 | **–** | – |
| Other payables | **1,886** | 2,546 | **–** | – |
| Financial guarantee issued | **223** | 230 | **223** | 130 |
| | **11,003** | 10,085 | **265** | 167 |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 24. BILLS PAYABLES AND BORROWINGS – GROUP

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| **Borrowings** | | | |
| **Non-current** | | | |
| Secured bank loans | 24.2 | 964 | 1,381 |
| Finance lease liabilities | 24.4 | 803 | 729 |
| | | 1,767 | 2,110 |
| **Current** | | | |
| Bank overdrafts | 24.1 | 132 | – |
| Secured bank loans | 24.2 | 4,706 | 1,027 |
| Unsecured bank loans | | 5,460 | 3,708 |
| Finance lease liabilities | 24.4 | 841 | 692 |
| | | 11,139 | 5,427 |



### 24.1 Bank overdrafts and bills payables to banks

At the reporting date, the Group's bills payables are secured by the Group's fixed deposits amounting to approximately S$1,010,000 (2009: S$1,094,000), which are part of the fixed deposits of S$3,878,000 (2009: S$3,140,000) and corporate guarantees from the Company (note 35). In addition, the Group charged and assigned its interests and rights in certain proceeds under trade and bills receivables and certain inventories in favour of a bank in respect of these bank overdrafts and bills payables.

## 24. BILLS PAYABLES AND BORROWINGS – GROUP *(Continued)*

### 24.2 Secured bank loans

Secured bank loans comprise:

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| Term loans | | **5,670** | 2,408 |
| Less: current portion | (i) | **(4,706)** | (1,027) |
| Non-current portion | | **964** | 1,381 |

(i) The term loans are secured by the following:

- Pledge of bank deposits of approximately S$1,010,000 (2009: S$1,094,000), which are part of the fixed deposits of S$3,878,000 (2009: S$3,140,000) mentioned in note 21 above;
- Legal charge over the plant and machinery and motor vehicles with net carrying amount of S$1,638,000 (2009: S$1,823,000) and S$112,000 (2009: S$92,000) (note 13) respectively;
- Corporate guarantees provided by the Company (note 35); and
- Corporate guarantees provided by Zhong Bao Group.

### 24.3 Other information about the borrowings

| | Original currency | Effective interest rate (%) per annual | | | |
|---|---|---|---|---|---|
| | | **2010** | | 2009 | |
| | | **Fixed** | **Floating** | Fixed | Floating |
| Bank loans | S$ | **–** | **8.25%-8.3%** | – | 8.25%-8.3% |
| Bank loans | HK$ | **–** | **4%** | – | 6.25% |
| Bank loans | RMB | **5.84%** | **–** | 5.84% | – |
| Finance lease liabilities | HK$ | **0.45%-3.33%** | **–** | 2.47%-3.33% | – |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 24. BILLS PAYABLES AND BORROWINGS – GROUP *(Continued)*

### 24.4 Finance lease liabilities

The analysis of the obligations under finance leases is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **S$'000** | S$'000 |
| Due within one year | **906** | 767 |
| Due in the second to fifth years | **832** | 774 |
| | **1,738** | 1,541 |
| Future finance charges on finance leases | **(94)** | (120) |
| Present value of finance lease liabilities | **1,644** | 1,421 |

The present value of finance lease liabilities is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **S$'000** | S$'000 |
| Due within one year | **841** | 692 |
| Due in the second to fifth years | **803** | 729 |
| | **1,644** | 1,421 |
| Less: Portion due within one year included under current liabilities | **(841)** | (692) |
| Non-current portion included under non-current liabilities | **803** | 729 |

## 25. DUE TO RELATED COMPANIES

Amounts due to related companies of which the Group's directors have equity interests are unsecured, interest-free and repayable on demand.

## 26. BALANCES WITH DIRECTORS – GROUP

Particulars of the amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

| Name | 2010<br>S$'000 | Maximum amount outstanding during the year<br>S$'000 | 2009<br>S$'000 |
|---|---|---|---|
| Loh Nee Peng | 4 | 11 | 4 |

The amounts due from/to directors are unsecured, interest-free and repayable on demand.

