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## **WO KEE HONG (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 720)**

### **OVERSEAS REGULATORY ANNOUNCEMENT**

*(This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. )*

Please refer to the attached Form 10-K/A, the amended annual report for the year ended December 31, 2008 filed on May 17, 2010 (US time) by China Premium Lifestyle Enterprise, Inc., an associated company of the Company whose shares are traded on the Over-The-Counter Bulletin Board in the United States of America.

*As at the date of this announcement, the Board comprises Dr. Richard Man Fai LEE (Executive Chairman and Chief Executive Officer), Mr. Jeff Man Bun LEE and Mr. Tik Tung WONG, all of whom are executive Directors, Ms. Kam Har YUE, who is a non-executive Director, Mr. Boon Seng TAN, Mr. Ying Kwan CHEUNG and Mr. Peter Pi Tak YIN, all of whom are independent non-executive Directors.*

Hong Kong, May 18, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K/A  
(Amendment No. 1)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 333-120807**

**CHINA PREMIUM LIFESTYLE ENTERPRISE, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**11-3718650**

(IRS Employer Identification No.)

10/F, Wo Kee Hong Building  
585-609 Castle Peak Road  
Kwai Chung, N.T. Hong Kong

(Address of principal executive offices)

(852) 2954-2469

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2008, was \$6,693,311 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person who owns more than 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 23, 2009, 23,323,860 shares of the registrant's common stock were issued and outstanding.

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## EXPLANATORY NOTE

As used in this Amendment No. 1 (the “Form 10-K/A”) to our Annual Report on Form 10-K for the year ended December 31, 2008 (the “2008 Form 10-K”), the terms “we,” “us,” “our” and the “Company” mean China Premium Lifestyle Enterprise, Inc., a Nevada corporation, and our consolidated subsidiaries, taken together as a whole.

On April 20, 2010, our management initially concluded that our consolidated audited financial statements for the years ended December 31, 2008, 2007 and 2006 and our consolidated unaudited interim financial statements for the periods ended March 31, 2006 through September 30, 2009 needed to be restated and should not be relied upon. Upon further analysis, on May 14, 2010, our management concluded that reliance on our unaudited interim financial statements for the period ended March 31, 2006 should not be withdrawn and that no restatements should be made to our unaudited interim financial statements for the period ended March 31, 2006. However, our management concluded that certain Notes to our unaudited interim financial statements included in the quarterly report on Form 10-QSB for the period ended March 31, 2006 needed to be amended. In addition, our management concluded that certain Notes to our audited financial statements included in the annual report on Form 10-KSB for our former fiscal year ended June 30, 2006 also needed to be amended.

This Form 10-K/A to our 2008 Form 10-K is being filed with the Securities and Exchange Commission (the “SEC”) to amend and restate our consolidated audited financial statements as of December 31, 2008 and 2007, and for the years ended December 31, 2008, 2007 and 2006.

In addition, we will file Reports on Form 10-K/A for prior periods to amend and restate our consolidated audited financial statements for the annual periods in fiscal years ended December 31, 2007 and 2006 and Reports on Form 10-Q/A to amend and restate our consolidated unaudited financial statements for the quarterly periods ended September 30, 2006 through September 30, 2009. We will also file a Report on Form 10-K/A to amend certain Notes to our audited financial statements for the annual period in our former fiscal year ended June 30, 2006 and a Report on Form 10-Q/A to amend certain Notes to our unaudited interim financial statements for the quarterly period ended March 31, 2006.

The common stock numbers in this Explanatory Note give effect to a one-for-five reverse stock split (the “Reverse Stock Split”) of our common stock, par value \$0.005 per share, effective on December 7, 2007.

### **Background**

In September 2006, we closed the transactions contemplated by that certain Share Exchange Agreement, dated July 15, 2006, by and among us, Fred De Luca, Corich Enterprises, Inc., a British Virgin Islands corporation, Herbert Adamczyk and Technorient Limited, a Hong Kong corporation (the “Share Exchange Agreement”). Pursuant to the terms of the Share Exchange Agreement, we issued an aggregate of 972,728 shares (the “Exchange Shares”) of Series A Convertible Preferred Stock in exchange for shares of the capital stock of Technorient.

In connection with the Share Exchange Agreement and prior to its closing, we entered into a consulting agreement dated July 15, 2006 with Happy Emerald Ltd. (“HEL”) pursuant to which we issued to HEL 561,245 shares (the “HEL Shares”) of Series A Convertible Preferred Stock in exchange for certain future services to be performed by HEL after the closing of the Share Exchange Agreement.

In January 2007, we authorized the delivery of 65,454 shares (the “Bern Noble Shares”) of the HEL Shares to Bern Noble, Ltd. (“Bern Noble”) for consulting services rendered by Bern Noble to us in connection with the Share Exchange Agreement. In March 2007, Bern Noble converted the Bern Noble Shares into 1,210,631 shares of common stock.

The following actions were also taken:

- on April 7, 2006, prior management filed an amendment to our Articles of Incorporation purporting to create a class of 100,000,000 shares of “blank check” preferred stock (the “Preferred Stock Amendment”);

- on August 16, 2006, prior management filed an amendment to our Articles of Incorporation purporting to designate 2,000,000 shares of the “blank check” preferred stock as “Series A Convertible Preferred Stock” (the “Certificate of Designation”); and
- on December 18, 2006, we filed an amendment to our Articles of Incorporation purporting to increase the number of shares of authorized common stock from 100,000,000 shares to 400,000,000 shares (the “Common Stock Amendment”).

On December 19, 2008, we filed an action in the United States District Court for the Central District of California (the “Federal Court Action”), for fraud, breach of fiduciary duty, breach of contract and conversion against HEL, certain members of our prior management, including Fred De Luca, Charles Miseroy, Robert G. Pautsch and Federico Cabo, and certain other defendants. In the Federal Court Action, we alleged that:

- HEL had never performed any services under the consulting agreement; and
- the defendants, including the members of prior management, had (1) fraudulently obtained certificates for 495,596 shares of the Series A Convertible Preferred Stock, (2) improperly attempted to transfer the shares among themselves and their affiliates, (3) improperly converted 247,798 of the shares into 4,569,619 shares of common stock, and (4) sought to have the restrictive legend removed from the resulting shares of common stock.

During the pendency of the Federal Court Action, our legal advisors discovered that the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment had not been properly authorized. Specifically:

- each of the Preferred Stock Amendment and the Common Stock Amendment was approved only by the written consent of a majority of our then-stockholders, whereas our By-Laws required such written consent to be approved unanimously; and
- at the time of the filing of the Certificate of Designation with the Nevada Secretary of State, the Articles of Incorporation did not authorize the Board of Directors to designate the rights, preferences and privileges of any “blank check” preferred stock.

We were advised that the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment were invalid and of no force and effect. Further, we were advised that the Company was never authorized to issue any shares of any class or series of preferred stock, including the Exchange Shares, the Bern Noble Shares and the HEL Shares, and that any shares of common stock underlying such shares would also not have been authorized. In addition, we were advised that the Company was never authorized to issue any shares of common stock in excess of 100,000,000 shares.

Upon learning of the invalidity of the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment:

- current management took action to correct any potential defect in the transactions contemplated to acquire the shares of Technorient under the Share Exchange Agreement. On May 5, 2009, we entered into a reformation (“Reformation”) of the Share Exchange Agreement pursuant to which the parties agreed that the 17,937,977 shares of common stock (on a post-Reverse Stock Split basis) underlying the Exchange Shares were agreed to have been issued in lieu of the Exchange Shares themselves. Pursuant to the Reformation, the parties agreed that an aggregate of 14,400,000 shares of our common stock (on a post-Reverse Stock Split basis) were deemed to have been issued on the closing date of the Share Exchange Agreement, and that upon the effectiveness of and giving effect to the Reverse Stock Split on December 7, 2007, an aggregate of an additional 3,537,977 shares of common stock were deemed to have been issued; and
- we amended our complaint in the Federal Court Action to allege that all of the disputed shares (the HEL Shares and, derivatively, the Bern Noble Shares), were void and subject to cancellation. Because of the uncertainty of the outcome of the Federal Court Action, however, we determined not to make any changes with respect to such shares on our financial statements until the pending litigation was finally resolved through a judgment in or settlement of the Federal Court Action.

On March 1, 2010, we settled the Federal Court Action. Under the terms of the settlement, the defendants agreed to return to us for cancellation all of the disputed shares, including 247,798 shares of the Series A Convertible Preferred Stock and 4,569,619 shares of common stock.

Further, in connection with the settlement, Bern Noble agreed to return to us for cancellation the 1,210,631 shares of common stock that had originally been derived from the HEL Shares. We also agreed to replace the Bern Noble Shares with an equal number of new shares of common stock in consideration of services rendered to us in 2006 in connection with the closing of the Share Exchange Agreement. We agreed to deliver the replacement shares in nine monthly installments.

### **Restatements**

We have restated certain items on our consolidated balance sheets, consolidated statements of operations and consolidated statements of stockholders' equity and comprehensive income (loss), based on the following:

- our determination that we were never authorized to issue any shares of any class or series of preferred stock, including the Exchange Shares, the Bern Noble Shares and the HEL Shares;
- our determination that the Preferred Stock Amendment, the Certificate of Designation designating the Series A Convertible Preferred Stock and the Common Stock Amendment were invalid and of no force and effect;
- the issuance of shares of common stock in connection with the Reformation;
- the cancellation and reissuance of the shares of common stock converted from the Bern Noble Shares (including the recognition of the receipt of the services performed by Bern Noble in 2006); and
- the settlement of the Federal Court Action.

The following describes the restatements to our consolidated financial statements included in this Form 10-K/A:

- on our consolidated balance sheets, at December 31, 2008 and 2007, prepayments decreased by \$1,468,930 to reflect the unauthorized issuance of the preferred stock in connection with the Federal Court Action. Accordingly, at December 31, 2008, preferred stock decreased by \$248, common stock decreased by \$28,902, additional paid-in-capital decreased by \$1,439,780 and stockholders' equity decreased to \$1,468,930. At December 31, 2007, preferred stock decreased by \$496, common stock decreased by \$6,053, additional paid-in-capital decreased by \$1,462,381 and stockholders' equity decreased by \$1,468,930. Further, all references to an authorized class or series of preferred stock and any issued and outstanding shares of preferred stock have been deleted from the restated balance sheets at December 31, 2008 and 2007;
- on our consolidated statement of operations, for the year ended December 31, 2008, basic and diluted loss per share increased by \$0.0013, for the years ended December 31, 2007 and 2006, basic earnings per share decreased by \$0.0007 and \$0.3011, respectively, and for the years ended December 31, 2007 and 2006, diluted earnings per share increased by \$0.0126 and \$0.0100, respectively. In addition, for the year ended December 31, 2008, the basic and diluted weighted average number of outstanding shares decreased by 4,741,131, for the years ended December 31, 2007 and 2006, the basic weighted average number of outstanding shares increased by 329,306 and 17,860,874, respectively, and for the years ended December 31, 2007 and 2006, the diluted weighted average number of outstanding shares decreased by 8,809,926 and 10,426,969, respectively;

- on our consolidated statement of stockholders' equity, at December 31, 2008, 2007 and 2006, the number of issued and outstanding shares of preferred stock decreased to none from 247,798, 495,791 and 1,533,973, respectively. In addition, at December 31, 2008 and 2007, the number of issued and outstanding shares of common stock decreased to 23,323,860 by 5,780,250 and 1,210,631, respectively, and at December 31, 2006, the number of issued and outstanding shares of common stock increased to 19,785,836 by 14,400,000; and
- on our consolidated statement of cash flows, for the year ended December 31, 2006, as supplemental disclosure for a non-cash item, preferred stock issued for consulting services to be rendered was reduced to none from \$1,468,930. The restatements had no impact on the Company's cash or cash flows.

### **Scope of This Form 10-K/A**

This Form 10-K/A sets forth the 2008 Form 10-K in its entirety. The following Items contain amended disclosures relating to the restatements:

- Part I, Item 1. Description of Business, under the heading “ *Company Overview and History* ;”
- Part I, Item 1A. Risk Factors, under the headings “ *Other Business Operating Risks* ,” “ *Risks Related to Our Stock* ” and “ *Risks Related to the Restatements* ;”
- Part I, Item 3. Legal Proceedings;
- Part II, Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, under the heading “ *Stockholders* ;”
- Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation, under the headings “ *Restatements* ” and “ *Working Capital Requirements* ;”
- Part II, Item 8. Financial Statements and Supplementary Data;
- Part II, Item 9A(T). Controls and Procedures;
- Part III, Item 10. Directors, Executive Officers and Corporate Governance Directors and Executive Officers of the Registrant, under the headings “ *Involvement in Certain Legal Proceedings* ” and “ *Board of Directors* ;”
- Part III, Item 11. Executive Compensation, under the heading “ *Director Compensation* ;”
- Part III, Item 13. Certain Relationships and Related Transactions and Director Independence; and
- Part IV, Item 15. Exhibits and Financial Statements Schedules (to contain the currently-dated certifications from our principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002).

Other than the amendments to the disclosures in the Items listed above, no other material modifications or updates have been made to the 2008 Form 10-K. Information not affected by the Items listed above remains unchanged and reflects the disclosures made at the time of, and as of the dates described in, the 2008 Form 10-K. Further, other than the amendments to the disclosures in the Items listed above, this Form 10-K/A does not describe events occurring after the 2008 Form 10-K (including with respect to exhibits), or modify or update disclosures (including forward-looking statements) which may have been affected by events or changes in facts occurring after the date of the 2008 Form 10-K. Accordingly, this Form 10-K/A should be read in its historical context and in conjunction with our filings made with the SEC subsequent to the filing of the 2008 Form 10-K, as information in such filings may update or supersede certain information contained in this Form 10-K/A.

CHINA PREMIUM LIFESTYLE ENTERPRISE, INC.

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FOR YEAR ENDED DECEMBER 31, 2008

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## CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Annual Report on Form 10-K for China Premium Lifestyle Enterprise, Inc., other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words or phrases “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “believe,” “plan,” “intend,” “estimate” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include: (a) general economic conditions in Hong Kong, Macau and China; (b) regulatory factors in Hong Kong, Macau and China that may lead to additional costs or otherwise negatively affect our business; (c) whether we are able to manage our planned growth efficiently, including whether our management will be able to: (i) identify, hire, train, retain, motivate and manage required personnel or (ii) successfully manage and exploit existing and potential market opportunities; (d) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations; (e) whether we are able to successfully fulfill our primary cash requirements which are explained below under “Liquidity and Capital Resources;” and (f) whether worldwide economic conditions will negatively affect the automobile retail industry in Hong Kong, Macau and China. Statements made herein are as of the date of the filing of this Form 10-K with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

You should carefully review the risk factors described in this report and other documents we will file from time to time with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q to be filed by us in our 2009 fiscal year, which runs from January 1, 2009 to December 31, 2009.

As used in this Form 10-K, unless the context requires otherwise, “we,” or “us” or “OTCBB: CPLY” or the “Company” means China Premium Lifestyle Enterprise, Inc. and its subsidiaries, taken together as a whole.

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### COMPANY OVERVIEW AND HISTORY

China Premium Lifestyle Enterprise, Inc. is in the business of the importation, distribution and sales of premium brand luxury products in the Hong Kong Special Administrative Region, the Macau Special Administrative Region and in the People's Republic of China, (which for the purposes of this report excludes Hong Kong, Macau and Taiwan). Currently, the Company's main business is its ownership interest in Technorient Limited, a Hong Kong corporation ("Technorient"). The business of the subsidiaries of Technorient Limited consists mainly of the importation, distribution, and after-sales service of Italian "Ferrari" and "Maserati" branded cars and spare parts in Hong Kong, Macau and China. During 2008, through its wholly-owned subsidiary, CPMM (Asia) Limited (f/k/a Leader Mount Limited), a Hong Kong corporation ("CPMM Asia"), the Company implemented its plan to import, distribute and sell premium brand apparel in Hong Kong, Macau, China and Taiwan.

The Company was originally formed in the State of Nevada on April 19, 2004 under its predecessor name, Xact Aid, Inc. ("Xact Aid"). On April 30, 2004, the Company issued 1,000 shares of its common stock (representing all of its issued and outstanding shares) to Addison-Davis Diagnostics, Inc. (f/k/a QT5, Inc.), a Delaware corporation ("Addison-Davis"), in consideration of Addison-Davis advancing start-up and operating capital.

On November 15, 2004, the Company acquired the Xact Aid line of first aid products for minor injuries from Addison-Davis in accordance with an Agreement of Sale and Transfer of Assets entered into between the Company and Addison-Davis. The assets acquired were, including all goodwill appurtenant thereto: (a) inventory; (b) confidential and proprietary information relating to the Xact Aid products; (c) the Seller's domain names including source codes, user name and passwords; (d) all designs and copyrights in connection with Xact Aid's trademark; and (e) all records and materials relating to suppliers and customer list. In full consideration for all the acquired assets, the Company agreed to: (i) repay funds advanced by Addison-Davis for the Company's operating expenses from inception to September 30, 2004, which were repaid in November 2004 and December 2004; (ii) assume a promissory note issued to Xact Aid Investments; and (iii) issue to Addison-Davis 2,000,000 shares of the Company's common stock.

From the Company's inception to May 9, 2005, the date that the Company was spun-off from Addison-Davis, Addison-Davis was the Company's sole stockholder. As such, the Company was a wholly-owned subsidiary of Addison-Davis and was included in the consolidated financial statements filed by Addison-Davis with the Securities and Exchange Commission (the "SEC").

On December 22, 2005 the Company entered into a transaction divesting itself of certain assets for which the Company, in management's opinion, could not attract capital to successfully exploit, in return for the assumption of certain liabilities, a guarantee to pay another significant liability, and all of the common stock of a development stage company. The Company acquired 100% of the issued and outstanding shares of Brooke Carlyle Life Sciences, Inc., a Nevada corporation ("Brooke Carlyle"), a development stage company with a business plan to develop an online internet portal containing information on sexually transmitted diseases, which was designed to generate revenue from advertising from pharmaceutical companies. In accordance with the terms of the acquisition, the Company agreed to: (i) sell, assign and transfer to Brooke Carlyle any and all of its rights title and interests in connection with the License Agreement and the Patent Pending Assignment; (ii) sell, assign and transfer the Xact Aid line of first aid products for minor injuries, including all its related rights, titles and inventory; (iii) transfer a rental security deposit receivable in the amount of \$225; and (iv) transfer certain notes receivable to Brooke Carlyle in the aggregate amount of \$20,000. In consideration, Brooke Carlyle: (i) assumed various liabilities payable by the Company in the aggregate amount of \$102,488; (ii) guaranteed payment of the Company's \$950,000 promissory note payable in connection with the Patent Pending Assignment; and (iii) issued to the Company 1,000,000 shares of Brooke Carlyle common stock.

The Company's management team then determined that it was no longer in the best interests of the Company and its stockholders to continue pursuing sales and marketing efforts for the wound-specific first aid kit line of products. In an effort to bring revenues and profitable operations to the Company, management sought to effect a transaction that would attract a viable business operation and liquidate its liabilities. As a result of such decisions, on March 3, 2006, the Company entered into a non-binding letter of intent with Technorient for a proposed acquisition of an interest in Technorient via a share exchange by and among the Company, Technorient and Technorient's shareholders.

On May 4, 2006, in order to satisfy certain provisions in the Share Exchange Agreement described below with Technorient, the Company entered into a Stock Purchase Agreement with Nexgen Biogroup, Inc. ("Nexgen"), for the sale of the 1,000,000 shares of the common stock of Brooke Carlyle held by the Company, which, at that time, represented all or substantially all of the assets of the Company, for \$1,000 cash, representing a consideration of \$0.001 per share (the par value). In accordance with the terms of the agreement, the Company agreed to: (i) sell, assign and transfer to Nexgen any and all of its rights, title and interests in Brooke Carlyle; and (ii) transfer to Nexgen 1,000,000 shares of Brooke Carlyle common stock.

On June 9, 2006, the Company entered into a share exchange agreement (the "Exchange Agreement") with Technorient, Fred De Luca, a director of the Company, Corich Enterprises Inc., a British Virgin Islands corporation ("Corich"), and Herbert Adamczyk. Subsequently, on July 15, 2006, the parties entered into an amended share exchange agreement, which agreement replaced in its entirety and superseded the Exchange Agreement (the "Amended Exchange Agreement"). Pursuant to the terms of the Amended Exchange Agreement, the Company agreed to acquire from Corich and Mr. Adamczyk (collectively, the "Sellers") 49% of the outstanding, fully-diluted capital stock of Technorient in exchange for the Company issuing to the Sellers and Orient Financial Services Ltd. ("OFS") 972,728 shares of Series A Convertible Preferred Stock (the "Series A Preferred Shares") (the "Exchange"). The 972,728 Series A Preferred Shares were to be convertible into approximately 89,689,881 shares of common stock (on a pre-Reverse Stock Split basis), which, on an as-converted basis, represented 53.5% of the outstanding common stock of the Company on a fully diluted basis, taking into account the Exchange.

Prior to the Exchange, Federico G. Cabo, one of our directors, owned 3,000,000 shares of common stock, and Mr. De Luca, then our secretary and a director, owned 6,000,000 shares of common stock. Pursuant to the Exchange, the Company cancelled the 9,000,000 shares of common stock owned by Messrs. De Luca and Cabo.

On September 5, 2006, pursuant to the Amended Exchange Agreement and after all of the conditions precedent to closing were satisfied (including the completion of the Company's sale of all of the capital stock of Brooke Carlyle to Nexgen), Corich and Mr. Adamczyk, as shareholders of Technorient, transferred 49% of the outstanding capital stock of Technorient on a fully diluted basis to the Company in exchange for the 972,728 Series A Preferred Shares. As a result of the Exchange, the Company became a 49% shareholder of Technorient on a fully-diluted basis.

In connection with the Exchange, the Company issued: (i) an aggregate of 972,728 Series A Preferred Shares to the Sellers (in exchange for 49% of the issued and outstanding shares of Technorient) and OFS; (ii) 561,245 Series A Preferred Shares (the "HEL Shares") to Happy Emerald Limited, a British Virgin Islands company ("HEL"), for consulting services to be provided to Technorient after the Exchange; and (iii) an aggregate of 21,629,337 shares of common stock in connection with certain conversions of outstanding debt. After the closing of the Exchange, the Company's main business became its 49% ownership interest in Technorient.

As discussed in the Explanatory Note at the beginning of this Report and as previously disclosed in the Company's Current Report on Form 8-K, as filed with the SEC on May 11, 2009, the Company later determined that it was never authorized to issue any shares of preferred stock. As a result, on May 5, 2009, we entered into a reformation ("Reformation") of the Amended Exchange Agreement pursuant to which the parties agreed that the 17,937,977 shares of common stock (on a post-Reverse Stock Split basis) underlying the Series A Preferred Shares issued to Corich and Mr. Adamczyk were agreed to have been issued in lieu of the Series A Preferred Shares themselves. Pursuant to the Reformation, the parties agreed that an aggregate of 14,400,000 shares of our common stock (on a post-Reverse Stock Split basis) were deemed to have been issued on the closing of the Exchange, and that upon the effectiveness of and giving effect to the Reverse Stock Split, an aggregate of an additional 3,537,977 shares of common stock were deemed to have been issued. For a more detailed discussion of the Reformation, please refer to the Explanatory Note at the beginning of this Report and the Company's Current Report on Form 8-K, as filed with the SEC on May 11, 2009.

The Company was previously engaged in litigation regarding the HEL Shares (the “Federal Court Action”). On March 1, 2010, we settled the Federal Court Action. Under the terms of the settlement, the defendants agreed to return to us for cancellation all of the HEL Shares, including all shares of common stock that were converted therefrom. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings of this Report.

On December 27, 2006, the Company effected a change of the Company’s name from “Xact Aid, Inc.” to “China Premium Lifestyle Enterprise, Inc.” The Company name change and its new trading symbol (OTCBB: CPMM) became effective on the OTC Bulletin Board on December 28, 2006.

In March 2007, the Company entered into an agreement with Falber Confezioni, S.R.L. to become the sole importer and distributor of John Richmond, Richmond X and Richmond Denim clothing for men and women in Hong Kong, Macau, Taiwan and in China commencing in the Spring/Summer season of 2008 and ending in the Fall/Winter season of 2012.

On April 3, 2007, the Company established CPMM Asia as a wholly owned subsidiary. CPMM Asia is principally engaged in the distribution of luxury brand apparel.

On July 10, 2007, the Company entered into a Non-binding Letter of Intent with Keyforce (BVI) Limited (“Keyforce (BVI)”), a subsidiary of Wo Kee Hong (Holdings) Limited of Hong Kong, to begin negotiations to acquire from Keyforce (BVI) its luxury yacht distribution business. Wo Kee Hong (Holdings) Limited of Hong Kong wholly owns Wo Kee Hong (B.V.I.) Limited, an intermediate holding company that, in turn, wholly owns Corich Enterprises Inc., one of the Company’s largest stockholders. Keyforce (BVI) is the sole shareholder of Keyforce Holdings Limited (“Keyforce Holdings”) and Noble Brand Investments Limited (“Noble Brand”). Keyforce Holdings is engaged in the distribution of luxurious Italian “Ferretti” motor yachts in China while Noble Brand distributes Taiwanese produced “Horizon” motor yachts in China, Hong Kong and Macau. The letter of intent expired on January 9, 2008. As of March 30, 2009, no binding agreements had been entered into, but discussions remain ongoing.

On December 7, 2007, the Company effected a reverse stock split pursuant to which each five outstanding shares of common stock, par value \$0.001, were automatically converted into one share of common stock, par value \$0.005, and the total number of shares of our common stock outstanding was reduced from 98,929,180 shares to 19,785,836 shares (the “Reverse Stock Split”). No change was made in the number of the Company’s authorized shares. No scrip or fractional share certificates were issued in connection with the Reverse Stock Split. Stockholders received a number of shares of new common stock rounded up to the nearest whole number in lieu of fractional interests resulting from the Reverse Stock Split. Following the Reverse Stock Split, the Company’s common shares began trading under a new ticker symbol (OTCBB: CPLY). Each stockholder’s percentage ownership interest in the Company and proportional voting power remained unchanged after the Reverse Stock Split, except for minor changes and adjustments resulting from rounding of fractional interests. The rights and privileges of the holders of common stock were substantially unaffected by the Reverse Stock Split.

On April 24, 2008, the Company adopted a Code of Business Conduct and Ethics applicable to its employees, officers and directors.

## **RECENT DEVELOPMENTS**

On January 18, 2008, CPMM Asia, a wholly-owned subsidiary of the Company, entered into a License and Supply Agreement (the “Agreement”) with Akkurate Ltd. (“Akkurate”) and Falber Confezioni S.R.L. (“Falber”) for a term of 10 seasons through approximately January 31, 2013. The Agreement grants CPMM Asia the exclusive right to sell men’s and women’s Ready-to-Wear John Richmond, Richmond X, and Richmond Denim (“Products”) and to open points of sale identified by the signs of Products identified by the “John Richmond,” “Richmond,” “Richmond X,” and “Richmond Denim” marks (collectively, the “Signs”) in China, Hong Kong, Macau and Taiwan (the “Exclusivity Area”), which Products will be supplied by Falber. In addition, CPMM Asia has the right to use the Signs, and to open and manage in the Exclusivity Area, mono-brand shops identified by the Signs for the sale of the Products and other articles identified by the Signs. CPMM Asia also has the right to sublicense these rights to third parties. The first mono brand shop of “Richmond X” was opened in Hong Kong at the end of 2007. In early May 2008, CPMM Asia opened the second mono brand shop in Hong Kong.

## **TECHNORIENT OVERVIEW**

The Company's main business remains its 49% ownership interest in Technorient. Technorient is a corporation formed in Hong Kong on March 8, 1983. Technorient is the parent company of Auto Italia Limited ("Auto Italia"), German Motors Limited ("German Motors"), Italian Motors (Sales & Service) ("Italian Motors"), Italian Motors (Sales & Service) Limited ("IML") and King Express Group Limited ("King Express"). Collectively, Auto Italia, Italian Motors, IML, German Motors and King Express are hereafter referred to as the "Technorient Group". Originally founded in 1974 by Mr. Adamczyk as German Motors, Technorient was formed as the holding company for Auto Italia, IML and German Motors in 1985. IML was appointed as sole Ferrari importer and distributor for Hong Kong and Macau in 1992 (and exclusive importer for China between 1994 and 2004), and Auto Italia was appointed as importer and distributor for Maserati in 1996, having been a dealer for the brand since 1994. In 2003, IML transferred its entire car trading business to Auto Italia, which in turn set up a new subdivision, Italian Motors, to continue the business. On April 24, 2008, Auto Italia formed a wholly-owned subsidiary named Success Master Holdings Limited, in Hong Kong. This new entity currently does not have any operations. On August 7, 2008, IML formed a wholly owned subsidiary named Nanjing Auto Italia Car Trading Co., Ltd. in China to engage in the distribution of Ferrari and Maserati cars in Nanjing.

IML is a 1% equity holder in Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd., an equity joint venture company created with Ferrari S.p.A. and the Beijing-based Poly Investment Group in 2004 to handle sales, marketing and distribution of Maserati and Ferrari in China. We refer to Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd. as the Shanghai JV. The Shanghai JV is currently building a network of dealerships for Ferrari and Maserati in China.

Auto Italia and Italian Motors operate from eight locations in Hong Kong and China, incorporating sales, spare parts, service and body and paint shop facilities for Ferrari and Maserati. Management believes that the group has a well-established customer base comprised of high net worth individuals in Hong Kong and China and enjoys through its sales performance and reputation for first class facilities and customer service, and excellent relationship with senior management of both Ferrari S.p.A. and Maserati S.p.A.

Management of Technorient views the rapid development of the consumer market in China, particularly the market for luxury products, as an opportunity to leverage the Company's existing high net worth customer base and reputation to develop a platform for distribution of a wide range of luxury items, including additional high end (performance) autos, luxury yachts and other premium lifestyle items.

In October 2007, King Express was appointed by AgustaWestland as its exclusive distributor for the complete fleet of AgustaWestland commercial helicopters in Hong Kong and Macau. It also has the right to sell to the highly strategic Pearl River Delta region of Southern China on a non-exclusive basis. Currently the AgustaWestland helicopters business is in its preparatory stage with the likely arrival of the first helicopter anticipated at the beginning of 2010.

### **Technorient History and Background**

German Motors was originally established in 1974 by Mr. Adamczyk as a service center for high performance sports cars, including Ferrari. After some years of development, and largely as a result of its record in high quality service and support for the auto racing industry in both Hong Kong and Macau, in 1983 the company was awarded the exclusive dealership for Ferrari in Hong Kong and Macau. IML was formed subsequently to continue the business.

Technorient was established in Hong Kong on March 8, 1983. Technorient became the holding company of IML, Auto Italia and German Motors. IML was appointed sole importer and distributor of Ferrari cars in Hong Kong and Macau in 1992. Between 1994 and 2004, IML was also the exclusive importer of Ferrari cars in China. Auto Italia had been a dealer of Maserati cars since 1994 and was appointed importer and distributor for Maserati cars in 1996.

In 1993, Corich acquired 37.7% of the then issued share capital of Technorient. Mr. Adamczyk held approximately 28.2% of the then issued and outstanding capital shares of Technorient. In 1995, Corich increased its interest in Technorient to 73.6% through subscription of new shares and acquisition of shares from certain minority shareholders of Technorient. In 2001 and 2002, a minority shareholder of Technorient sold its entire interest of approximately 0.019% of the then issued capital shares of Technorient to Corich and Mr. Adamczyk in proportion to their then interest in Technorient. On April 15, 2004 and April 28, 2004, Corich increased its interest in Technorient to 89.92%. On May 30, 2006, Corich acquired 0.08% of the issued capital shares of Technorient from the minority shareholder of Technorient. Upon completion of the acquisition, Corich and Mr. Adamczyk each held approximately 90% and 10% of Technorient, respectively. Upon completion of the Exchange on September 5, 2006, Corich and the Company held approximately 51% and 49% of Technorient, respectively.

### ***Ferrari/Maserati China***

The Technorient Group sold the first Ferrari in China in 1993. By 2005, over 100 units were sold, reflecting the emergence of China as one of Ferrari's key growth markets, alongside Latin America and Russia. In accordance with its worldwide policy of owning the primary importer in a major export market, Ferrari S.p.A. approached Technorient management in 2002 to request guidance on how to best establish its own importing operations in China. Technorient introduced Ferrari S.p.A. to Poly Group, a powerful industrial entity, after having established that a joint venture with a well-connected local business entity would be the most appropriate structure.

As a result, on August 27, 2004, the Shanghai JV, an equity Sino-foreign joint venture in China with Ferrari S.p.A. and Poly Technologies, Inc., was formed to engage in the import, distribution and sale, through a local network of car dealers, of Ferrari and Maserati cars, spare parts and ancillary products. Ownership of the Shanghai JV at inception was Ferrari S.p.A. 40%, Technorient Group (through IML) 30% and Poly Group 30%, with Richard Lee, Chairman of Technorient, appointed as Chairman and authorized representative of the Shanghai JV.

Upon formation, the Shanghai JV acquired from IML all of the dealer network and importer operations established by IML, including residual cars allocated for China at cost.

Because the structure of the Shanghai JV precludes its shareholders from direct ownership of licensed dealers in China and in view of Technorient's strategy to develop a luxury brand platform amongst its high net worth clients, Technorient's management subsequently approached Ferrari S.p.A. to dispose of IML's interest in the Shanghai JV so that Technorient could acquire an independent dealer network in China and, among other things, maintain its direct customer relationships. As part of this arrangement, Technorient would apply for and receive dealer licenses in key markets in China such as Dalian and Nanjing (already awarded) and would, in conjunction with Ferrari, continue to build its dealer network to capitalize on its client base in China and pursue its luxury brand platform.

Pursuant to the above, IML entered into an agreement with the Shanghai JV parties to dispose of 29% equity interest in the Shanghai JV in July 2006. The disposal was completed in December 2007 and after the disposal, IML continues to hold a 1% equity interest in the Shanghai JV. Beginning in 2006, the Technorient Group was able to act as an authorized dealer of Ferrari and Maserati cars in certain cities in China that were allocated in accordance with the Shanghai JV. In January 2006, IML formed Dalian Auto Italia in China to engage in the distribution of Ferrari and Maserati cars in Dalian, China and IML owned 95% equity interest in Dalian Auto Italia. On August 3, 2007, IML entered into an agreement to acquire the remaining 5% of equity interest in Dalian Auto Italia. IML currently owns 100% equity interest in Dalian Auto Italia.

On August 7, 2008, IML formed a wholly owned subsidiary named Nanjing Auto Italia Car Trading Co., Ltd in China to engage in the distribution of Ferrari and Maserati cars in Nanjing.

Auto Italia was established in Hong Kong on September 25, 1984 to trade cars and related accessories and provide car repair services. It was the exclusive importer and distributor for Lancia and subsequently Fiat automobiles in Hong Kong and Macau until the early 1990s when Lancia discontinued its right hand drive model range. Auto Italia withdrew from its Fiat distributorship at the same time due to the unsuitability of the vehicles for the Hong Kong market. Subsequent to the cessation of its Lancia and Fiat distributorships, Auto Italia was awarded exclusive dealership rights for Maserati automobiles in Hong Kong and in Macau.

Auto Italia and Italian Motors operate from eight locations in Hong Kong, Macau and China, incorporating sales, spare parts, service and body and paint shop facilities for Ferrari and Maserati.

### ***AgustaWestland helicopters***

In October 2007, King Express was appointed by AgustaWestland as its exclusive distributor for the complete fleet of AgustaWestland commercial helicopters in Hong Kong and Macau. It also has the right to sell to the highly strategic Pearl River Delta region of Southern China on a non-exclusive basis.

Currently the AgustaWestland helicopters business is in its preparatory stage with likely arrival of the first helicopter anticipated at the beginning of 2010.

## **Operations**

As the primary importer and distributor for Ferrari/Maserati brands for Hong Kong, Macau and China (until 2004), Technorient was responsible for introducing and developing a viable market for high performance luxury motor cars in those territories. After formation of the Shanghai JV in 2004, Technorient still retains its role as exclusive importer and dealer for both Ferrari and Maserati brands in Hong Kong and Macau, both significant markets in their own right, while developing an independent dealership network in China in close cooperation with the Shanghai JV.

A key aspect of any Ferrari importer worldwide is the strength of the relationship with Ferrari S.p.A. management in Maranello, Italy. With its internationally recognized logo and current worldwide production of only 5,500 units, the Ferrari brand connotes an image of performance and exclusivity unique in the auto world. Management of Ferrari S.p.A. understands the importance of importer performance in maintaining this image and accordingly requires the highest level of commitment from their importers.

Importership agreements are renewed annually and vehicle allocations are made largely through negotiation and are based on past sales levels. Allocations largely determine waiting lists for certain models, which in developed markets such as the United States and Europe, can stretch out to 3 years. A key to success as a Ferrari importer is the ability to increase allocations regularly. Technorient's management has historically enjoyed a unique ability to achieve this, through the strength of their 20-year relationship with Ferrari and proven success in building important markets for Ferrari and Maserati in Hong Kong and China. As a result, waiting lists for new cars in China are relatively short, an important advantage in newly developing markets where patience levels amongst the newly wealthy for their high end purchases are relatively low.

## **Market Analysis**

### ***Hong Kong and Macau***

After several years of steady growth, the market in Hong Kong and Macau for super luxury performance vehicles was severely impacted by the SARS crisis and the resulting economic downturn in 2003 which, together with the imposition of a poorly conceived luxury tax (now reduced and restructured) reduced Ferrari sales to a fraction of the prior period. Between 2004 and the first half of 2008, Hong Kong and Macau experienced an economic boom, built largely on the robust performance of the Chinese economy, particularly on the consumption side. However, during the last half of 2008, Hong Kong and Macau began to feel the effects of the worldwide economic slowdown.