## 27. DEFERRED TAX LIABILITIES – GROUP

The movement on the deferred tax liabilities is as follows:

| | Accelerated tax depreciation<br>S$'000 |
|---|---|
| At 1 January 2009 | 248 |
| Deferred tax credited to profit or loss during the year (note 9) | (18) |
| Deferred tax liabilities at 31 December 2009 and 1 January 2010 | 230 |
| Deferred tax credited to profit or loss during the year (note 9) | (21) |
| Deferred tax liabilities at 31 December 2010 | 209 |

At the reporting date, the Group has not recognised deferred liabilities in respect of temporary differences associated with undistributed earnings of PRC subsidiaries. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax liabilities of S$302,000 (2009: S$181,000) have not been established for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that the temporary difference will reverse in the foreseeable future. Such unremitted earnings for investments in subsidiaries totalled S$6,044,000 (2009: S$3,621,000).

# Notes to the financial statements

*for the year ended 31 December 2010*

## 28. TAX PAYABLE – GROUP

Included in tax payable of the Group was an amount of approximately S$3,226,000 (2009: S$3,477,000) being tax and penalty payable by a subsidiary of the Company incorporated in Singapore to the Inland Revenue Authority of Singapore ("IRAS") for prior years of assessments. Under the Singapore Income Tax Act ("ISTA"), IRAS may take actions to recover the outstanding tax payable including penalties and interest. As stipulated under the ISTA, these include the power to freeze the bank accounts of the subsidiary operated in Singapore. According to the management of the subsidiary, the subsidiary has negotiated with the IRAS for a repayment schedule in order to manage the cash flows of the subsidiary. Under the schedule, annual payment of S$690,000, would be made since January 2010. In view of the recent development of negotiation with the IRAS and the legal and tax advices, the directors of the Company are of the opinion that the Group's tax provision is fairly stated.

## 29. SHARE CAPITAL

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Number of shares '000** | **S$'000** | Number of shares '000 | S$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.1 each | **2,000,000** | **200,000** | 2,000,000 | 200,000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of HK$0.1 each at beginning of year | **433,000** | **9,637** | 433,000 | 9,637 |
| Issue of ordinary shares | **43,300** | **780** | – | – |
| Ordinary shares of HK$0.1 each at end of year | **476,300** | **10,417** | 433,000 | 9,637 |

On 24 May 2010, the Company entered into a subscription agreements with certain independent third parties in relation to the subscription of an aggregate of 43,300,000 ordinary shares at the price of HK$0.225 per each. The issued share capital of the Company was thus increased from S$9,637,000 to S$10,417,000 as enlarged by the allotment and issue of the ordinary shares with effect from 10 June 2010. The Company intended to apply the proceeds raised as general working capital for the Group.



## 30. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The amounts of the Company's reserves and the movements therein for the current and prior years are presented as follows:

**The Company**

| | Share premium S$'000 | Capital reserve S$'000 | Accumulated losses S$'000 | Total S$'000 |
|---|---|---|---|---|
| At 1 January 2009 | 5,179 | 645 | (3,108) | 2,716 |
| Loss for the year | – | – | (147) | (147) |
| At 31 December 2009 | 5,179 | 645 | (3,255) | 2,569 |
| Proceeds from shares issued | 974 | – | – | 974 |
| Share issue expenses | (17) | – | – | (17) |
| Loss for the year | – | – | (385) | (385) |
| **At 31 December 2010** | **6,136** | **645** | **(3,640)** | **3,141** |

### Share premium

The share premium account of the Group and the Company represents the premium arising from the issue of shares, net of placing expenses.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### Capital reserve

The capital reserve of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

### Translation reserve

The translation reserve has been set up and is dealt with in accordance with the accounting policy for foreign currencies as stated in note 2.4 to the financial statements.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of S$1,390,000 (2009: S$1,147,000).

## 32. PENSION AND OTHER EMPLOYEE OBLIGATIONS – GROUP

| | **2010** | 2009 |
|---|---|---|
| | **S$'000** | S$'000 |
| Current obligations on: | | |
| – pensions – defined contributions plans | **20** | 28 |

### Pensions – defined contribution plans

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Company's subsidiary incorporated in Hong Kong participates in the defined contribution mandatory provident fund since 1 December 2000. Both the subsidiary of the Company and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

Employees of the Company's subsidiaries incorporated in Singapore participate in The Central Provident Fund, a defined contribution plan regulated and managed by the Government of Singapore. During the year, the employees and the subsidiaries in Singapore made monthly contributions of 20% (2009: 20%) and 14.5% (2009: 14.5%) of the employees' basic salaries respectively.