Sales for Ferrari and Maserati stabilized at around 140 units in 2005 with annual growth in the region of 30% reaching close to 270 units in 2008. Given the relatively small but extremely wealthy customer base for the Group's products in Hong Kong and Macau, management believes that sales will remain steady, despite the currently experienced slowdown, while the proportion of sales in China is expected to continue to increase, albeit at a somewhat slower rate.

## China

The consumer market in China has emerged as an engine of economic growth during the past years. In 2005, China overtook Japan as the second largest car market in the world after the United States, with 5.9 million units sold in 2005. China has continued to achieve record sales during the run-up to 2008 (2006: 7.2 million, 2007: 8.9 million, 2008: 9.4 million), but a slowdown in sales became evident during the second half of 2008 which management believes is likely to continue in 2009.

## Business Strategy

Technorient's main strategy of building a luxury brand platform in China will be centered around continued development of the independent dealer network for the key brands of Ferrari and Maserati. This network, like the dealerships in Dalian and Nanjing, will be developed, in cooperation with Ferrari S.p.A. and Maserati S.p.A., both through new operations and acquisitions of existing dealerships in key industrial regions with a high concentration of wealthy individuals who form an important part of Technorient's customer base.

As the business of Technorient develops, it is the intention that additional key brands, consistent with the platform and character of the business, will be acquired from Technorient's parent company Wo Kee Hong (Holdings) Limited or from third parties. An example is the acquisition of the AgustaWestland helicopter's distributorship in Hong Kong and Macau.

## PRINCIPAL PRODUCTS OR SERVICES AND THEIR MARKETS

Currently, Technorient imports, distributes, and provides after-sale service for Italian "Ferrari" and "Maserati" branded cars and spare parts in Hong Kong, Macau and parts of China.

The following table reflects our percentage of total revenues of Technorient by business segments for our last three fiscal years:

| <b>Business Segment</b> | <b>Percentage of Total Revenues of Technorient as of</b> |                              |                              |
|-------------------------|--|------------------------------|------------------------------|
|                         | <b>December<br/>31, 2008</b>                             | <b>December<br/>31, 2007</b> | <b>December<br/>31, 2006</b> |
| New and used vehicles   | 94%  | 94%                          | 92%                          |
| Parts and services      | 6%   | 6%                           | 8%                           |

## OUR AUTOMOBILE DEALERSHIPS

### Importership/Dealership Agreements

Each of our importers operates under separate agreements with the manufacturers of each brand of vehicle. These agreements contain provisions and standards governing almost every aspect of the business, including ownership, management, personnel, training, maintenance of minimum working capital and in some cases net worth, maintenance of minimum lines of credit, advertising and marketing, facilities, signs, products and services, acquisitions of other dealerships (including restrictions on how many dealerships can be acquired or operated in any given market), maintenance of minimum amounts of insurance, achievement of minimum customer service standards and monthly financial reporting. Typically, the importer's principal and/or the owner of the dealership may not be changed without the manufacturer's consent.

In exchange for complying with these provisions and standards, we are currently granted the exclusive right to sell the Ferrari and Maserati brand of vehicles and related parts and services in Hong Kong and Macau, and we have also been granted the exclusive right to sell the Ferrari and Maserati brand of vehicles and related parts and services at our dealership in China. The agreements also typically grant the exclusive license to use each manufacturer's trademarks, service marks and designs in connection with our sales and service of its brands in our designated territories at our dealership. Some of our franchise agreements are renewed annually. The agreements also permit the manufacturer to terminate or not renew the agreement for a variety of causes, including failure to adequately operate the dealership, insolvency or bankruptcy, impairment of the dealer's reputation or financial standing, changes in the dealership's management, owners or location without consent, failure to maintain adequate working capital, changes in the dealership's financial or other condition, failure to submit required information to the manufacturer on a timely basis, failure to have any permit or license necessary to operate the dealership, and material breaches of other provisions of the agreement.



### *Store Operations*

With the appointment of the Nanjing dealership in the Yangtze River Delta Economic Zone in 2008, Technorient now has eight authorized showrooms and after-sales parts and service facilities throughout Hong Kong, Macau, and China.

| <b>Location</b> | <b>Store</b> | <b>Franchises</b>  | <b>Year<br/>Opened/<br/>Acquired</b> |
|-----------------|--------------|--------------------|--------------------------------------|
| Hong Kong       | Tokwawan     | Ferrari & Maserati | 1975                                 |
| Hong Kong       | Causeway Bay | Ferrari            | 1998                                 |
| Hong Kong       | Tai Kok Tsui | Ferrari & Maserati | 1990                                 |
| Hong Kong       | Ap Lei Chau  | Ferrari & Maserati | 2005                                 |
| Hong Kong       | Wanchai      | Maserati           | 2005                                 |
| China           | Dalian       | Ferrari & Maserati | 2006                                 |
| China           | Dalian       | Ferrari & Maserati | 2008                                 |
| China           | Nanjing      | Ferrari & Maserati | 2008                                 |

### *After-sale Service and Parts*

Technorient's automotive service and parts operations are an integral part of establishing customer loyalty and contribute significantly to our overall revenue and profits. Technorient's service philosophy has always been based around a racing team type support structure, with 24 hour service, spare parts and consultation. This approach, developed from the auto racing background of Technorient's key principals, has proven to be very successful in building long-term relationships with wealthy clients.

We provide parts and service primarily for the vehicle brands sold by our stores, but we also service other vehicles. In 2008, our service, body and parts operations generated approximately \$7.3 million in revenues, or 6% of total revenues of Technorient. We set prices to reflect the varying difficulty of the types of repair and the cost and availability of parts. Revenues from the service and parts departments are particularly important during economic downturns as owners tend to repair their existing used vehicles rather than buy new vehicles during such periods. This limits the effects of a drop in new vehicle sales that may occur in a slow economic environment. Technorient's focus on service advisor training, as well as a number of pricing and cost saving initiatives across the entire service and parts business lines, have led to improvements in same-store service and parts sales in 2008 compared to 2007, as well as improvements in gross profit margins achieved. Further, our focus on satisfying the client in both the sales and after-sales areas has led to consistently high levels of recommendation and endorsement, and additional and repeat business, all of which has benefited Technorient for over thirty years.

### **SUPPLIERS**

Our major suppliers are as follows:

| <b>ITEM</b>  | <b>SOURCE AND LOCATION</b>       |
|--|----------------------------------|
| Ferrari automobiles and automobile parts   | Ferrari S.p.A., Maranello, Italy |
| Maserati automobiles and automobile parts  | Maserati S.p.A., Modena, Italy   |
| AgustaWestland helicopters (1)   | Agusta S.p.A., Italy             |
| Men's and women's Ready-to-Wear John Richmond, Richmond X and Richmond Denim apparel | Falber Confezioni S.r.l., Italy. |

- (1) We anticipate that delivery of AgustaWestland helicopters will begin in early 2010.

## SEASONAL VARIATIONS

Our business is modestly seasonal overall. Our operations generally experience higher volumes of vehicle sales in the fourth fiscal quarter of each year due in part to manufacturers' production and delivery patterns.

## ADVERTISING

Technorient's commitment to maintaining the highest levels of service facilities and after sales service is supplemented by an active promotional program complemented by media events and classic/performance car rallies. Technorient is also supporting the development of a "Worldwide Super Car Club" based at the international track facilities in Zhuhai, located in southern China. This Club is being developed to service the "recreational racing" requirements of the Group's ultra high net worth clients and will showcase its key brands and luxury lifestyle concept for emerging Chinese patrons.

We also conduct extensive product promotional advertising in several venues:

- Local television exposure;
- City promotional materials;
- Local print media; and
- On-site point-of-purchase.

We also maintain a web site ([www.chinapremiumlifestyle.com](http://www.chinapremiumlifestyle.com)) that generates leads and provides information for our customers. We use the Internet site as a marketing tool to familiarize customers with us, our stores and the products we sell, rather than to complete purchases. Although many customers use the Internet to research information about new vehicles, nearly all ultimately visit a store to complete the sale and take delivery of the vehicle.

## BACKLOG ORDERS

The limited supply of cars by Ferrari and Maserati factories is a worldwide phenomenon due to the limited production capacity. We have many customers who have paid the deposit and prepared to wait for years for new cars. As a result, the backlog orders arise. Our backlog as of December 31, 2008 was approximately \$241.8 million compared to approximately \$178.9 million at December 31, 2007.

## MANAGEMENT INFORMATION SYSTEMS

We consolidate financial, accounting and other relevant data received from our operations in Hong Kong, Macau and China through a private communication system.

## COMPETITION

A major weakness in the automotive sector in China is a lack of customer service skills, with most dealers content to simply sell cars, with limited, if any, after sales service and support. One of Technorient's major strengths is its ability to focus on customer service, capitalizing on more than 30 years of experience in Hong Kong and Macau, which provides it with a distinct advantage in China.

In new and used vehicle sales, our operations compete primarily with other franchised dealerships of luxury vehicles in their regions. We rely on advertising and merchandising, sales expertise, service reputation, strong brand names and location of our operations to sell new vehicles. See "**Risk Factors — OTHER BUSINESS OPERATING RISKS — Substantial competition in automobile sales may adversely affect our profitability due to our need to lower prices to sustain sales and profitability .**"

We compete with other automobile dealers and franchised and independent service centers for non-warranty repair and routine maintenance business. We believe that the principal competitive factors in parts and service sales are the use of factory-approved replacement parts, price, the familiarity with a manufacturer's brands and models, and the quality of customer service.

We compete with other business entities for dealership rights in different areas of China. Some of our competitors may have greater financial resources and competition may increase the cost of acquiring such dealership rights.

## **ENVIRONMENTAL MATTERS**

Technorient is subject to environmental laws and regulations in Hong Kong, Macau and China, including those governing discharges into the air and water, the operation and removal of aboveground and underground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, this business involves the generation, use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, waste motor oil and filters, transmission fluid, antifreeze, refrigerant, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. Similar to many of our competitors, Technorient has incurred and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations. Various health and safety standards also apply to our operations.

We believe that Technorient does not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition or cash flows. However, environmental laws and regulations are complex and subject to change. In addition, in connection with the opening of any new dealerships, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. Compliance with current, amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures, and such expenditures could be material.

## **REGULATION**

Our automobile business is subject to regulation, supervision and licensing under Hong Kong, Macau, and Chinese laws, ordinances and regulations. A number of regulations affect our business of marketing, selling, and servicing automobiles. Under the laws of the jurisdictions in which we currently operate or into which we may expand, we typically must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service, including dealer, sales and/or automotive repair business licenses issued by relevant authorities. These laws also regulate our conduct of business, including our advertising, operating, employment and sales practices. Other laws and regulations include franchise laws and regulations, laws and regulations applicable to motor vehicle dealers, as well as wage-hour, anti-discrimination and other employment practices laws. We actively make efforts to assure compliance with these regulations.

## **EMPLOYEES**

As of December 31, 2008, we employed approximately 221 persons. We believe we have good relationships with our employees. We are not party or subject to any collective bargaining agreements.

## **REPORTS TO SECURITY HOLDERS**

We are subject to the informational requirements of Section 15(d) of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and copy these reports and other information we file at the Securities and Exchange Commission's public reference room in Washington, D.C. Our filings are also available to the public from commercial document retrieval services and the Internet worldwide website maintained by the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). You may also request copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC by requesting copies of such reports in writing. Such written requests shall be made to our corporate secretary and sent to our executive offices at the address set forth on the cover page of this Form 10-K.

Our principle executive office is located at 10/F, Wo Kee Hong Building 585-609 Castle Peak Road, Kwai Chung, N.T. Hong Kong. Our website is <http://www.chinapremiumlifestyle.com>, our phone number is (852) 2954-2469 and our email address is [jasona@chinapremiumlifestyle.com](mailto:jasona@chinapremiumlifestyle.com).

## **ITEM 1A. RISK FACTORS**

The following information describes certain significant risks and uncertainties inherent in our business. Some of these risks are described below and in the documents incorporated by reference in this prospectus, and you should take these risks into account in evaluating us or any investment decision involving us. This section does not describe all risks applicable to us, our industry or our business, and it is intended only as a summary of certain material factors. *You should carefully consider such risks and uncertainties, together with the other information contained herein and in the documents incorporated herein by reference. If any of the following risks and uncertainties, or if any other disclosed risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially.*

### **RISKS RELATED TO OUR BUSINESS**

#### **Deteriorating global economic conditions may affect our financial results, harming our business.**

As our business has expanded, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. Global economic conditions have deteriorated over the past several quarters, particularly during our most recent fiscal quarter that ended on December 31, 2008. This has led to our customers deferring, reducing or cancelling purchases in response to tighter credit and negative financial news. These factors have negatively impacted our business and our financial results.

If global economic conditions continue to deteriorate, or our customers continue to perceive uncertainty in global economic conditions, many of our customers may further delay, reduce or cancel purchases of luxury items. This could result in further reductions in sales of our products, longer sales cycles, slower adoption of new models and products and increased price competition.

These actions have and may continue to negatively impact our business, financial results and financial condition.

#### **The actions that we are taking in response to the global economic slowdown and our related business slowdown may be costly and may not be as effective as anticipated.**

We are taking actions to reduce our cost structure to more closely align our costs with our revenue levels. In taking these actions, we are attempting to balance the cost of such initiatives against the longer term benefit of such initiatives. This will incur additional costs in the short term that may have the effect of reducing our operating margins. If we do not achieve the proper balance of these cost reduction initiatives, we may eliminate critical elements of our operations, the loss of which could negatively impact our ability to benefit from an economic recovery. We cannot assure that our cost cutting efforts will achieve appropriate levels of expenses and we may take additional actions in the future.

In addition, we are taking actions to stimulate demand through a number of marketing initiatives. Although we are attempting to balance the cost of these programs against the longer term benefits, it is possible that we will make such investments without a corresponding increase in demand for our products. This would reduce our operating margins and have a negative impact on our financial results.

**The recent global credit and banking crisis may further negatively affect our business, results of operations, and financial condition.**

The recent global financial crisis affecting the banking system and financial markets and the going concern threats to investment banks and other financial institutions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in many financial instrument markets. Our business has been impacted by these events and may be further impacted by: the insolvency of key channel partners impairing our distribution channels; counterparty failures negatively impacting our treasury functions, including timely access to our cash reserves; and increased expense or inability to obtain short-term financing if banks providing our line of credit are unable to lend us money when it is needed for our operations.

**Our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in consumer confidence and changes in fuel prices and credit availability, which could have a material adverse effect on our business, revenues and profitability.**

We believe the automotive retail industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, interest rates, fuel prices, unemployment rates and credit availability. Historically, unit sales of motor vehicles, particularly new and used vehicles, have been cyclical, fluctuating with general economic cycles. During economic downturns, retail new vehicle sales typically experience periods of decline characterized by oversupply and weak demand. Although incentive programs initiated by manufacturers may abate these historical trends, the automotive retail industry may experience sustained periods of decline in vehicle sales in the future. Any decline or change of this type could have a material adverse effect on our business, revenues, cash flows and profitability.

Fuel prices may affect consumer preferences in connection with the purchase of our vehicles. Consumers may be less likely to purchase more expensive vehicles, such as luxury automobiles and more likely to purchase smaller, less expensive vehicles. Further increases in fuel prices could have a material adverse effect on our business, revenues, cash flows and profitability.

In addition, local economic, competitive and other conditions affect the performance of our operations. Our revenues, cash flows and profitability depend substantially on general economic conditions and spending habits in Hong Kong, Macau and in those regions of China where Technorient maintains its operations.

## **RISKS RELATED TO AUTOMOTIVE MANUFACTURERS**

**If we fail to obtain a desirable mix of popular new vehicles from manufacturers our profitability will be negatively affected.**

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently difficult to obtain from the manufacturers. If Technorient cannot obtain sufficient quantities of the most popular models, our profitability may be adversely affected. Sales of less desirable models may reduce our profit margins. Some principals generally allocate their vehicles amongst their importers/distributors based on their sales history. If our operations experience prolonged sales slumps, our allocation of popular vehicles may be reduced and new vehicle sales and profits may decline. Similarly, the delivery of vehicles, particularly newer, more popular vehicles, from manufacturers at a time later than scheduled could lead to reduced sales during those periods.

**Adverse conditions affecting one or more automotive manufacturers may negatively impact our revenues and profitability.**

Our success depends on the overall success of the line of vehicles that each of our operations sells. As a result, our success depends to a great extent on the automotive manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and labor relations. In 2008, sales of new Ferrari and Maserati accounted for 52% and 29%, respectively, of Technorient's total revenues. A significant decline in the sale of new vehicles produced by these manufacturers, or the loss or deterioration of our relationships with one or more of these manufacturers, could have a material adverse affect on our results of operations, financial condition or cash flows. Events such as labor strikes that may adversely affect a manufacturer may also materially adversely affect us. In particular, labor strikes at a manufacturer or supplier that continues for a substantial period of time could have a material adverse affect on our business. Similarly, the delivery of vehicles from manufacturers at a time later than scheduled, which may occur particularly during periods of new product introductions, has led, and could in the future lead, to reduced sales during those periods. In addition, any event that causes adverse publicity involving one or more automotive manufacturers or their vehicles may have a material adverse affect on our results of operations, financial condition or cash flows.

**If we fail to obtain renewals of one or more of our franchise agreements on favorable terms or substantial franchises are terminated, our operations may be significantly impaired.**

Each of our businesses operates under a franchise agreement with one of our manufacturers (or authorized distributor). Without a franchise agreement, we cannot obtain new vehicles from a manufacturer. As a result, we are significantly dependent on our relationships with these manufacturers, which exercise a great degree of influence over our operations through the franchise agreements. Each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including any unapproved changes of ownership or management and other material breaches of the franchise agreements. We cannot guarantee all of our franchise agreements will be renewed or that the terms of the renewals will be as favorable to us as our current agreements. In addition, actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our revenues and profitability.

**Our results of operations may be materially and adversely affected to the extent that Technorient's franchise rights become compromised or our operations restricted due to the terms of our franchise agreements or if we lose substantial franchises.**

Technorient's franchise agreements with Ferrari and Maserati do not give us the exclusive right to sell their products within China. As a result, the Shanghai JV may appoint additional dealers in neighboring cities that may indirectly compete against us. The appointment of new dealerships near our existing dealership could materially adversely affect our operations and reduce the profitability of our existing dealership.