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 their employees at rates ranging from 6% to 30% of the basic salary of their 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.

As at the reporting date, there was no forfeited contribution available to reduce the Group's employer contribution payable in future periods.

During the year, contributions totalling S$79,000 (2009: S$72,000) were paid to the schemes.



## 33. TRANSACTIONS WITH NAGC GROUP AND ZHONG BAO GROUP

As stated in note 17 to these financial statements, NAGC Group and Zhong Bao Group have been key elements in the Group's business operations and development.

### I. NAGC Group

At the reporting date, the Group had the following exposures to NAGC Group:

(i) Prepaid rental expenses made as disclosed in note 15 to the financial statements.

(ii) Advances made as disclosed in note 17 to the financial statements.

(iii) Certain fixed deposits of the Group of approximately S$1,483,000 (2009: S$1,613,000) pledged to a bank to secure banking facilities up to approximately S$3,601,000 (2009: S$3,934,000) granted to NAGC Group as disclosed in note 21 to the financial statements.

(iv) Contingent liabilities arising from the transactions as disclosed in note 35 to the financial statements.

### II. Zhong Bao Group

During the year, the Group sold motor vehicles and sales of autoparts of S$6,229,000 (2009: S$5,913,000) and earned technical fee income of S$4,844,000 (2009: S$3,833,000) from Zhong Bao Group, the details of which have been disclosed in note 17 to the financial statements.

At the reporting date, the Group had the following exposures to Zhong Bao Group:

(a) Advances made as disclosed in note 17 to the financial statements.

(b) Trade balances of S$5,296,000 (2009: S$5,711,000) receivables from Zhong Bao Group as included in "Trade receivables".

(c) Leasehold lands and buildings of approximately S$801,000 (2009: S$829,000) (note 14) and S$138,000 (2009: S$141,000) (note 13) respectively are pledged to bank to secure banking facilities up to approximately S$28,860,000 (2009: S$22,660,000) granted to Zhong Bao Group at the reporting date.

(d) Contingent liabilities arising from transactions as disclosed in note 35 to the financial statements.

In the opinion of the directors of the Company, all of the above transactions were entered into in the ordinary course of the Group's business.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 34. COMMITMENTS

### 34.1 As lessor

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **S$'000** | S$'000 |
| Within one year | **856** | 949 |
| After one year but within five years | **635** | 696 |
| | **1,491** | 1,645 |

The Group leases its motor vehicles under operating leases arrangements. The terms of the leases are mutually agreed between the Group and the respective tenants.



### 34.2 As lessee

The Group leases certain of its office premises and furniture and equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 31 December 2010, total future minimum lease payments under non-cancellable operating leases payable by the Group are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **S$'000** | S$'000 |
| Within one year | **209** | 216 |
| After one year but within five years | **163** | 78 |
| | **372** | 294 |

The Company does not have any significant operating lease commitments.

### 34.3 Capital commitment

As at 31 December 2010, the outstanding construction fee for construction in progress is Nil (2009: RMB7,534,000 (equivalent to S$1,552,000)).

## 35. CONTINGENT LIABILITIES

### Group

At 31 December 2010, the Group had given guarantees in the ordinary course of business as follows:

| | Notes | 2010 S$'000 | 2009 S$'000 |
|---|---|---|---|
| Guarantees for bank loans to NAGC Group: | (1) | **3,601** | 3,931 |
| Guarantees for bank loans to Zhong Bao Group: | (2) | **33,540** | 23,896 |
| | | **37,141** | 27,827 |

Notes:

(1) The Group's fixed deposits of approximately S$1,483,000 (2009: S$1,613,000) are pledged to secure these banking facilities at the reporting date (note 21(b)).

(2) Leasehold lands and buildings of approximately S$801,000 (2009: S$829,000) (note 14) and S$138,000 (2009: S$141,000) (note 13) respectively are pledged to bank to secure banking facilities up to approximately S$28,860,000 (2009: S$22,660,000) granted to Zhong Bao Group at the reporting date.

### Company

In addition to the guarantees for bank loans to NAGC Group and Zhong Bao Group disclosed above, the Company has executed guarantees amounting to approximately S$32,509,000 (2009: S$53,487,000) with respect to banking facilities made available to the subsidiaries.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks through its use of financial instruments and specifically to credit risk, liquidity risk, foreign exchange risk and interest rate risk, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2010 and 2009 may be categorised as follows. See notes 2.10 and 2.17 for explanations about how the category of financial instruments affects their subsequent measurement.