**Our success depends upon the continued viability and overall success of a limited number of manufacturers.**

The following table sets forth the percentage of our new vehicle retail unit sales attributable to the manufacturers we represented during 2008 that accounted for 100% of our new vehicle retail unit sales:

| <b>Manufacturer</b> | <b>Percentage of New Vehicle Retail Units Sold during the Twelve Months Ended December 31, 2008</b> |     |
|---------------------|---|-----|
|                     | Ferrari   |     |
| Maserati            |   | 54% |

**Ferrari and Maserati vehicles represented 100% of our total new vehicle retail units sold in 2008. We are subject to a concentration of risk in the event of financial distress, including potential bankruptcy, of these vehicle manufacturers.**

In the event of a bankruptcy by a vehicle manufacturer, among other things: (1) the manufacturer could attempt to terminate all or certain of our franchises, and we may not receive adequate compensation for them, (2) we may not be able to collect some or all of our significant receivables that are due from such manufacturer and we may be subject to preference claims relating to payments made by such manufacturer prior to bankruptcy, (3) such manufacturer may be unable to maintain an adequate, or any, supply of vehicles, and (4) consumer demand for such manufacturer's products could be materially adversely affected.

Vehicle manufacturers may be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, increases in interest rates, declines in their credit ratings, labor strikes or similar disruptions (including within their major suppliers), supply shortages or rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, vehicle recall campaigns, litigation, poor product mix or unappealing vehicle design, or other adverse events. These and other risks could materially adversely affect any manufacturer and impact its ability to profitably design, market, produce or distribute new vehicles, which in turn could materially adversely affect our business, results of operations, financial condition, stockholders' equity, cash flows and prospects.

**Automotive manufacturers exercise significant control over our operations and we depend on them in order to operate our business.**

Manufacturers exercise a great degree of control over our operations. For example, manufacturers can require us to meet specified standards of appearance, require us to meet specified financial criteria such as maintenance of minimum net working capital and, in some cases, minimum net worth, impose minimum customer service and satisfaction standards, set standards regarding the maintenance of inventories of vehicles and parts and govern the extent to which our businesses can utilize the manufacturers' names and trademarks. In many cases the manufacturer must consent to the replacement of the principal.

**If manufacturers discontinue sales incentives, warranties and other promotional programs, our results of operations may be materially adversely affected.**

We depend on our manufacturers for sales incentives, warranties and other programs that are intended to promote dealership sales or support dealership profitability. Manufacturers historically have made many changes to their incentive programs during each year. Some of the key incentive programs include:

- Incentives on new vehicles; and
- Warranties on new and used vehicles.

A discontinuation or change in our manufacturers' incentive programs could adversely affect our business.

**Our manufacturers generally require that our premises meet defined image and facility standards and may direct us to implement costly capital improvements as a condition for renewing certain franchise agreements. All of these requirements could impose significant capital expenditures on us in the future.**

Pursuant to our franchise agreements, our operations are required to maintain a certain minimum working capital, as determined by the manufacturers. This requirement could force us to utilize available capital to maintain manufacturer-required working capital levels thereby limiting our ability to apply profits generated from one subsidiary for use in other subsidiaries or, in some cases, at the parent company. These factors, either alone or in combination, could cause us to divert our financial resources to capital projects from uses that management believes may be of higher long-term value to us.

## **RISKS RELATED TO OUR ACQUISITION STRATEGY**

**Growth in our revenues and earnings will be impacted by our ability to acquire and successfully integrate and operate more dealerships in China.**

Growth in our revenues and earnings depends substantially on our ability to acquire and successfully integrate and operate more dealerships in China. We cannot guarantee that we will be able to identify and acquire or establish dealerships in the future. In addition, we cannot guarantee that any acquisitions will be successful or on terms and conditions consistent with past acquisitions. Restrictions by our manufacturers, as well as covenants contained in our debt instruments, may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions may develop, which could result in fewer acquisition opportunities available to us and/or higher acquisition prices. Some of our competitors may have greater financial resources than us.

**We will continue to need capital in order to acquire or open additional dealerships. In the past, we have financed these acquisitions with a combination of cash flow from operations and proceeds from borrowings under our credit facilities.**

We currently intend to finance future acquisitions or open new dealerships by using cash and issuing shares of our common stock as partial consideration for acquired dealerships. The use of common stock as consideration for acquisitions will depend on three factors: (1) the market value of our common stock at the time of the acquisition, (2) the willingness of potential acquisition candidates to accept common stock as part of the consideration for the sale of their businesses, and (3) our determination of what is in our best interests. If potential acquisition candidates are unwilling to accept our common stock, we will rely solely on available cash or proceeds from debt or equity financings, which could adversely affect our acquisition program. Accordingly, our ability to make acquisitions could be adversely affected if the price of our common stock is depressed.

**In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management's attention, delays, or other operational or financial problems.**

Acquisitions involve a number of special risks, including:

- incurring significantly higher capital expenditures and operating expenses;
- failing to integrate the operations and personnel of the new or acquired dealerships;
- entering new markets with which we are not familiar;
- incurring undiscovered liabilities at new or acquired dealerships;
- disrupting our ongoing business;
- failing to obtain or retain key personnel at new or acquired dealerships;
- impairing relationships with employees, manufacturers and customers; and
- incorrectly valuing acquired entities,

some or all of which could have a material adverse effect on our business, financial condition, cash flows and results of operations. Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses.

Acquiring legal entities, as opposed to only dealership assets, may subject us to unforeseen liabilities that we are unable to detect prior to completing the acquisition or liabilities that turn out to be greater than those we had expected. These liabilities may include liabilities of the prior owner or operator that arise from environmental laws for which we, as a successor owner, will be responsible. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

**If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected because we rely on the industry knowledge and relationships of our key personnel.**

We believe our success depends to a significant extent upon the efforts and abilities of our executive officers, senior management and key employees. Additionally, our business is dependent upon our ability to continue to attract and retain qualified personnel, including the management of acquired dealerships. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment.



The unexpected or unanticipated loss of the services of one or more members of our senior management team could have a material adverse effect on us and materially impair the efficiency and productivity of our operations. We do not have key man insurance for any of our executive officers or key personnel. In addition, the loss of any of our key employees or the failure to attract qualified managers could have a material adverse effect on our business and may materially impact the ability of our dealerships to conduct their operations.

## **OTHER BUSINESS OPERATING RISKS**

### **Changes in interest rates could adversely impact our profitability.**

Some of our borrowings under various credit facilities bear variable interest rates. Therefore, our interest expense will rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because some of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues.

### **Our insurance does not fully cover all of our operational risks, and changes in the cost of insurance or the availability of insurance could materially increase our insurance costs or result in a decrease in our insurance coverage.**

The operation of automobile dealerships is subject to compliance with a wide range of laws and regulations and is subject to a broad variety of risks. While we have some insurance coverage including material property damage and public liability insurance, we are self-insured for a portion of our potential liabilities. In certain instances, our insurance may not fully cover an insured loss depending on the magnitude and nature of the claim. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase the portion of our risks that we self-insure.

### **We are subject to a number of risks associated with importing vehicles.**

Our business involves the sale of new and used vehicles, vehicle parts or vehicles composed of parts that are manufactured outside China, Hong Kong and Macau. As a result, our operations are subject to customary risks associated with imported merchandise, including fluctuations in the value of currencies, import duties, exchange controls, differing tax structures, trade restrictions, transportation costs, work stoppages and general political and economic conditions in foreign countries.

The countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs on imported merchandise. Any of those impositions or adjustments could affect our operations and our ability to purchase imported vehicles and parts at reasonable prices, which could have an adverse effect on our business.

### **The seasonality of the automobile retail business magnifies the importance of our fourth quarter results.**

The automobile industry experiences seasonal variations in revenues. In Hong Kong, a higher amount of vehicle sales generally occurs in the fourth fiscal quarter of each year due in part to manufacturers' production and delivery patterns, and the introduction of new vehicle models. Therefore, if conditions surface in the fourth quarter that depress or affect automotive sales, such as major geopolitical events, high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year may be disproportionately adversely affected.

### **Substantial competition in automotive sales and services may adversely affect our profitability due to our need to lower prices to sustain sales and profitability.**

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with:

- franchised automotive dealerships in our markets that sell similar makes of new and used vehicles that we offer, occasionally at lower prices than we do;
- other national or regional affiliated groups of franchised dealerships;
- private market buyers and sellers of used vehicles; and
- independent service and repair shops.

As we seek to acquire or establish dealerships in new markets, we may face significant competition as we strive to gain market share. Some of our competitors may have greater financial, marketing and personnel resources and lower overhead and sales costs than we have. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. Although our franchise agreements with Ferrari and Maserati grant us the exclusive right to sell their products within certain geographic areas, our revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships.

In addition to competition for vehicle sales, our dealerships compete with independent garages for non-warranty repair and routine maintenance business. Our dealerships compete with other automotive dealers, service stores and auto parts retailers in their parts operations. We believe that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer's brands and models, convenience, the competence of technicians, location, and price.

**We are currently involved in a legal proceeding and the outcome is uncertain.**

From time to time, we are subject to claims and legal proceedings arising out of our business. As discussed in Part I, Item 1. Description of Business, of this Report, the Company was previously engaged in litigation regarding the HEL Shares (defined therein as the "Federal Court Action"). On March 1, 2010, we settled the Federal Court Action. Under the terms of the settlement, the defendants agreed to return to us for cancellation all of the HEL Shares, including all shares of common stock that were converted therefrom. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings of this Report.

**Due to the nature of the automotive retailing business, we may be involved in legal proceedings or suffer losses that could have a material adverse effect on our business.**

We will continue to be involved in legal proceedings in the ordinary course of business. A significant judgment against us, the loss of a significant license or permit, or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects. In addition, it is possible that we could suffer losses at individual dealerships due to fraud or theft.

**We are subject to substantial regulation which may adversely affect our profitability and significantly increase our costs in the future.**

A number of laws and regulations affect our business. We are also subject to laws and regulations relating to business corporations generally. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil, or criminal penalties, the imposition of remedial obligations or the issuance of injunctions limiting or prohibiting our operations. We must obtain various licenses in order to operate our businesses, including dealer, sales, finance and insurance-related licenses issued by authorities. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices.

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of underground and aboveground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials, and the investigation and remediation of contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. Operations involving the management of hazardous and non-hazardous materials are subject to Chinese, Hong Kong and Macau environmental regulations and statutes. Similar to many of our competitors, we have incurred and will continue to incur, capital and operating expenditures and other costs in complying with such environmental laws and regulations.

Further, environmental laws and regulations are complex and subject to change. In addition, in connection with any acquisitions or openings of new dealerships, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. We may be required to make material additional expenditures to comply with existing or future laws or regulations, or as a result of the future discovery of environmental conditions.

**Our indebtedness and lease obligations could materially adversely affect our financial health, limit our ability to finance future acquisitions and capital expenditures, and prevent us from fulfilling our financial obligations.**

Our indebtedness and lease obligations could have important consequences to you, including the following:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- a portion of our current cash flow from operations must be dedicated to the payment of principal on our indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates; and
- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

**Adverse conditions affecting the manufacturers may negatively impact our profitability.**

The success of each of our businesses depends to a great extent on vehicle manufacturers':

- financial condition;
- marketing efforts;
- vehicle design;
- production capabilities;
- reputation;
- management; and
- labor relations.

Adverse conditions affecting these and other important aspects of manufacturers' operations and public relations may adversely affect our ability to market their automobiles to the public and, as a result, significantly and adversely affect our profitability.

**Fluctuation in the value of Renminbi, the Macau Pataca and Hong Kong Dollar relative to other currencies may have a material adverse effect on our business and/or an investment in our shares.**

The value of RMB, Hong Kong Dollar and the Macau Pataca against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Since 1994, the conversion of Renminbi (“RMB”) into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People’s Bank of China, or PBOC, which are set daily based on the previous day’s Chinese interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable. On July 21, 2005, however, PBOC announced a reform of its exchange rate system. Under the reform, Renminbi is no longer effectively linked to US dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies. If the RMB were to increase in value against the U.S. dollar, for example, mainland Chinese consumers would experience a reduction in the relative prices of goods and services, which may translate into a positive increase in sales. On the other hand, a decrease in the value of the RMB against the dollar would have the opposite effect and may adversely affect our results of operations. Any significant revaluation of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payments. For example, an appreciation of RMB against the U.S. dollar or Hong Kong dollars would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars or Hong Kong dollars into RMB for such purposes. In addition, a strengthening of the U.S. dollar against the Hong Kong Dollar or the Macau Pataca, if it occurred, would adversely affect the value of your investment.

**Our business is primarily reliant on the business of Technorient.**

Our primary business is our 49% ownership interest in Technorient. As a result, our financial results are substantially dependent on the operational and financial results of Technorient. In the event that sales trends or economic conditions for Technorient decline, our financial results may be materially adversely affected.

**RISKS RELATED TO DOING BUSINESS IN CHINA**

Although only a small proportion of our business is currently conducted in China, it is our intention to expand our business portfolio in China in the future, in which case, the following risk factors should be addressed:

**Adverse changes in economic and political policies of Chinese government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.**

A portion of our business operations are currently conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China’s economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The Chinese government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Since early 2004, the Chinese government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

**Our operations in China are subject to restrictions on paying dividends and making other payments to us.**

Regulations in China currently permit payment of dividends only out of accumulated profits, as determined in accordance with Chinese accounting standards and regulations. Technorient is also required to set aside a portion of their after-tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. The Chinese government also imposes controls on the conversion of Renminbi into foreign currencies and the remittance of currencies out of China. Technorient may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. Furthermore, if our operations in China incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we are unable to receive all of the revenues from our operations through contractual or dividend arrangements, we may be unable to pay dividends to our stockholders.

**Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.**

Because some of our revenues are in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies, after providing valid commercial documents, at those banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to government approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

**We face risks related to health epidemics and other outbreaks.**

Our business could be adversely affected by the effects of avian influenza, SARS or another epidemic or outbreak. In 2005 and 2006, there have been reports on the occurrences of avian influenza in various parts of China, including a few confirmed human cases. Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response to an epidemic or outbreak may require temporary closure of our offices and dealerships. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian influenza, SARS or any other epidemic.

**We may be unable to enforce our rights due to policies regarding the regulation of foreign investments in China.**

China's legal system is a civil law system based on written statutes in which decided legal cases have little value as precedents, unlike the common law system prevalent in the United States. China does not have a well-developed, consolidated body of laws governing foreign investment enterprises. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion and variation, and may be subject to influence by external forces unrelated to the legal merits of a particular matter. China's regulations and policies with respect to foreign investments are evolving. Definitive regulations and policies with respect to such matters as the permissible percentage of foreign investment and permissible rates of equity returns have not yet been published. Statements regarding these evolving policies have been conflicting and any such policies, as administered, are likely to be subject to broad interpretation and discretion and to be modified, perhaps on a case-by-case basis. The uncertainties regarding such regulations and policies present risks that may affect our ability to achieve our business objectives. If we are unable to enforce any legal rights we may have under our contracts or otherwise, our ability to compete with other companies in our industry could be materially and negatively affected.

**It may be difficult for stockholders to enforce any judgment obtained in the United States against us, which may limit the remedies otherwise available to our stockholders.**

Our assets are located outside the United States and all of Technorient's current operations are conducted in Hong Kong, Macau and in China. Moreover, four of our directors and all of our officers are nationals or residents of Hong Kong. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for our stockholders to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or such officers and/or directors predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

## **RISKS RELATED TO OUR STOCK**

### **There is a limited trading market for our shares. You may not be able to sell your shares if you need money.**

Our common stock is traded on the Over-The-Counter Bulletin Board, an inter-dealer automated quotation system for equity securities. During the 30 trading days ended March 25, 2009, the average daily trading volume of our common stock was approximately 503 shares. As of March 23, 2009, we had approximately 53 stockholders of record, as determined by our transfer agent's records, not including banks, brokers or other nominees holding shares through the Depository Trust Company or its nominee, Cede & Co., Inc. There has been limited trading activity in our stock, and when it has traded, the price has fluctuated widely. We consider our common stock to be "thinly traded" and any last reported sale prices may not be a true market-based valuation of the common stock. Stockholders may experience difficulty selling their shares if they choose to do so because of the illiquid market and limited public float for our common stock.

### **We have no immediate plans to pay dividends.**

We have not paid any cash dividends on our common stock to date and do not expect to pay such dividends for the foreseeable future. We intend to retain earnings, if any, as necessary to finance the operation and expansion of our business.

### **We have the ability to issue additional shares of our common stock without asking for stockholder approval, which could cause your investment to be diluted.**

Our Articles of Incorporation authorize the Board of Directors to issue up to 100,000,000 shares of common stock. The power of the Board of Directors to issue shares of common stock, warrants or options to purchase shares of common stock is generally not subject to stockholder approval. Accordingly, any additional issuance of our common stock may have the effect of diluting your investment.

### **Our stock price is volatile.**

The trading price of our common stock has been and continues to be subject to fluctuations. The stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, the operating and stock performance of other companies that investors may deem as comparable and news reports relating to trends in the marketplace, among other factors. Significant volatility in the market price of our common stock may arise due to factors such as:

- our developing business;
- a continued negative cash flow;
- relatively low price per share;
- relatively low public float;
- variations in quarterly operating results;
- general trends in the industries in which we do business;
- the number of holders of our common stock; and
- the interest of securities dealers in maintaining a market for our common stock.

As long as there is only a limited public market for our common stock, the sale of a significant number of shares of our common stock at any particular time could be difficult to achieve at the market prices prevailing immediately before such shares are offered, and could cause a severe decline in the price of our common stock.

## **RISKS RELATED TO THE RESTATEMENTS**

### **The restatement of certain of our historical consolidated financial statements may have an adverse effect on us.**

We have restated certain items on our consolidated balance sheets, our consolidated statement of operations, our consolidated statement of stockholders' equity and our consolidated statement of cash flows included in this Report. For a more detailed discussion of the restatements and their underlying circumstances, please refer to the Explanatory Note at the beginning of this Report and Note 22 of the Notes to the consolidated financial statements included in this Report. As a result of the restatements, we may become subject to a number of significant risks, which could have an adverse effect on our business, financial condition and results of operations, including: we may be subject to potential civil litigation, including stockholder class action lawsuits and derivative claims made on behalf of us, and regulatory proceedings or actions, the defense of which may require us to devote significant management attention and to incur significant legal expense and which litigation, proceedings or actions, if decided against us, could require us to pay substantial judgments, settlements or other penalties.

### **We identified material weaknesses in our internal control over financial reporting and concluded that such controls were not effective. If we fail to maintain effective internal control over financial reporting, we may not be able to accurately report our financial results. We can provide no assurance that we will at all times in the future be able to report that our internal control is effective.**

Because we have reporting obligations under the Exchange Act, we are required to report, among other things, control deficiencies that constitute material weaknesses or changes in internal control that, or that are reasonably likely to, materially affect internal control over financial reporting. A "material weakness" is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or report a material weakness, we might be subject to regulatory sanction and investors may lose confidence in our financial statements, which may be inaccurate if we fail to remedy such material weakness.

Based on the restatements to our financial statements referenced above, our management concluded that our system of internal control over financial reporting was not effective as of the three month period ended March 31, 2006 through the nine month period ended September 30, 2009, which resulted in the restatements described in the Explanatory Note at the beginning of this Report and Note 22 of the Notes to the consolidated financial statements included in this Report. Although management does not anticipate making any further restatements to the financial statements for subsequent periods, management believes that our weakness in internal controls continued during such periods. Management has identified internal control deficiencies which, in management's judgment, represent material weaknesses in internal control over financial reporting. The control deficiencies related to controls over the accounting and disclosure for transactions to ensure such transactions were recorded as necessary to permit preparation of financial statements and disclosure in accordance with GAAP. Specifically, the control deficiencies related to: (i) the invalid adoption of certain purported amendments to our Articles of Incorporation; (ii) the unauthorized issuance by prior management of shares of our capital stock; and (iii) the lack of recognition of the receipt of services from certain third party consultants on our financial statements.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

Our principal executive offices are located at 10/F, Wo Kee Hong Building, 585-609 Castle Peak Road, Kwai Chung, N.T. Hong Kong. These executive offices are shared with Wo Kee Hong (Holdings) Limited, an indirect stockholder of our Company at no cost to the Company. We do not own these facilities and we do not have a lease agreement for the use of these facilities. Technorient's facilities consist primarily of automobile showrooms, display lots, service facilities, automobile storage lots, and offices, and the locations are described in Item 1 above. Technorient leases all of its facilities, providing flexibility to relocate if necessary. However, some of these leases give us the option to renew for one or more lease extension periods. We believe that all of our facilities are sufficient for our Company's needs and are in good repair.

## ITEM 3. LEGAL PROCEEDINGS

On December 19, 2008, the Company filed an action, styled *China Premium Lifestyle Enterprise, Inc. v. Happy Emerald Limited, et al.*, in the United States District Court, Central District of California, Case No. SACV08-1439 (the "Federal Court Action"), asserting claims for Securities Fraud, Breach of Contract, Fraud, Conversion, Unjust Enrichment, Constructive Trust, Breach of Fiduciary Duty and Declaratory Relief. The Company named Happy Emerald Ltd., a purported British Virgin Islands corporate entity ("HEL"), Global Premium Brands Co., Inc., a defunct California Corporation ("California Global"), Global Premium Brands Co., Inc., a Nevada corporation ("Nevada Global"), Fred De Luca, Charles Miseroy, Delia Rodriguez, Robert G. Pautsch, Richard Cabo and Federico Cabo as defendants (collectively, the "Defendants").

The Company asserted in the Federal Court Action that the Defendants acted in concert to fraudulently obtain shares of the Company's Series A Convertible Preferred Stock (the "Preferred Shares") and, in some instances, breached their fiduciary duties to the Company relating to their conducts involving the Preferred Shares. The Company authorized the issuance of the Preferred Shares as consideration for certain future services to be performed by HEL under a July 15, 2006 Consulting Services Agreement. HEL, however, as alleged in the Federal Court Action, never performed the required services and the Preferred Shares were accordingly never paid for. The Company believed the Preferred Shares were subject to cancellation. In the Federal Court Action, the Company alleged that the Defendants improperly obtained certificates for the Preferred Shares, attempted to transfer the Preferred Shares between themselves, and sought to have the restrictive legend removed from a portion of the Preferred Shares. The Company sought a declaration of the parties' respective rights regarding the Preferred Shares as well as injunctive relief and damages against the Defendants.

In a related matter, the Company was named as a defendant in a state court action, styled *Federico G. Cabo, et al. v. China Premium Lifestyle Enterprise, Inc., et al.*, California Superior Court, Ventura County, Case No. 56-2008-00333382-CU-BC-VTA (the "State Court Action"). The plaintiffs in the State Court Action (defendants in the Federal Court Action) Federico Cabo, Fred De Luca, and Nevada Global, asserted various claims against multiple defendants relating to the Preferred Shares issued to HEL in which these plaintiffs claim an interest. The plaintiffs asserted claims for estoppels, slander of title, conversion and constructive trust against the Company in the State Court Action. By agreement with the plaintiffs in the State Court Action, the State Court Action was dismissed, without prejudice, and it is anticipated that the same or similar claims will be asserted in the Federal Court Action. The Company denies any such alleged wrongdoing and will vigorously defend these claims if they are asserted in the Federal Court Action. The Company, however, is unable to evaluate the likelihood of an outcome, favorable or unfavorable, to the Company at this time or to estimate the amount or range of a possible loss.

Effective March 1, 2010, the Company settled the Federal Court Action. Under the terms of the settlement: (1) the defendants agreed to return to the Company for cancellation 247,798 shares of preferred stock and 4,569,619 shares of common stock; (2) Mr. De Luca resigned from the Company's board of directors effective March 1, 2010; (3) the parties executed a mutual release; and (4) the Company dismissed the action with prejudice.

In December 2006, the Company had delivered 65,454 shares of preferred stock to Bern Noble, Ltd. ("Bern Noble") for consulting services rendered in connection with the Exchange. In March 2007, Bern Noble converted such shares into 1,210,631 shares of common stock. As discussed in the Explanatory Note at the beginning of this Report and as previously disclosed in the Company's Current Report on Form 8-K, as filed with the SEC on May 11, 2009, the Company later determined that it was never authorized to issue any shares of preferred stock. In connection with the settlement, Bern Noble agreed to return to us for cancellation certificates representing the 1,210,631 shares of common stock. We also agreed to replace the shares with an equal number of newly issued shares of common stock in consideration of services rendered to us in 2006 in connection with the closing of the Share Exchange Agreement. We agreed to deliver the replacement shares in nine monthly installments.



#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### MARKET INFORMATION

Our common stock is quoted on the Over-the-Counter ("OTC") Bulletin Board under the symbol (OTCBB: CPLY). The following table contains market information pertaining to the range of the high and low bid information of our common stock for each quarter for the last two fiscal years as quoted on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

|                    | <u>LOW</u> | <u>HIGH</u> |
|--------------------|------------|-------------|
| <b>2008</b>        |            |             |
| Fourth Quarter     | 0.15       | 0.60        |
| Third Quarter      | 0.15       | 0.69        |
| Second Quarter     | 0.43       | 0.85        |
| First Quarter      | 0.35       | 1.00        |
| <b>2007</b>        |            |             |
| Fourth Quarter (1) | 0.25       | 1.01        |
| Fourth Quarter (2) | 0.13       | 0.23        |
| Third Quarter      | 0.10       | 0.28        |
| Second Quarter     | 0.10       | 0.38        |
| First Quarter      | 0.18       | 0.54        |

(1) Reflects common share prices for the period December 8, 2007 to December 31, 2007.

(2) On December 7, 2007, the Company effected a one-for-five reverse stock split pursuant to which each five (5) outstanding shares of common stock, par value \$0.001, were automatically converted into one (1) share of common stock, par value \$0.005. Common share prices in this schedule reflect pre-reverse stock-split for the periods up to and including December 7, 2007.

A limited trading market exists for our common stock and there is no assurance that a more significant trading market will develop, or if developed will be sustained.

##### STOCKHOLDERS

As of March 23, 2009, we had 23,323,860 shares of common stock outstanding. As of March 23, 2009, we had approximately 53 stockholders of record, as determined by our transfer agent's records, not including banks, brokers or other nominees holding shares through the Depository Trust Company or its nominee, Cede & Co., Inc.

##### DIVIDEND POLICY

Since our inception, we have not declared or paid any dividends on our common stock, nor do we have any intentions of declaring such a dividend in the foreseeable future. The payment of dividends, if any, is within the discretion of the Board and will depend upon our earnings, our capital requirements and financial condition, and other relevant factors. Our Board of Directors does not intend to declare any dividends in the foreseeable future, but instead intends to retain all earnings, if any, for use in our operations.

## **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

Information regarding securities authorized for issuance under equity compensation plans is included in “Item 11 – Equity Compensation.”

## **RECENT SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES**

None.

## **PURCHASES OF EQUITY BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

## **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

This section contains forward-looking statements. These forward-looking statements are subject to various factors, risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Further, as a result of these factors, risks and uncertainties, the forward-looking events may not occur. Relevant factors, risks and uncertainties include, but are not limited to, those discussed in Item 1. Description of Business, Item 1A. Risk Factors and elsewhere in this Report. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management’s beliefs and opinions as of the date of this Report. We are not obligated to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. See Forward-Looking Statements.

## **RESTATEMENTS**

The Company is restating its consolidated financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 in this amendment to the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2008. All amounts in Management’s Discussion and Analysis of Financial Condition and Results of Operations that are the subject of these restatements in the financial statements filed herewith have been adjusted, as appropriate, for the effects of the restatement. For a more detailed discussion of the restatements and their underlying circumstances, please refer to the Explanatory Note at the beginning of this Report and Note 22 of the Notes to the consolidated financial statements included in this Report.

## **GENERAL**

China Premium Lifestyle Enterprise, Inc. is in the business of importation, distribution and sales of premium brand luxury products in Hong Kong, Macau and China. Currently, the Company’s main business is its ownership interest in Technorient, a Hong Kong corporation. Through its subsidiaries, Technorient’s business consists mainly of the importation, distribution, and after-sales service of Italian “Ferrari” and “Maserati” branded cars and spare parts in Hong Kong, Macau and the distribution of “Ferrari” and “Maserati” branded cars and spare parts in China. In January 2008, the Company entered into an agreement with Falber Confezioni, S.r.l. to become the sole importer and distributor of “John Richmond”, “Richmond X” and “Richmond Denim” clothing for men and women in Hong Kong, Macau, Taiwan and in China commencing in the Spring/Summer season of 2008 and ending in the Fall/Winter season of 2012. In October 2007, King Express Group Limited, a wholly owned subsidiary of Technorient, was appointed by AgustaWestland as its exclusive distributor for the complete fleet of AgustaWestland commercial helicopters in Hong Kong and Macau. Currently the AgustaWestland helicopters business is in its preparatory stage with the likely arrival of the first helicopter anticipated at the beginning of 2010.

## TECHNORIENT OVERVIEW

Technorient is a corporation formed in Hong Kong on March 8, 1983. The Technorient Group was originally founded in 1974 by Herbert Adamczyk as German Motors, Technorient was formed as the holding company for Auto Italia, IML and German Motors in 1985. IML was appointed sole Ferrari importer and distributor for Hong Kong and Macau in 1992 (and exclusive importer for China between 1994 and 2004), and Auto Italia was appointed importer and distributor for Maserati in 1996, having been a dealer for the brand since 1994. In 2003, IML transferred its entire car trading business to Auto Italia, which in turn set up a new subdivision, Italian Motors, to continue the business.

IML is a 1% equity holder in the Shanghai JV. Because the structure of the Shanghai JV precludes its shareholders from direct ownership of licensed dealers in China and in view of Technorient's strategy to develop a luxury brand platform amongst its high net worth clients, Technorient's management subsequently approached Ferrari S.p.A. to dispose of IML's interest in the Shanghai JV so that Technorient could acquire an independent dealer network in China and, among other things, maintain its direct customer relationships. As part of this arrangement, Technorient would apply for and receive dealer licenses in key markets in China such as Dalian and Nanjing (already awarded) and would, in conjunction with Ferrari, continue to build its dealer network to capitalize on its client base in China and pursue its luxury brand platform.

Pursuant to the above, IML entered into an agreement with the Shanghai JV parties to dispose of its 29% equity interest in the Shanghai JV in July 2006. The disposal was completed in December 2007, after the disposal, IML continued to hold a 1% equity interest in the Shanghai JV. Beginning in 2006, the Technorient Group was able to act as an authorized dealer of Ferrari and Maserati cars in certain cities in China that were allocated in accordance with the Shanghai JV. In January 2006, IML formed Dalian Auto Italia in China to engage in the distribution of Ferrari and Maserati cars in Dalian, China, and IML owned a 95% equity interest in Dalian Auto Italia. On August 3, 2007, IML entered into an agreement to acquire the remaining 5% equity interest in Dalian Auto Italia. IML currently owns a 100% equity interest in Dalian Auto Italia.

On August 7, 2008, IML formed a wholly owned subsidiary named Nanjing Auto Italia Car Trading Co., Ltd. in China to engage in the distribution of Ferrari and Maserati cars in Nanjing.

Auto Italia and Italian Motors operate from eight locations in Hong Kong, Macau and China, incorporating sales, spare parts, service and body and paint shop facilities for Ferrari and Maserati. Management believes that the group has a well-established customer base comprised of high net worth individuals in Hong Kong and China and enjoys through its sales performance and reputation for first class facilities and customer service, an excellent relationship with senior management of both Ferrari S.p.A. and Maserati S.p.A.

On July 10, 2007, the Company entered into a non-binding Letter of Intent with Keyforce (BVI) Limited ("Keyforce (BVI)") (the "Letter of Intent"), a subsidiary of Wo Kee Hong (Holdings) Limited of Hong Kong, to begin negotiations to acquire from Keyforce (BVI) its luxury yacht distribution business. Keyforce (BVI) is the sole shareholder of Keyforce Holdings Limited ("Keyforce Holdings") and Noble Brand Investments Limited ("Noble Brand"). Keyforce Holdings is engaged in the distribution of luxurious Italian "Ferretti" motor yachts in China while Noble Brand distributes Taiwanese produced "Horizon" motor yachts in China, Hong Kong and Macau. The Letter of Intent expired on January 9, 2008. As of March 30, 2009, no binding agreements had been entered into, but discussions remain ongoing.

In October 2007, King Express was appointed by AgustaWestland as its exclusive distributor for the complete fleet of AgustaWestland commercial helicopters in Hong Kong and Macau. It also has the right to sell to the highly strategic Pearl River Delta region of Southern China on a non-exclusive basis. Currently the AgustaWestland helicopters business is in its preparatory stage with the likely arrival of the first helicopter anticipated at the beginning of 2010.

## **CPMM (ASIA) OVERVIEW**

On January 18, 2008, CPMM (Asia) Limited (“CPMM Asia”), a wholly-owned subsidiary of China Premium Lifestyle Enterprise, Inc., (the “Company”), entered into a License and Supply Agreement (the “Agreement”) with Akkurate Ltd. (“Akkurate”) and Falber Confezioni S.R.L. (“Falber”) for a term of 10 seasons through approximately January 31, 2013. The Agreement grants CPMM Asia the exclusive right to sell men’s and women’s Ready-to-Wear John Richmond, Richmond X, and Richmond Denim (“Products”) and to open points of sale identified by the signs of Products identified by the “John Richmond,” “Richmond,” “Richmond X,” and “Richmond Denim” marks (collectively, the “Signs”) in China, Hong Kong, Macau and Taiwan (the “Exclusivity Area”), which Products will be supplied by Falber. In addition, CPMM Asia has the right to use the Signs, and open and manage in the Exclusivity Area mono-brand shops identified by the Signs for the sale of the Products and other articles identified by the Signs. CPMM Asia also has the right to sublicense these rights to third parties. The first mono brand shop of “Richmond X” was opened in Hong Kong at the end of 2007. In early May 2008, CPMM Asia opened a second mono brand shop in Hong Kong.

## **CRITICAL ACCOUNTING POLICIES**

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant effect on our revenues, income or loss from operations, and net income or net loss, as well as on the value of certain assets on our balance sheet. We believe that there are several accounting policies that are critical to an understanding of our historical and future performance as these policies affect the reported amounts of revenues, expenses, and significant estimates and judgments applied by management. While there are a number of accounting policies, methods and estimates affecting our financial statements, the following policies are considered critical. In addition, you should refer to our accompanying audited consolidated balance sheet as of December 31, 2008 and 2007 and the audited consolidated statement of operations for the years ended December 31, 2008, 2007 and 2006, and the related notes thereto, for further discussion of our accounting policies.

### ***Trade receivables and provision for bad debts***

Trade receivables, net of provision for bad debts, are concentrated with the receivables from customers. We periodically record a provision for bad debts based on our judgment resulting from an evaluation of the collectibility of trade receivables by assessing, among other factors, our customer’s willingness or ability to pay, repayment history, general economic conditions, and the ongoing relationship with our customers. The total amount of this provision is determined by first identifying the receivables of customers that are considered to be a higher credit risk based on their current overdue accounts, difficulties in collecting from these customers in the past and their overall financial condition. For each of these customers, we estimate the extent to which the customer will be able to meet its financial obligation, and record a provision that reduces our trade receivables for that customer to the amount that is reasonably believed will be collected. Additional provisions may be required in the future if the financial condition of our customers or general economic conditions deteriorate, thereby reducing net earnings. Historically our provisions for bad debts have been sufficient to cover actual credit losses, and we believe that the provisions recorded at the balance sheet dates are sufficient.

### ***Inventory, net***

Inventory consists primarily of new and used vehicles held for sale, and vehicle parts and accessories, and are stated at the lower of cost or market. The new and used vehicles are valued using the specific identification method and the costs include acquisition and transportation expenses. The value of the parts and accessories are valued at the first-in, first-out method and are stated at the lower of cost or market. Fashion apparel inventory is valued at the first-in, first-out method and is stated at the lower of cost or market. Write-down of potentially obsolete or slow-moving inventory is recorded based on our analysis of inventory levels and assessment of estimated obsolescence based upon assumptions about future demand and market conditions. Historically our actual physical inventory count results have shown our estimates of write-down of potentially obsolete or slow-moving inventory to be reliable. However, additional provisions may be required in the future if general economic conditions deteriorate, thereby reducing net earnings.

### ***Share-based compensation***

We have adopted SFAS No. 123(R), *Share-Based Payment*, as amended and interpreted, for our share-based compensation. We utilized the modified prospective method approach, pursuant to which we record compensation for all share-based awards granted based on their fair value. The estimate of the fair value of the share-based compensation requires the input of subjective assumptions. Changes in the subjective assumptions could materially affect the estimate of fair value of share-based compensation; however, based on an analysis using changes in certain assumptions that could be reasonably possible in the near term, we believe the effect on the share-based compensation recognized would not have been material.

Stock-based compensation expense is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards and if factors change, we employ different assumptions. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees.

### ***Revenue recognition***

Revenue consists of sales of new and used vehicles, vehicle maintenance and repair services, and sales of vehicle parts and sales of fashion apparel. Revenues from the following components are recognized as follows:

- (i) Sales of new and used vehicles are recognized when a sales contract has been executed and the vehicle's title has passed.
- (ii) Sales of fashion apparel and accessories are recognized when the products have been delivered and title has passed.
- (iii) Sales of vehicle parts are recognized when the parts have been delivered and the title has passed.
- (iv) Vehicle maintenance and repair income is recognized when services are fully rendered.

### ***Impairment of long-lived assets***

We evaluate long-lived assets, including property and equipment, for impairment when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the use of the asset. The undiscounted cash flows are subject to estimations and assumptions made by us. If the estimated undiscounted cash flows change in the future, we may be required to reduce the carrying amount of an asset.