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **S$'000** | S$'000 | **S$'000** | S$'000 |
| **Financial assets** | | | | |
| Pledged deposits | **3,878** | 3,140 | **–** | – |
| Cash and bank deposits | **12,915** | 10,060 | **–** | – |
| | **16,793** | 13,200 | **–** | – |
| Loans and receivables: | | | | |
| Non-current receivables | **3** | 4 | **–** | – |
| Trade receivables | **15,864** | 14,066 | **–** | – |
| Other current assets | **31,387** | 27,116 | **33** | 36 |
| Due from a director | **4** | 4 | **–** | – |
| | **47,258** | 41,190 | **33** | 36 |
| | **64,051** | 54,390 | **33** | 36 |
| **Financial liabilities** | | | | |
| Financial liabilities at amortised cost: | | | | |
| Current liabilities | | | | |
| Trade payables | **2,327** | 1,888 | **–** | – |
| Other payables | **8,517** | 7,957 | **265** | 167 |
| Bills payables | **9,494** | 9,931 | **–** | – |
| Borrowings | **11,139** | 5,427 | **–** | – |
| Due to related companies | **50** | 50 | **–** | – |
| Due to directors | **4,004** | 3,095 | **92** | 92 |
| | **35,531** | 28,348 | **357** | 259 |
| Non-current liabilities | | | | |
| Non-current portion of long-term borrowings | **1,767** | 2,110 | **–** | – |
| | **37,298** | 30,458 | **357** | 259 |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

Credit risk refers to the risk the debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group's sales are made to luxury car dealers in the PRC. The Group has adopted procedures in granting credit terms to customers and in monitoring its credit risk. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the trade receivables and other current assets as shown on the face of the consolidated statement of financial position (or in the detailed analysis provided in the note 17, 19 and 20 to the financial statements). The Group's credit risk exposures also extend to financial guarantees provided to NAGC Group and Zhong Bao Group as disclosed in note 35 to the financial statements.

As disclosed in note 17, the Group made advances to two business partners, NAGC Group and Zhong Bao Group. The Group has been actively monitoring the repayments in order to control the credit risk. In addition, collaterals would be required whenever deemed necessary for these advances.

The Group has concentration of credit risk due to its relatively small customer base of car dealer companies in PRC.

The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are unavailable.

### Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-term obligations. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash-outflows due in day-to-day operation, and maintaining adequate reserves and banking facilities.

Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs are monitored by forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's operations are financed mainly through bank borrowings, finance leases and accumulated profits.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

As at 31 December 2010 and 31 December 2009, the Group's and Company's financial liabilities have contractual maturities which are summarised below:

**Group**

| | Carrying amount S$'000 | Total contractual undiscounted cash flow S$'000 | Within one year or on demand S$'000 | More than one year but less than two years S$'000 |
|---|---|---|---|---|
| **At 31 December 2010** | | | | |
| **Trade payables** | **2,327** | **2,327** | **2,327** | **–** |
| **Other payables** | **8,287** | **8,287** | **8,287** | **–** |
| **Bills payables** | **9,494** | **9,494** | **9,494** | **–** |
| **Short-term borrowings** | **11,139** | **11,675** | **11,675** | **–** |
| **Due to related companies** | **50** | **50** | **50** | **–** |
| **Due to directors** | **4,004** | **4,004** | **4,004** | **–** |
| **Long-term borrowings** | **1,767** | **1,873** | **–** | **1,873** |
| **Total** | **37,068** | **37,710** | **35,837** | **1,873** |
| **Financial guaranteed issued:** | | | | |
| **Maximum amount guaranteed (note 35)** | **223** | **37,141** | **37,141** | **–** |
| At 31 December 2009 | | | | |
| Trade payables | 1,888 | 1,888 | 1,888 | – |
| Other payables | 7,727 | 7,727 | 7,727 | – |
| Bills payables | 9,931 | 9,932 | 9,932 | – |
| Short-term borrowings | 5,427 | 5,709 | 5,709 | – |
| Due to related companies | 50 | 50 | 50 | – |
| Due to directors | 3,095 | 3,095 | 3,095 | – |
| Long-term borrowings | 2,110 | 2,325 | – | 2,325 |
| Total | 30,228 | 30,726 | 28,401 | 2,325 |
| Financial guaranteed issued: | | | | |
| Maximum amount guaranteed (note 35) | 230 | 27,827 | 27,827 | – |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

**Company**

| | Carrying amount S$'000 | Total contractual undiscounted cash flow S$'000 | Within one year or on demand S$'000 | More than one year but less than two years S$'000 |
|---|---|---|---|---|
| **At 31 December 2010** | | | | |
| **Other payables** | 262 | 262 | 262 | – |
| **Due to subsidiaries** | 887 | 887 | 887 | – |
| **Due to directors** | 92 | 92 | 92 | – |
| **Total** | 1,241 | 1,241 | 1,241 | – |
| **Financial guaranteed issued:** | | | | |
| **Maximum amount guaranteed (note 35)** | 223 | 32,509 | 32,509 | – |
| At 31 December 2009 | | | | |
| Other payables | 167 | 167 | 167 | – |
| Due to subsidiaries | 825 | 825 | 825 | – |
| Due to directors | 92 | 92 | 92 | – |
| Total | 1,084 | 1,084 | 1,084 | – |
| Financial guaranteed issued: | | | | |
| Maximum amount guaranteed (note 35) | 130 | 53,487 | 53,487 | – |

# Notes to the financial statements

*for the year ended 31 December 2010*

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("US$"), Euro ("EUR"), Hong Kong Dollars ("HK$") and RMB. Foreign exchange risk arises from commercial transactions and recognized assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw materials denominated in the same currency.

The sales transactions of the Group are mainly denominated in US$, RMB and HK$ and there are expenses and acquisition of plant and machinery that are required to be settled in US$, RMB and HK$. Certain trade receivables and trade payables of the Group are denominated in foreign currencies, mainly US$, RMB and HK$. Thus, when the RMB and USD strengthens in value against the S$, as has occurred in 2009 and 2010, the Group's operating margins are negatively impacted unless recovered from our customers in the form of price increases. The Group currently does not have a foreign currency hedging policy.

The following table illustrates the sensitivity of the net results for the year in regards to the Group's financial assets and financial liabilities at the reporting date and the reasonable possible changes in the foreign exchange rates in the next 12 months to which the Group has significant exposure at the reporting date, based on the assumption that other variables are held constant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2010 and 2009 are as follows:

| | Denominated in EUR S$'000 | Denominated in RMB S$'000 |
|---|---|---|
| **2010** | | |
| **Monetary assets** | | |
| Trade and other receivables | – | 12,746 |
| Pledged deposits | – | – |
| Cash and cash equivalents | – | – |
| | – | 12,746 |
| **Monetary liabilities** | | |
| Trade and other payables | (97) | – |
| Bills payables | (1,614) | – |
| Borrowings | – | – |
| | (1,711) | – |
| Net monetary assets/(liabilities) | (1,711) | 12,746 |
| Foreign currency strengthen/(weaken) by: | 5%/(5%) | 1%/(1%) |
| Increase/(decrease) in profit after tax and retained earnings | (86)/86 | 127/(127) |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Foreign exchange risk** *(Continued)*

| | Denominated in EUR S$'000 | Denominated in RMB S$'000 |
|---|---|---|
| 2009 | | |
| Monetary assets | | |
| Trade and other receivables | – | 11,665 |
| Pledged deposits | – | – |
| Cash and cash equivalents | – | 9,017 |
| | – | 20,682 |
| Monetary liabilities | | |
| Trade and other payables | (157) | – |
| Bills payables | (1,674) | – |
| Borrowings | – | – |
| | (1,831) | – |
| Net monetary assets/(liabilities) | (1,831) | 20,682 |
| Foreign currency strengthen/(weaken) by: | 20%/(20%) | 3%/(3%) |
| Increase/(decrease) in profit after tax and retained earnings | (366)/366 | 620/(620) |

**Interest rate risk**

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The average interest rate of unrestricted bank deposits throughout the year was approximately 0.11%. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk mainly relates to interest-bearing borrowings which include bank borrowings and obligations under finance leases. The interest rates and terms of repayment have been disclosed in note 24 to the financial statements.

The Group's interest rate risk which affects its income and operating cash flows mainly arises from bank borrowings at 31 December 2010, at rates ranging from the prime rate minus 0.5% to the prime rate plus 2% per annum (2009: prime rate minus 0.5% to the prime rate plus 2% per annum).