### ***Income taxes***

We are required to estimate income tax provisions and amounts ultimately payable or recoverable in numerous jurisdictions, including Hong Kong. We account for income taxes under the provision of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, ("SFAS 109") and related interpretations and guidance including FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("Fin 48"), resulting in two components of income tax expenses: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the relevant periods. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred income tax assets and liabilities are computed for differences between the financial statements carrying amounts and the tax bases of existing assets and liabilities that will result in taxable or deductible amount in the future, as well as from net operating loss and tax credit carryforwards, and are measured at the enacted tax laws and rates applicable in the years which the differences are expected to be recovered or settled. A deferred tax asset is recognized if it is more likely than not that a benefit will be realized. Otherwise, we will record a valuation allowance when the utilization of the deferred tax asset is uncertain. Additional timing differences, future earning trends and/or tax strategies could warrant a need for establishing an additional valuation allowance or a reserve.

## **Contingencies**

From time to time, we are involved in disputes, litigation and other legal proceedings. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. However, the actual liability in any such litigation may be materially different from our estimates, which could result in the need to record additional costs. Currently, we have no outstanding legal proceedings or claims, which require a loss contingency.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (“SFAS 159”), which will be effective for the Company beginning January 1, 2008. This standard permits entities to choose to measure many financial instruments and certain other items at fair value and consequently report unrealized gains and losses on such items in earnings. The Company elected not to adopt the fair value provisions of SFAS 159.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 141(R) on its financial position, cash flows and results of operations.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 160 on its financial position, cash flows and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. SFAS 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity’s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS 161 will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 161 on its financial position, cash flows and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force (“EITF”)), the American Institute of Certified Public Accountants (“AICPA”), and the SEC did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

## RESULTS OF OPERATIONS

Results of Operations comparison of year ended December 31, 2008 to year ended December 31, 2007, and comparison of year ended December 31, 2007 to year ended December 31, 2006

### SALES

|                   | Fiscal Year Ended<br>December 31, 2008 |                     | Fiscal Year Ended<br>December 31, 2007 |                     | Fiscal Year Ended<br>December 31, 2006 |                     |
|-------------------|--|---------------------|--|---------------------|--|---------------------|
|                   | Total Sales                            | % of Total<br>Sales | Total Sales                            | % of Total<br>Sales | Total Sales                            | % of Total<br>Sales |
| New Vehicles      | \$ 98.9M                               | 80%                 | \$ 79.3M                               | 74%                 | \$ 51.5M                               | 72%                 |
| Used Vehicles     | \$ 16.5M                               | 13%                 | \$ 20.7M                               | 20%                 | \$ 14.1M                               | 20%                 |
| Parts and Service | \$ 7.3M                                | 6%                  | \$ 6.5M                                | 6%                  | \$ 5.9M                                | 8%                  |
| Fashion Apparel   | \$ 0.9M                                | 1%                  | -                                      | -                   | -                                      | -                   |
| <b>Total</b>      | <b>\$ 123.6M</b>                       | <b>100%</b>         | <b>\$ 106.5M</b>                       | <b>100%</b>         | <b>\$ 71.5M</b>                        | <b>100%</b>         |

Sales mainly consist of sales of new and used vehicles, and sales of parts and services for vehicle maintenance and repair and sale of fashion apparel.

Net sales increased \$17.1 million or 16%, from 2007 to 2008, while net sales increased \$35.0 million or 49%, from 2006 to 2007. The increase from 2007 to 2008 was primarily attributable to our new vehicles trading segment.

New vehicle sales increased \$19.6 million or 25% from 2007 to 2008 while the quantity of new vehicles sold increased 30% for the same period. This was primarily due to the launch of the Ferrari 8-cylinder sports car, the “430 Scuderia” and an increase in deliveries of the Maserati 8-cylinder two-door 2+2 coupe, the “GranTurismo”, which was launched in the last quarter of 2007. The used vehicle sales decreased approximately \$4.2 million or 20% from 2007 to 2008 while the quantity of used vehicles sold decreased 28% for the same period.

The increase in parts and service sales from 2007 to 2008 was mainly attributed to the increase of deliveries of Ferrari and Maserati cars to customers during the last few years, for which our parts and services were used to maintain.

The increase in net sales from 2006 to 2007 was mainly due to the increase of deliveries of the Ferrari 8-cylinder sports car, the F430 and F430 Spider, and the 12-cylinder 2-seater sports car, the F599 GTB Fiorano. For Maserati, the launch of the “GranTurismo” also fueled the growth of sales in 2007. New vehicles sales increased \$27.8 million or 54% from 2006 to 2007 while the quantity of new vehicles sold increased 37% for the same period. Used vehicles sales increased \$6.6 million or 47% from 2006 to 2007 while the quantity of used vehicles sold increased 6% for the same period. The increase was primarily due to an increase in new car sales resulting in increased used car business in the form of trade-ins, and because more efforts were made by the Company to increase its used car sales.

The increase in parts and service sales from 2006 to 2007 was mainly attributed to the increase of deliveries of Ferrari and Maserati cars to customers during the last few years, for which our parts and services were used to maintain.

### COST OF SALES

Cost of sales for 2008 increased \$12.9 million or 14%, from \$89.8 million in 2007 to \$102.7 million for 2008, which was consistent with the increase in Company’s revenues during this period. Cost of sales increased \$30.8 million or 52%, from \$59 million in 2006 to \$89.8 million for 2007. The increase in our costs of sales from 2006 to 2007 was also consistent with the increase in Company’s revenues during the same period.

## **GROSS PROFIT**

Gross profit margin for 2008 increased by 1.2% to 16.9% from 15.7% in 2007 and the gross profit increased by \$4.2 million or 25%, from \$16.7 million in 2007 to \$20.9 million in 2008. This increase is mainly attributed to the new and used vehicles trading segment. The increase in gross profit margin was mainly due to deliveries of the “GranTurismo” and sales of certain highly acclaimed used cars including F599 GTB Fiorano, F430 Spider and Maserati GranTurismo.

Gross profit increased from \$12.6 million in 2006 to \$16.7 million in 2007, an increase of \$4.1 million or 33%. Gross margin was 15.7% for 2007, a decrease of 1.9% from 17.6% for the same period of 2006. The increase in gross profit was consistent with the growth of our Company’s sales.

## **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses, or “S,G&A” expenses, includes salaries and related staffing expenses, facilities rent, rate and building management fees, legal, accounting, professional services, general corporate expenses and marketing expenses,.

“S,G&A” expenses increased by \$5.2 million, or 37.5% in 2008, from \$13.8 million in 2007 to \$19.0 million in 2008. S,G&A expenses also increased by \$2.9 million or 26.1% in 2007 compared to our 2006 S,G&A expenses, which was \$10.9 million. The increase in S,G&A expenses from 2006 to 2008 was primarily due to the growth of revenues and rapid business expansion which was reflected in our increased staff cost, rental expenses, depreciation and marketing expenses. Legal, professional and audit fees increased by approximately \$377,000 or 41.7% in 2008, from \$904,000 in 2007 to \$1,281,000 in 2008. The increase was mainly due to the professional fees incurred for US SEC reporting and compliance obligations as well as compliance with Section 404 of the Sarbanes- Oxley Act. Our legal, professional and audit fees also increased by approximately \$113,000 or 14.3% in 2007, from \$791,000 in 2006 to \$904,000 in 2007.

Due to the rapid business expansion, our staffing cost increased from approximately \$4.9 million for 2007 to approximately \$6.0 million for 2008. Our staffing costs also increased by \$1.7 million or 53.1% in 2007 compared to our 2006 staffing cost of approximately \$3.2 million.

Our rent, rate and building management fees increased from approximately \$1.3 million for 2006 to \$1.4 million in 2007, and such fees further increased to approximately \$3.7 million for 2008. The increase in such fees were mainly due to development of the fashion apparel business and motor business as well as the renewal of several existing tenancy agreement. Our depreciation expense increased from \$722,000 in 2007 to \$827,000 in 2008, an increase of approximately \$105,000. Depreciation expense also increased by \$153,000 in 2007 compared to our 2006 depreciation expense, which was approximately \$569,000 for 2006. The increase in depreciation from 2006 to 2008 was consistent with the expansion of our business.

Further our marketing expenses increased by \$792,000, or 72% in 2008, from \$1,107,000 for 2007 to \$1,899,000 in 2008. Marketing expenses increased by \$273,000, or 32.8% in 2007 compared to our 2006 marketing expenses of \$834,000. The increase in marketing expenses from 2007 to 2008 was mainly due to expenditures relating to the grand opening event held in Nanjing, China in November 2008 for the Company’s second dealership in China. The increase in marketing expenses from 2006 to 2007 was primarily due to the increased exhibition expenses, which increased from \$434,000 for 2006 to \$790,000 in 2007. This was mainly due to expenditures relating to an event held in Hong Kong during February 2007 for the celebration of Ferrari’s 60th anniversary, an event held in Macau during July 2007 for the launch of Maserati GranTurismo and an event held in Hong Kong during December 2007 for the launch of Ferrari 430 Scuderia.

## **OTHER INCOME (EXPENSES), NET**

Other income increased from approximately \$5,000 for 2007 to \$997,000 for 2008. The increase was primarily due to the combination of decreased interest expense, share of result of an associate and increased interest income and commission income. The interest income and commission income increased from \$189,000 for 2007 to \$486,000 for 2008. Interest expenses decreased from approximately \$771,000 for 2007 to approximately \$569,000 for 2008. The Company had completed the disposal of 29% equity interest in the Shanghai JV in December 2007, no share of loss of that associate was incurred in 2008. In 2007, the share of loss of an associate was approximately \$150,000.



Other income decreased from approximately \$151,000 for 2006 to \$5,000 for 2007. The decrease was primarily due to the combination of increased interest expense, share of loss of an associate and loss on disposal of an associate offset by increased interest income and fees charged to affiliated companies. The interest income and management fee charged to affiliate companies increased from \$20,000 for 2006 to \$759,000 for 2007. Interest expenses increased from approximately \$433,000 for 2006 to approximately \$771,000 for 2007. The funds from which our increased interest expenses were incurred were used for working capital purposes, as well as new investment in property and equipment to support the expansion of our business. The share of loss of an associate increased from a profit of \$359,000 in 2006 to a loss of \$150,000 in 2007. The Company had completed the disposal of 29% equity interest in the Shanghai JV in December 2007 and the loss of this disposal was \$252,000.

## **MINORITY INTERESTS**

Minority interests for the periods presented represent outside ownership interests in subsidiaries that are consolidated with the parent for financial reporting purposes.

## **INCOME TAX**

Income tax expenses increase to approximately \$955,000 in 2008 compared to approximately \$539,000 in 2007 and \$271,000 in 2006. The increase of the tax expenses were due to the improved result from the motor business. The tax expenses for 2007 were as a result of the utilization of the deferred tax asset recognized in 2004. The income tax expenses for 2006 were a combined result of the utilization of the deferred tax asset recognized in 2004 and the tax loss carryforwards.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Our operations generated cash resources of approximately \$761,000 for the year ended December 31, 2008, compared to approximately \$10,375,000 for the year ended December 31, 2007, primarily as a net result of the following:

- For the year ended December 31, 2008, cash flow generated from sales was approximately \$3,731,000 compared to approximately \$4,301,000 for the year ended December 31, 2007, a decrease of \$570,000.
- For the year ended December 31, 2008, accounts receivable increased by approximately \$1,295,000, primarily due to the remarkable sales recognized in December. Sales for December 2008 was increased by approximately \$10,502,000 to approximately \$25,220,000 from approximately \$14,718,000 for December 2007.
- For the year ended December 31, 2008, our inventory increased by approximately \$3,512,000. The increase was consistent with our business growth especially in the car trading segment. The inventory conversion period for 2008 increased from 1.2 months to 1.5 months, due to the start-up of the fashion business.
- For the year ended December 31, 2008, the increase or decrease of various current operating assets and liabilities, included in the aforementioned items, resulted in an aggregate decrease of cash generated by operations of approximately \$2,969,000.

## **CASH FLOWS FROM INVESTING ACTIVITIES**

For the year ended December 31, 2008 we expended net cash of approximately \$4,800,000 in investing activities, including a \$3,273,000 increase in restricted cash for the trade finance facilities enhancement in order to support the growth of our business and a \$1,862,000 purchase of property and equipment, offset by \$338,000 proceeds from disposal of property and equipment. For the year ended December 31, 2007, we utilized approximately \$333,000 in investing activities that was the combined effect of increase in restricted cash, acquisition of property and equipment and proceeds received from the disposal of interest in an associate.

## **CASH FLOWS FROM FINANCING ACTIVITIES**

For the year ended December 31, 2008, we made new net drawdown amounting to approximately \$3,224,000 and received approximately \$55,000 advances from affiliates. For the year ended December 31, 2007, the Company repaid net amount of approximately \$1,962,000 of outstanding debt and provided approximately \$4,972,000 in advances to affiliates and an associate.

## **WORKING CAPITAL REQUIREMENTS**

Current assets exceeded current liabilities at December 31, 2008 by approximately \$7,946,000 an increase of \$1,274,000 from December 31, 2007. The ratio of our current assets to our current liabilities was 1.18 to 1 at December 31, 2008 and it was 1.2 to 1 at December 31, 2007. At December 31, 2008, our current assets of approximately \$52.7 million included approximately \$12.7 million in inventory that was funded by our operating cash flow and trade finance facilities. Our current liabilities of approximately \$45 million included customer deposits of approximately \$19.9 million. Given the exclusive nature and extremely limited production of Ferrari cars, our customers are willing to place material deposits in advance to the Company in order to secure their new car orders.

## **EFFECTS OF INFLATION**

We believe that inflation rates over the last few years have not had a significant impact on revenues or profitability. We do not expect inflation to have any near-term material effects on the sale of our products and services, however, we cannot be sure there will be no such effect in the future.

## **SEASONALITY**

Our business is modestly seasonal overall. Our operations generally experience higher volumes of vehicle sales in the fourth quarter of each year due in part to manufacturers' production and delivery patterns.

## **EFFECT OF FLUCTUATION IN FOREIGN EXCHANGE RATES**

Information regarding the effects of the fluctuation in foreign exchange rates on our Company is included in Item 7A below.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## **CONTRACTUAL OBLIGATIONS**

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

The following table summarizes our contractual obligations as of December 31, 2008 (in thousands):

| CONTRACTUAL OBLIGATIONS           | PAYMENT DUE BY PERIOD |                  |           |           |                   |
|-----------------------------------|-----------------------|------------------|-----------|-----------|-------------------|
|                                   | TOTAL                 | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS |
| Short-Term Borrowings Obligations | 9,935                 | 9,935            | —         | —         | —                 |
| Long-Term Borrowings Obligations  | —                     | —                | —         | —         | —                 |
| Operating Lease Obligations       | 21,306                | 3,976            | 7,839     | 3,518     | 5,973             |
| Total                             | 31,241                | 13,911           | 7,839     | 3,518     | 5,973             |

Our borrowings, by pledge of vehicles and certain bank deposits were mainly used to finance the purchase of vehicles. The interest rates are generally based on the bank's best lending rate in Hong Kong plus a certain percentage. The range of effective interest rate on the borrowings is from 4.25% to 6.25% per annum.

Our operating lease obligations include minimum lease payments under our non-cancelable operating leases for the Company's sales and after-sale facilities. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change, such as an increase in our employee headcount, requires us to exit an office facility early or expand our occupied space.

For related party transactions, see Part III, Item 13. Certain Relationships and Related Transactions and Director Independence, of this Report.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We currently do not hold or use any derivative or other financial instruments that expose us to substantial market risk and we have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, trade receivables and payables, bills payable, other current assets, other current liabilities, and bank borrowings. We consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents. However, in order to manage the foreign exchange risks, we may engage in hedging activities to manage our financial exposure related to currency exchange fluctuation. In these hedging activities, we might use fixed-price, forward and option contracts when feasible.

*Interest Rates*. Our exposure to market risk for changes in interest rates relates primarily to our short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of the Company's securities. At December 31, 2008, we had approximately \$5,827,000 in cash and cash equivalents. A hypothetical 10% increase or decrease in interest rates would not have a material impact on our earnings or loss, or the fair market value or cash flows of these instruments.

*Foreign Exchange Rates*. While our reporting currency is the U.S. dollar, to date virtually all of our revenues and costs are denominated in Hong Kong Dollars and a significant portion of our assets and liabilities is denominated in Hong Kong Dollars. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be impacted by fluctuations in the exchange rate between U.S. Dollars and Hong Kong Dollars. If the Hong Kong Dollar depreciates against the U.S. Dollar, the value of our Hong Kong Dollar revenues and assets as expressed in our U.S. Dollar financial statements will decline. Thus, our revenues and operating results may be impacted by exchange rate fluctuations of the Hong Kong Dollar. While we may choose to do so in the future, the availability and effectiveness of any hedging transactions may be limited and we may not be able to successfully hedge our exchange rate risks. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuation for the year ended December 31, 2008 was not material to us.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(THE COMPANY'S FINANCIAL STATEMENTS COMMENCE ON THE FOLLOWING PAGE)

**CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2008 AND 2007**

**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of  
China Premium Lifestyle Enterprise, Inc.

We have audited the accompanying consolidated balance sheets of China Premium Lifestyle Enterprise, Inc. and subsidiaries (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders’ equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, the Company has restated its consolidated financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006.

/s/ HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants

Hong Kong

March 31, 2009, except for the effect of the restatement discussed in Note 22 to the consolidated financial statements, for which the date is May 17, 2010.

**CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31,**

|  | <b>2008</b><br>(Restated)   | <b>2007</b><br>(Restated)   |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>  |                             |                             |
| Current assets:  |                             |                             |
| Cash and cash equivalents  | \$ 5,827,132                | \$ 6,583,566                |
| Restricted cash  | 4,427,439                   | 1,154,226                   |
| Trade receivables, net of provision  | 11,761,228                  | 10,440,455                  |
| Inventory, net   | 12,670,567                  | 9,162,934                   |
| Prepayments  | 483,952                     | 133,863                     |
| Other current assets   | 6,419,106                   | 2,931,877                   |
| Amounts due from affiliates  | 11,147,103                  | 10,226,161                  |
| Total current assets   | <u>52,736,527</u>           | <u>40,633,082</u>           |
| Property and equipment, net  | 2,905,927                   | 2,050,850                   |
| Goodwill   | 39,734                      | 39,436                      |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 55,682,188</u></b> | <b><u>\$ 42,723,368</u></b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                             |                             |
| Current liabilities:   |                             |                             |
| Short-term borrowings  | \$ 9,935,435                | \$ 5,274,838                |
| Obligations under finance lease – current portion  | -                           | 110,996                     |
| Bills payable  | 1,333,502                   | 2,659,191                   |
| Trade payables   | 3,795,196                   | 1,063,265                   |
| Deposits received  | 19,887,368                  | 16,306,698                  |
| Other current liabilities  | 7,405,454                   | 7,088,429                   |
| Amounts due to affiliates  | 2,433,340                   | 1,457,134                   |
| <b>TOTAL LIABILITIES</b>   | <b><u>44,790,295</u></b>    | <b><u>33,960,551</u></b>    |
| Minority interests   | 7,104,333                   | 4,918,636                   |
| Commitments and Contingencies  |                             |                             |
| Stockholders' equity   |                             |                             |
| Common stock   |                             |                             |
| Authorized: 100,000,000 common stock, par value \$0.005  |                             |                             |
| Issued and outstanding: 23,323,860 shares at December 31, 2008; (23,323,860 shares at December 31, 2007) |                             |                             |
|  | 116,619                     | 116,619                     |
| Additional paid-in-capital   | 4,119,108                   | 4,119,108                   |
| Accumulated other comprehensive income   | 247,279                     | 118,892                     |
| Accumulated deficit  | (695,446)                   | (510,438)                   |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b><u>3,787,560</u></b>     | <b><u>3,844,181</u></b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b><u>\$ 55,682,188</u></b> | <b><u>\$ 42,723,368</u></b> |

The accompanying notes are an integral part of these consolidated financial statements.

CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31,

|  | 2008<br>(Restated)   | 2007<br>(Restated)  | 2006<br>(Restated)  |
|--|----------------------|---------------------|---------------------|
| <b>Sales:</b>  |                      |                     |                     |
| New and used vehicles                                      | \$ 115,351,403       | \$ 99,968,991       | \$ 65,625,911       |
| Parts and services and others                              | 7,297,701            | 6,534,311           | 5,908,679           |
| Fashion apparel and accessories                            | 930,411              | 9,169               | -                   |
| <b>Net sales</b>   | <b>123,579,515</b>   | <b>106,512,471</b>  | <b>71,534,590</b>   |
| <b>Cost of sales:</b>                                      |                      |                     |                     |
| New and used vehicles                                      | (100,359,636)        | (87,694,346)        | (56,865,472)        |
| Parts and services and others                              | (1,715,857)          | (2,071,029)         | (2,095,726)         |
| Fashion apparel and accessories                            | (581,167)            | (3,083)             | -                   |
| <b>Total cost of sales</b>                                 | <b>(102,656,660)</b> | <b>(89,768,458)</b> | <b>(58,961,198)</b> |
| <b>Gross profit:</b>                                       |                      |                     |                     |
| New and used vehicles                                      | 14,991,767           | 12,274,645          | 8,760,439           |
| Parts and services and others                              | 5,581,844            | 4,463,282           | 3,812,953           |
| Fashion apparel and accessories                            | 349,244              | 6,086               | -                   |
| <b>Total gross profit</b>                                  | <b>20,922,855</b>    | <b>16,744,013</b>   | <b>12,573,392</b>   |
| Selling, general and administrative expenses               | (18,964,700)         | (13,788,348)        | (10,933,655)        |
| <b>Operating earnings</b>                                  | <b>1,958,155</b>     | <b>2,955,665</b>    | <b>1,639,737</b>    |
| <b>Other income (expenses)</b>                             |                      |                     |                     |
| Interest expenses and other finance costs                  | (569,473)            | (770,521)           | (432,774)           |
| Share of result of an associate                            | -                    | (149,871)           | 358,792             |
| Other income   | 1,566,567            | 1,178,167           | 224,489             |
| Loss on disposal of interest in an associate               | -                    | (252,305)           | -                   |
| Total other income (expenses)                              | 997,094              | 5,470               | 150,507             |
| <b>Earnings before minority interests and income taxes</b> | <b>2,955,249</b>     | <b>2,961,135</b>    | <b>1,790,244</b>    |
| Provision for income taxes                                 | (954,560)            | (538,579)           | (270,514)           |
| <b>Earnings before minority interests</b>                  | <b>2,000,689</b>     | <b>2,422,556</b>    | <b>1,519,730</b>    |
| Minority interests   | (2,185,697)          | (1,600,294)         | (960,666)           |
| <b>Net (loss) earnings</b>                                 | <b>\$ (185,008)</b>  | <b>\$ 822,262</b>   | <b>\$ 559,064</b>   |
| <b>(Loss) Earnings per share</b>                           |                      |                     |                     |
| <b>Basic</b>   | <b>\$ (0.0079)</b>   | <b>\$ 0.0411</b>    | <b>\$ 0.0286</b>    |
| <b>Diluted</b>   | <b>\$ (0.0079)</b>   | <b>\$ 0.0411</b>    | <b>\$ 0.0286</b>    |
| <b>Weighted average number of shares outstanding</b>       |                      |                     |                     |
| Basic  | 23,323,860           | 20,019,112          | 19,556,788          |

|         |                   |                   |                   |
|---------|-------------------|-------------------|-------------------|
| Diluted | <u>23,323,860</u> | <u>20,019,112</u> | <u>19,556,788</u> |
|---------|-------------------|-------------------|-------------------|

**The accompanying notes are an integral part of these consolidated financial statements**



CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

|   | Preferred stock |        | Common stock |              | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity | Comprehensive income (loss) |
|---|-----------------|--------|--------------|--------------|----------------------------|---------------------|--|----------------------------|-----------------------------|
|   | Shares          | Amount | Shares       | Amount       |                            |                     |  |                            |                             |
| Balance at December 31, 2005  | -               | \$ -   | 92,337       | \$ 5,919,064 | \$ 2,440,633               | \$ (3,860,743)      | \$ 46,176                              | \$ 4,545,130               |                             |
| Effect of corporate reorganization:   |                 |        |              |              |                            |                     |  |                            |                             |
| Recapitalization  | -               | -      | 5,153,499    | (5,892,803)  | (963,191)                  | 1,968,979           | -                                      | (4,887,015)                |                             |
| Issuance of common stocks in share relation exchange pursuant to a reformation agreement (Restated) | -               | -      | 14,400,000   | 72,000       | 2,485,024                  | -                   | -                                      | 2,557,024                  |                             |
| Issuance of common stock pursuant to a consulting agreement   | -               | -      | 140,000      | 700          | 174,300                    | -                   | -                                      | 175,000                    |                             |
| Net earnings  | -               | -      | -            | -            | -                          | 559,064             | -                                      | 559,064                    | \$ 559,064                  |
| Other comprehensive income:   |                 |        |              |              |                            |                     |  |                            |                             |
| Translation adjustments   | -               | -      | -            | -            | -                          | -                   | 5,331                                  | 5,331                      | 5,331                       |
| Balance at December 31, 2006 (Restated)   | -               | -      | 19,785,836   | 98,961       | 4,136,766                  | (1,332,700)         | 51,507                                 | 2,954,534                  | \$ 564,395                  |
| Issuance of common stocks in share relation exchange pursuant to a reformation agreement (Restated) | -               | -      | 3,537,977    | 17,690       | (17,690)                   | -                   | -                                      | -                          |                             |
| Rounding adjustment   | -               | -      | 47           | (32)         | 32                         | -                   | -                                      | -                          |                             |
| Net earnings  | -               | -      | -            | -            | -                          | 822,262             | -                                      | 822,262                    | \$ 822,262                  |
| Other comprehensive income:   |                 |        |              |              |                            |                     |  |                            |                             |
| Other comprehensive income released upon disposal of interest in an associate                       | -               | -      | -            | -            | -                          | -                   | (137,510)                              | (137,510)                  | (137,510)                   |
| Translation adjustments   | -               | -      | -            | -            | -                          | -                   | 204,895                                | 204,895                    | 204,895                     |
| Balance at December 31, 2007 (Restated)   | -               | -      | 23,323,860   | 116,619      | 4,119,108                  | (510,438)           | 118,892                                | 3,844,181                  | \$ 889,647                  |
| Net loss  | -               | -      | -            | -            | -                          | (185,008)           | -                                      | (185,008)                  | \$ (185,008)                |
| Other comprehensive income:   |                 |        |              |              |                            |                     |  |                            |                             |
| Translation adjustments   | -               | -      | -            | -            | -                          | -                   | 128,387                                | 128,387                    | 128,387                     |
| Balance at December 31, 2008 (Restated)   | -               | \$ -   | 23,323,860   | \$ 116,619   | \$ 4,119,108               | \$ (695,446)        | \$ 247,279                             | \$ 3,787,560               | \$ (56,621)                 |

The accompanying notes are an integral part of these consolidated financial statements.

CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

|   | <u>2008</u>         | <u>2007</u>         | <u>2006</u><br>(Restated) |
|---|---------------------|---------------------|---------------------------|
| <b>Cash flows from operating activities:</b>  |                     |                     |                           |
| Net (loss) earnings   | \$ (185,008)        | \$ 822,262          | \$ 559,064                |
| Adjustments to reconcile net (loss)/earnings to net cash provided by operating activities |                     |                     |                           |
| Minority interests  | 2,185,697           | 1,600,294           | 960,666                   |
| Depreciation and amortization   | 826,722             | 722,361             | 568,655                   |
| Gain on disposal of property and equipment  | (132,041)           | (1,929)             | -                         |
| Loss on disposal of investment in associate   | -                   | 252,305             | -                         |
| Provision (written back) for bad debts and bad debts written off                          | (25,697)            | 63,498              | 41,016                    |
| Provision (written back) for inventory  | 4,132               | (8,976)             | -                         |
| Equity earnings of an associate   | -                   | 149,871             | (358,792)                 |
| Provision for income taxes  | 954,560             | 538,579             | 270,514                   |
| Common stock issued for services received   | -                   | -                   | 175,000                   |
| Other non-cash items  | 102,174             | 162,929             | 27,627                    |
| Changes in operating assets and liabilities:  |                     |                     |                           |
| Trade receivables   | (1,295,076)         | 742,668             | (5,892,474)               |
| Other current assets  | (3,837,318)         | (361,076)           | 1,997,229                 |
| Inventory   | (3,511,765)         | (2,347,071)         | (1,757,085)               |
| Trade payables  | 2,731,931           | 582,406             | 335,229                   |
| Other current liabilities   | 2,943,135           | 7,457,058           | 5,253,962                 |
| Net cash provided by operating activities   | <u>761,446</u>      | <u>10,375,179</u>   | <u>2,180,611</u>          |
| <b>Cash flows from investing activities:</b>  |                     |                     |                           |
| Acquisition of additional interest in a subsidiary  | -                   | (39,436)            | -                         |
| Cash acquired upon reverse merger   | -                   | -                   | 1,272                     |
| Increase in restricted cash   | (3,273,213)         | (768,597)           | (385,629)                 |
| Purchases of property, plant and equipment  | (1,861,611)         | (417,995)           | (890,769)                 |
| Proceeds from disposal of property and equipment  | 337,768             | 22,441              | -                         |
| Proceeds from disposal of interest in an associate  | -                   | 870,000             | -                         |
| Net cash used in investing activities   | <u>(4,797,056)</u>  | <u>(333,587)</u>    | <u>(1,275,126)</u>        |
| <b>Cash flows from financing activities:</b>  |                     |                     |                           |
| Advances to affiliates  | 55,264              | (4,265,661)         | (4,455,496)               |
| Repayments from (advances to) an associate  | -                   | (706,443)           | 85,876                    |
| Increase (decrease) in short-term borrowings and bills payable                            | 3,223,912           | (1,961,557)         | 6,487,016                 |
| Net cash provided by (used in) financing activities                                       | <u>3,279,176</u>    | <u>(6,933,661)</u>  | <u>2,117,396</u>          |
| (Decrease) increase in cash and cash equivalents  | (756,434)           | 3,107,931           | 3,022,881                 |
| Cash and cash equivalents at beginning of the period                                      | 6,583,566           | 3,475,635           | 452,754                   |
| Cash and cash equivalents at end of the period  | <u>\$ 5,827,132</u> | <u>\$ 6,583,566</u> | <u>\$ 3,475,635</u>       |
| <b>Supplemental disclosure of cash flows information:</b>                                 |                     |                     |                           |
| Cash paid for:  |                     |                     |                           |
| Interest  | \$ 569,473          | \$ 770,521          | \$ 432,774                |
| Income taxes  | <u>\$ 701,984</u>   | <u>\$ -</u>         | <u>\$ -</u>               |
| <b>Supplemental disclosure of non-cash information:</b>                                   |                     |                     |                           |
| Common stock issued for consulting services received                                      | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ 175,000</u>         |

**The accompanying notes are an integral part of these consolidated financial statements.**

## CHINA PREMIUM LIFESTYLE ENTERPRISE, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

##### *Background*

China Premium Lifestyle Enterprise, Inc. was formed in the State of Nevada on April 19, 2004.

On September 5, 2006 and the Reformation Agreement, the Company acquired 49% of Technorient Limited, a Hong Kong Corporation, (“Technorient”) through a reverse merger, with the result that the shareholders of Technorient became the beneficial owners of approximately 49% of our stock. The transaction was completed pursuant to a Share Exchange Agreement and was determined through arms-length negotiations between the Company and Technorient. On May 5, 2009, the Company entered into a Reformation Agreement with certain of the parties to the Share Exchange Agreement.

The share exchange resulted in a change of control whereby the Company issued (i) an aggregate of 89,689,881 common shares in exchange for 49% of the issued and outstanding shares of Technorient and (ii) an aggregate of 21,629,337 shares of common stock in connection with certain debt conversions. The 89,689,881 shares were issued in two tranches pursuant to the terms and conditions of the Share Exchange Agreement and the Reformation Agreement between the Company and Technorient: (i) 72,000,000 shares were issued at closing of the share exchange on September 5, 2006, and (ii) an additional 3,537,977 shares were issued on December 7, 2007 upon the effectiveness of and giving effect to the Company’s one-for-five reverse stock split (which shares would have been equal to 17,689,881 shares on a pre-reverse split basis).

The transaction was accounted for as a reverse acquisition, whereby Technorient is the accounting acquirer and our operations now represent those of Technorient, which is physically located in Hong Kong. The transaction resulted in the management of Technorient having control of the operating, investing and financing decisions of the combined enterprise after the transaction. The accompanying consolidated financial statements reflect the historical financial statements of Technorient, the accounting acquirer, as adjusted for the effects of the exchange of shares on its equity accounts, the inclusion of net liabilities of the accounting subsidiaries as of the date of the share exchange and the inclusion of the accounting subsidiary’s results of operations from that date.

To effect the reverse acquisition, the board of directors of the Company, by unanimous written consent, approved a change of the Registrant’s fiscal year on December 15, 2006. The new fiscal year begins on January 1 and ends on December 31 of each year, effective with the year ending December 31, 2006. The December 31 fiscal year end is also the fiscal year end of Technorient. Additionally, the Company’s board of directors authorized a name change to China Premium Lifestyle Enterprise, Inc.

##### *Background of Technorient*

Technorient is a corporation formed in Hong Kong. It is an investment holding company. Through its subsidiaries, Technorient offers a diversified range of automotive products and services including sales of new and used vehicles, provision of vehicle maintenance and repair services, and sales of vehicle parts. Technorient’s operations are located primarily in Hong Kong.

#### NOTE 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

##### *Basis of presentation*

The consolidated financial statements include the accounts of China Premium Lifestyle Enterprise, Inc. and its subsidiaries. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. All significant intercompany transactions and balances have been eliminated. The accompanying consolidated financial statements have been restated as described in Note 22.

### *Foreign currency translation*

The reporting and functional currency of the Company is the U.S. dollar. The functional currency of its subsidiaries with foreign operations is the local currency. The Company's foreign operations results for the period are translated into the reporting currency of the Company using the average exchange rates that prevailed during the period. The balance sheet items of the Company's foreign operations are translated into the reporting currency of the Company using period end exchange rates. Cumulative translation adjustments relating to foreign operations are recorded in accumulated other comprehensive income, a separate component of stockholders' equity.

### *Use of estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes its best estimate of the outcome for these items based on historical trends and other information available when the consolidated financial statements are prepared. Changes in estimates are recognized in accordance with the accounting principles for the estimate, which is typically in the period when new information becomes available to management. Management believes the most significant estimates affecting the consolidated financial statements include provision for bad debts, provision for inventory write-off, and accounting for income taxes. Actual results could differ from those estimates.

### *Cash and cash equivalents*

The Company considers all non-restricted highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. For purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, time deposits, and cash equivalents with a maturity of three months or less from the date of investment.

### *Restricted cash deposits*

Restricted cash deposits represent pledged bank deposits to secure certain banking facilities utilized by the Company and certain of its fellow subsidiaries.

### *Trade receivables and provision for bad debts*

Trade receivables, net of provision for bad debts, are concentrated with the receivables from customers. The Company periodically records a provision for bad debts based on management's judgment resulting from an evaluation of the collectibility of trade receivables by assessing, among other factors, our customer's willingness or ability to pay, repayment history, general economic conditions, and the ongoing relationship with our customers. The total amount of this provision is determined by first identifying the receivables of customers that are considered to be a higher credit risk based on their current overdue accounts, difficulties in collecting from these customers in the past and their overall financial condition. For each of these customers, the Company estimates the extent to which the customer will be able to meet its financial obligations and records a provision that reduces our trade receivables for that customer to the amount that is reasonably believed will be collected. Additional provision may be required in the future if the financial condition of our customers or general economic conditions deteriorate, thereby reducing net earnings. The allowance for doubtful accounts at December 31, 2008 was \$51,816 (2007: \$77,052).

### *Inventory, net*

Inventory consists primarily of new and used vehicles held for sale, fashion apparel and vehicle parts and accessories, and are stated at the lower of cost or market. The new and used vehicles are valued using the specific identification method and the costs include acquisition and transportation expenses. The value of the parts and accessories are valued at the first-in, first-out method and are stated at the lower of cost or market. Fashion apparel inventory is valued at the first-in, first-out method and is stated at the lower of cost or market. Write-down of potentially obsolete or slow-moving inventory is recorded based on management's analysis of inventory levels and our assessment of estimated obsolescence based upon assumptions about future demand and market conditions. Further write-down of the value may be required in the future if there is rapid technological and structural change in the industry. The provision for inventory as at December 31, 2008 was \$4,151 (2007: Nil).

### *Fair value of financial instruments*

For certain of the Company's financial instruments, including cash and cash equivalents, trade receivables and payables, bills payable, other current assets, other current liabilities, and short-term bank borrowings, the carrying amounts approximate their fair values due to their short maturities.

### *Property and equipment, net*

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditures for major additions and improvements are capitalized and any minor replacements, maintenance and repairs are expensed as incurred. When property and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets at the time of disposal and is recognized in the consolidated statement of operations. Depreciation is provided over the estimated useful lives of the assets using the straight-line method, except for leasehold improvements that are amortized over the estimated useful life or the respective lease term, whichever is shorter. The estimated useful lives of the assets are:

|  |         |
|--|---------|
| Leasehold improvements                   | 5 years |
| Plant and machinery                      | 5 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles                           | 4 years |

Depreciation charged to expense for the years ended December 31, 2008, 2007, and 2006 were \$826,722, \$722,361 and \$568,655, respectively.

The Company continually evaluates property and equipment, including leasehold improvements, to determine whether events and circumstances have occurred that may warrant revision of the estimated useful life or whether the remaining balance should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the property and equipment in assessing whether an asset has been impaired. The Company measures impairment losses based upon the amount by which the carrying amount of the asset exceeds the fair value. Fair values generally are estimated using prices for similar assets and/or discounted cash flows.

### *Goodwill*

Goodwill represents the cost of an acquired business or equity interest in excess of the fair value of the net assets acquired. Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or when events or circumstances indicate a potential impairment, using a fair-value-based approach. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. At December 31, 2007 and 2008, goodwill was tested for impairment and no impairment was recognized.