If interest rates had been 100 basis point higher/lower and all other variables were held constant, the Group's profit after tax and retained earnings for the year ended 31 December 2010 would decrease/increase by S$40,000 (2009: decrease/increase by S$12,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

# Notes to the financial statements

*for the year ended 31 December 2010*

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Interest rate risk** *(Continued)*

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the reasonable possible changes in the interest rates in the next 12 months, the assumption that other variables are held constant.

| | **2010 Effect on profit after tax and retained earnings S$'000** | 2009 Effect on profit after tax and retained earnings S$'000 |
|---|---|---|
| USD | **(45)/45** | (36)/36 |
| RMB | **(12)/12** | (13)/13 |
| HKD | **104/(104)** | 71/(71) |
| SGD | **(7)/7** | (10)/10 |

**Fair values**

The directors consider that the fair values of each class of the financial assets and financial below approximate to their carry amounts.

## 37. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide an adequate return to shareholders.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.



## 37. CAPITAL MANAGEMENT POLICIES AND PROCEDURES *(Continued)*

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bills payables, short-term borrowings and long-term borrowings, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position, plus net debt.

During the year, the Group's gearing ratio was maintained within the range of 15% to 30%. The gearing ratios at 31 December 2009 and 2010 were as follows:

| | **2010**<br>**S$'000** | 2009<br>S$'000 |
|---|---|---|
| Total borrowings | **22,400** | 17,468 |
| Less: Cash and cash equivalents | **(12,915)** | (10,060) |
| Net debt | **9,485** | 7,408 |
| Total equity | **42,634** | 38,087 |
| Total capital | **52,119** | 45,495 |
| Gearing ratio | **18%** | 16% |

# Financial summary

## RESULTS

| | Year ended 31 December | | | | (Restated) |
|---|---|---|---|---|---|
| | 2010<br>S$'000 | 2009<br>S$'000 | 2008<br>S$'000 | 2007<br>S$'000 | 2006<br>S$'000 |
| Revenue | **42,129** | 36,724 | 34,821 | 37,416 | 60,381 |
| Other income | **9,807** | 9,499 | 5,590 | 5,634 | 4,913 |
| Cost of sales | **(33,835)** | (30,699) | (30,064) | (31,692) | (51,699) |
| Employee benefits expenses | **(3,446)** | (3,001) | (2,588) | (2,148) | (2,284) |
| Depreciation and amortisation | **(1,839)** | (1,721) | (1,519) | (1,399) | (1,318) |
| Operating lease charges | **(1,341)** | (1,207) | (346) | (333) | (371) |
| Exchange differences, net | **(633)** | (996) | 1,483 | 1,670 | 1,040 |
| Allowance for doubtful receivables | **–** | – | – | – | (780) |
| Other operating expenses | **(3,779)** | (3,930) | (2,738) | (2,553) | (2,445) |
| Profit from operating activities | **7,063** | 4,669 | 4,639 | 6,595 | 7,437 |
| Finance costs | **(1,542)** | (1,710) | (2,676) | (3,270) | (3,527) |
| Profit before income tax | **5,521** | 2,959 | 1,963 | 3,325 | 3,910 |
| Income tax expense | **(1,890)** | (1,036) | (543) | (729) | (924) |
| Profit for the year | **3,631** | 1,923 | 1,420 | 2,596 | 2,986 |
| Attributable to: | | | | | |
| Owners of the Company | **3,639** | 1,927 | 1,424 | 2,600 | 3,032 |
| Non-controlling interests | **(8)** | (4) | (4) | (4) | (46) |
| Profit for the year | **3,631** | 1,923 | 1,420 | 2,596 | 2,986 |
| Dividends | **–** | – | – | – | – |
| Earnings per share attributable to owners of the Company for the year (Singapore cent) | **0.81** | 0.45 | 0.35 | 0.65 | 0.76 |

## ASSETS AND LIABILITIES

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2010<br>S$'000 | 2009<br>S$'000 | 2008<br>S$'000 | 2007<br>S$'000 | 2006<br>S$'000 |
| Total assets | **87,687** | 76,667 | 79,987 | 85,442 | 83,597 |
| Total liabilities | **(45,053)** | (38,580) | (43,532) | (54,049) | (53,401) |
| | **42,634** | 38,087 | 36,455 | 31,393 | 30,196 |
| Non-controlling interests | **(329)** | (356) | (386) | (346) | (352) |
| Equity attributable to Company's equity holders | **42,305** | 37,731 | 36,069 | 31,047 | 29,844 |