### *Revenue recognition*

Revenue consists of sales of new and used vehicles, vehicle maintenance and repair services, sales of vehicle parts and sales of fashion apparel. Revenues from the following components are recognized as follows:

- (i) Sales of new and used vehicles are recognized when a sales contract has been executed and the vehicle's title passed.
- (ii) Sales of fashion apparel and accessories are recognized when the products have been delivered and the title has passed.

- (iii) Sales of vehicle parts are recognized when the parts have been delivered and the title has passed.
- (iv) Vehicle maintenance and repair income is recognized when services are fully rendered.

#### *Shipping and handling costs*

Shipping and handling costs mainly comprise the air freight and sea freight charges, the freight forwarding services charges and other relevant surcharges, and are classified as general and operating expenses. It is charged to the consolidated statement of operations in the period in which the corresponding shipment arrived to the final destination. Total shipping and handling costs for the years ended December 31, 2008, 2007 and 2006 were \$1,634,971, \$1,273,772 and \$993,771, respectively.

#### *Impairment of long-lived assets*

Our Company reviews our long-lived assets at least annually for potential impairment. Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its undiscounted cash flows is recorded as a reduction in the carrying value of the related asset and a charge to operating results. As the projection of the undiscounted cash flows are subject to estimations and assumptions made by management at the date of assessment, any future changes in our strategy and other changes in our operations subsequently could impact the projected future operating results that are inherent in estimates of fair value, resulting in impairments in the future.

#### *Advertising and marketing*

The Company expenses the cost of advertising and marketing, which included media advertising and promotion events, as incurred or when such advertising and marketing events initially take place. Advertising and marketing expenses for the years ended December 31, 2008, 2007 and 2006 were \$1,899,491, \$1,107,165 and \$833,726, respectively.

#### *Other income recognition*

Other income comprised of management fee income, interest income and others.

Management fee income is recognized when services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the loan to the loan's net carrying amount.

#### *Share-based compensation*

The Company has adopted Statement of Financial Accounting Standards ("SFAS") SFAS No. 123(R), *Share-Based Payment*, as amended and interpreted, for its share-based compensation which required the Company to record compensation expense for all awards based on their grant date fair value. The Company utilized the modified prospective method approach, pursuant to which the Company has recorded compensation for all awards granted based on their fair value.

#### *Pension obligation*

The Company operates numerous defined contribution plans and the assets of which are generally held in a separate trustee administered fund. The pension plans are generally funded by payments from employees and/or by the relevant group companies. The Company's contributions to the defined contribution plans are expensed as incurred. The Company's contributions to the defined contribution plans for the years ended December 31, 2008, 2007 and 2006 were approximately \$207,569, \$155,705 and \$119,000, respectively.

### *Income taxes*

The Company accounts for income taxes under the provision of SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109") and related interpretations and guidance including FIN 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("Fin 48"), resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the relevant periods. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred income tax assets and liabilities are computed for differences between the financial statements carrying amounts and the tax bases of existing assets and liabilities that will result in taxable or deductible amounts in the future, as well as from net operating loss and tax credit carryforwards, and are measured at the enacted tax laws and rates applicable in the years which the differences are expected to be recovered or settled. A deferred tax asset is recognized if it is more likely than not that a benefit will be realized. We establish valuation allowance for our deferred tax assets if the amount of expected future taxable income is not more likely than not to allow for the use of the deduction on credit. The Company's operations are primarily located in Hong Kong and subject to Hong Kong profits tax.

### *Earnings per share*

Basic earnings per share is computed by dividing net operating results for the reporting period attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net operating results for the reporting period attributable to common stockholders by the weighted average number of common shares outstanding and the dilutive effect of common stock equivalents. All per share and per share information are adjusted retroactively to the earliest periods presented to reflect the effect of the Company's recent recapitalization between the Company and Technorient (Note 1) and the effect of the reverse merger. See Note 5 for the computation of earnings per share.

### *Segment reporting*

The Company determines and classifies its operating segments in accordance with SFAS No. 131 *Disclosures About Segments Of An Enterprise And Related Information*. The Company identifies and classifies its operating segments based on the nature of the products and services with similar economic characteristics. The Company's reportable segments are motor vehicles retailing, which includes sales of new and used vehicles, provision of vehicle maintenance and repair services, and sales of vehicle parts and fashion apparel retailing, which includes sales of fashion apparel and accessories.

### *Related party transactions*

For purposes of the Company's consolidated financial statements, a related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the management or operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### *Warranty claims, purchase discounts, rebates or sales discounts and returns*

The motor vehicles and parts the Company sells have limited warranty policy provided by the manufacturers. The warranty is limited in terms of number of parts and services covered by the warranty policy and the duration of the warranty period. The Company does not offer any purchase discount or rebate due to the unique brand of the motor vehicle the Company sells. Sales discounts are charged to earnings in the period which the sales discounts are incurred. The Company bears the cost of any returns of the spare parts that are not covered by the manufacturer. These costs are charged to earnings in the period which the returns are incurred. Sales discounts for the years ended December 31, 2008, 2007 and 2006 were \$63,289, \$36,997 and \$20,496, respectively.



### *Reclassifications*

Certain financial statements line items have been reclassified to conform to the current year presentation and have no impact on the previously reported consolidated net sales, operating earnings or net earnings.

### **NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS 157, *Fair Value Measurements* (“SFAS 157”), which provides guidance about how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (“FSP”) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (“FSP 157-1”), which states that SFAS 157 does not address fair value measurements for purposes of lease classification or measurement. In February 2008, the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”), which delays the effective date for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, except for items that are measured at fair value in the financial statements on a recurring basis (at least annually). The Company adopted the provisions of SFAS 157 for its financial assets and liabilities and those items for which it has measured on a recurring basis effective January 1, 2008, and the adoption did not have a material impact on its financial position and results of operations. As provided by FSP 157-2, the Company has elected to defer the adoption of SFAS 157 for certain of its non-financial assets and liabilities and is currently evaluating the impact of adopting SFAS 157 on its non-financial assets and liabilities.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* (“SFAS 159”), which became effective for the Company beginning January 1, 2008. This standard permits entities to choose to measure many financial instruments and certain other items at fair value and consequently report unrealized gains and losses on such items in earnings. The Company elected not to adopt the fair value provisions of SFAS 159.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 141(R) on its financial position, cash flows and results of operations.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No.51* (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 160 on its financial position, cash flows and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. SFAS 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity’s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS 161 will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and, will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 161 on its financial position, cash flows and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force (“EITF”)), the American Institute of Certified Public Accountants (“AICPA”), and the SEC did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

#### NOTE 4. CONCENTRATION OF RISK

##### *Concentration of supplier credit risk*

Our Company relies on supplies from numerous vendors. For the years ended December 31, 2008, 2007 and 2006, the Company had two vendors that each accounted for more than 10% of total supply purchases. If any of the vendors terminate their relationships with our Company or if our Company’s supply from the vendors is interrupted or terminated for any reason, we may not have sufficient time to replace the supply of products from the remaining vendors. Any such interruption would negatively impact our ability to sell and distribute our products. However, the suppliers’ concentration of credit risk does not pose any effect to the concentration of credit risk with respect to trade payables as the Company made the purchases through facilities provided by banks and financial institutions.

##### *Concentration of credit risk due to geographic location*

Our Company’s business, assets and operations is currently focused on the sales of new and used vehicles, provision of vehicle maintenance and repair services, and sales of vehicle parts in Hong Kong and is currently expanding its operations to People Republic of China (“PRC”), and accordingly, is affected to a significant degree by any economic, political and legal developments in Hong Kong and PRC.

#### NOTE 5. EARNINGS PER SHARE

The computation of basic and diluted (loss) earnings per share is as follows for the years ended December 31:

|   | 2008<br>(Restated) | 2007<br>(Restated) | 2006<br>(Restated) |
|---|--------------------|--------------------|--------------------|
| <b>Numerator:</b>   |                    |                    |                    |
| Net (loss) earnings   | \$ (185,008)       | \$ 822,262         | \$ 559,064         |
| <b>Denominator:</b>   |                    |                    |                    |
| Weighted average common stock and dilutive potential common stock | 23,323,860         | 20,019,112         | 19,556,788         |
| Basic net (loss) earnings per share                               | \$ (0.0079)        | \$ 0.0411          | \$ 0.0286          |
| Diluted net (loss) earnings per share                             | \$ (0.0079)        | \$ 0.0411          | \$ 0.0286          |

The weighted average common stock outstanding for the years ended December 31, 2007 and 2006 have been retroactively adjusted for the Reverse Stock Split (See Note 15).

The weighted average common stock outstanding for the year ended December 31, 2006, was also adjusted to reflect the Company’s recent recapitalization between the Company and Technorient (See Note 1). For the purpose of computing earnings per share, the number of shares outstanding for the period from the beginning of the fiscal year to the date of the reverse merger is deemed to be the

number of shares issued by the legal parent. For the period from the date of the reverse merger to the end of the fiscal year, the number of shares to be used in the calculation of earnings per share is the actual number of shares of the legal parent outstanding in that period. The earnings per share to be disclosed for the comparative periods should be computed by dividing the earnings of Technorient by the number of shares issued in the reverse merger transaction.

**NOTE 6. INVENTORY**

Inventory by major categories at December 31 is summarized as follows:

|                              | <b>2008</b>          | <b>2007</b>         |
|------------------------------|----------------------|---------------------|
| New vehicles                 | \$ 4,003,200         | \$ 3,364,857        |
| Used vehicles                | 4,837,562            | 4,179,732           |
| Fashion apparel              | 1,716,163            | 37,214              |
| Parts, accessories and other | 2,113,642            | 1,581,131           |
|                              | <u>\$ 12,670,567</u> | <u>\$ 9,162,934</u> |

Vehicles included in inventory of approximately \$1,541,204 and \$2,091,150 were pledged to secure the stocking loan outstanding as of December 31, 2008 and 2007, respectively (See Note 11).

**NOTE 7. OTHER CURRENT ASSETS**

Other current assets by major categories at December 31 are summarized as follows:

|                                    | <b>2008</b>         | <b>2007</b>         |
|------------------------------------|---------------------|---------------------|
| Deposits                           | \$ 1,565,464        | \$ 1,471,209        |
| Amount due from a former associate | 2,183,367           | 1,163,710           |
| Other receivables                  | 2,670,275           | 296,958             |
|                                    | <u>\$ 6,419,106</u> | <u>\$ 2,931,877</u> |

**NOTE 8. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, at December 31 are summarized as follows:

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| Leasehold improvements                   | \$ 3,516,572        | \$ 2,037,305        |
| Plant and machinery                      | 628,831             | 487,746             |
| Furniture, fixtures and office equipment | 965,499             | 827,154             |
| Motor vehicles                           | 336,306             | 598,657             |
| Total                                    | 5,447,208           | 3,950,862           |
| Less: accumulated depreciation           | (2,541,281)         | (1,900,012)         |
|  | <u>\$ 2,905,927</u> | <u>\$ 2,050,850</u> |

At December 31, 2007, the net book value of the Company's motor vehicles included an amount of \$239,041 held under capital leases (See Note 11).

**NOTE 9. INVESTMENT IN AN ASSOCIATE**

Prior to December 7, 2007, Italian Motors (Sales & Service) Limited, a subsidiary of the Company (“IML”), owned a 30% equity interest in Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd. (“FMC”). On December 30, 2005, IML and Ferrari S.p.A entered into an equity interest transfer agreement (which was later amended in July 2006) relating to the transfer of a 29% equity interest (“Equity Transfer”) in FMC for a consideration of \$870,000, subject to approval of the Equity Transfer by the People’s Republic of China (the “PRC”). At December 31, 2006, the Equity Transfer had not been approved by the relevant authorities in the PRC and, as a result, FMC continued to be accounted for as an associate of the Company under the equity method. During the fourth quarter of 2007, the Equity Transfer was approved by the relevant authorities and, as a result, the Company currently owns a 1% equity interest in FMC.

The following tables present audited condensed financial information of FMC as of and for the year ended December 31, 2006 and as of and for the eleven months ended November 30, 2007. The amounts included in the tables set forth below represent 100% of the financial condition and results of operations of FMC accounted for under the equity method.

The condensed balance sheets of FMC as of November 30, 2007 and December 31, 2006 are as follows:

|   | <b>November 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|------------------------------|------------------------------|
| <b>Assets</b>                                     |                              |                              |
| Non-current assets                                |                              |                              |
| Fixed assets                                      | \$ 2,262,745                 | \$ 1,608,653                 |
| Current assets                                    |                              |                              |
| Cash and cash equivalents                         | 17,627,102                   | 3,131,315                    |
| Trade receivables, net of provision               | 2,203,390                    | 10,183,791                   |
| Inventories                                       | 16,080,366                   | 5,202,674                    |
| Prepayments                                       | 2,938,567                    | 2,322,247                    |
| Other current assets                              | 6,111,984                    | 8,666,563                    |
|   | <u>44,961,409</u>            | <u>29,506,590</u>            |
| <b>Total assets</b>                               | <b><u>\$ 47,224,154</u></b>  | <b><u>\$ 31,115,243</u></b>  |
| <b>Liabilities and stockholders' equity</b>       |                              |                              |
| Current liabilities                               |                              |                              |
| Trade payables                                    | \$ 11,636,882                | \$ 10,732,116                |
| Deposits received                                 | 12,009,014                   | 3,926,418                    |
| Other current liabilities                         | 19,175,511                   | 11,862,844                   |
|   | <u>42,821,407</u>            | <u>26,521,378</u>            |
| Stockholders' equity                              | <u>4,402,747</u>             | <u>4,593,865</u>             |
| <b>Total liabilities and stockholders' equity</b> | <b><u>\$ 47,224,154</u></b>  | <b><u>\$ 31,115,243</u></b>  |

The condensed statements of income of FMC for the eleven months ended November 30, 2007 and the year ended December, 31 2006 are as follows:

|  | <b>For the Eleven<br/>Months Ended<br/>November 30,<br/>2007</b> | <b>For the Year<br/>Ended<br/>December 31,<br/>2006</b> |
|--|--|---|
| Sales  | \$ 86,314,281  | \$ 56,151,337   |
| Cost of sales                                | (64,331,302)   | (44,177,489)  |
| Gross profit                                 | <u>21,982,979</u>  | <u>11,973,848</u>                                       |
| Selling, general and administrative expenses | (24,817,280)   | (11,098,163)  |
| Operating earnings (loss)                    | (2,834,301)  | 875,685   |
| Other income (expense)                       | 2,334,731  | 531,344   |
| Earnings (loss) before income taxes          | (499,570)  | 1,407,029   |
| Provision for income taxes                   | -  | (211,054)   |
| Net earnings (loss)                          | <b><u>\$ (499,570)</u></b>                                       | <b><u>\$ 1,195,975</u></b>                              |

## NOTE 10. DEFERRED TAX ASSETS AND INCOME TAXES

### Deferred tax assets

Deferred taxation recognized represents foreign unused tax loss carryforwards from prior years. Gross deferred taxation comprised federal net operating loss and foreign unused tax loss carryforwards from prior years. The federal unused tax loss carryforwards in the amount of \$2,603,640 expire through 2028 and the foreign unused tax loss of \$2,445,378 have unlimited useful lives under the local regulation at where the unused tax losses were derived. The foreign unused tax loss carryforwards can only be utilized by the entities generating such losses.

The Company has provided valuation allowances of \$911,274 and \$390,532 in respect of federal net operating loss and foreign unused tax loss carryforwards, respectively, which it does not expect to utilize.

Net deferred tax assets at December 31 consist of the following:

|  | <u>2008</u>  | <u>2007</u> |
|--|--------------|-------------|
| Deferred tax assets:                                 |              |             |
| Tax loss carryforwards and gross deferred tax assets | \$ 1,301,806 | \$ 774,025  |
| Valuation allowance                                  | (1,301,806)  | (774,025)   |
| Net deferred tax assets                              | <u>\$ -</u>  | <u>\$ -</u> |

Gross deferred tax assets at December 31, 2008 and 2007 were reduced by valuation allowance of \$1,301,806 and \$774,025, respectively. The total valuation allowance between periods presented increased by \$527,781 and such increase was attributable to the tax effect on foreign tax losses incurred for the year ended December 31, 2008 of \$232,736 at enacted foreign profit tax rates, effect of change in tax rate on foreign tax losses carryforwards of \$53,407, exchange rate effect on foreign unused tax losses carryforwards of \$42,040 and the tax effect on federal net operating loss incurred for the year ended December 31, 2008 of \$306,411 at the federal tax rate of 35%.

### Income taxes

The components of the provision for income taxes for the years ended December 31 are as follows:

|                          | <u>2008</u>       | <u>2007</u>       | <u>2006</u>       |
|--------------------------|-------------------|-------------------|-------------------|
| Current:                 |                   |                   |                   |
| United States of America | \$ -              | \$ -              | \$ -              |
| PRC                      | \$ 61,643         | \$ -              | \$ -              |
| Hong Kong                | \$ 892,917        | \$ -              | \$ -              |
|                          | <u>\$ 954,560</u> | <u>\$ -</u>       | <u>\$ -</u>       |
| Deferred:                |                   |                   |                   |
| United States of America | \$ -              | \$ -              | \$ -              |
| PRC                      | \$ -              | \$ -              | \$ -              |
| Hong Kong                | \$ -              | \$ 538,579        | \$ 270,514        |
|                          | <u>\$ -</u>       | <u>\$ 538,579</u> | <u>\$ 270,514</u> |

No provision of current income tax was provided for the years ended December 31, 2007 and 2006 as either the assessable profits were set off by the unused tax loss carryforwards or non-assessable profits were derived.

A reconciliation of the provision for income tax calculated using the statutory federal income tax rate and state and local income tax rate to the Company's provision for income taxes for the years ended December 31 is as follows:

|   | <u>2008</u>  | <u>2007</u>  | <u>2006</u> |
|---|--------------|--------------|-------------|
| Provision for income taxes at statutory rate of 35% | \$ 1,034,337 | \$ 1,036,397 | \$ 626,585  |
| State and local income taxes                        | -            | -            | 161,122     |
| Foreign   | (466,254)    | (622,968)    | (576,969)   |
| Non-deductible expenses and non-assessable profits  | (193,796)    | (82,564)     | 15,357      |
| Tax losses not yet recognized                       | 699,893      | 207,714      | 254,310     |
| Utilization of unrecognized tax losses              | (119,620)    | -            | (209,891)   |

|              |            |            |            |
|--------------|------------|------------|------------|
| Income taxes | \$ 954,560 | \$ 538,579 | \$ 270,514 |
|--------------|------------|------------|------------|



## NOTE 11. BORROWINGS AND BILLS PAYABLE

The Company's borrowings at December 31 consist of the following:

|   | <b>2008</b>         | <b>2007</b>         |
|---|---------------------|---------------------|
| Bank borrowings   | \$ 8,790,806        | \$ 3,307,597        |
| Stocking loans  | 1,144,629           | 1,967,241           |
| Obligations under finance lease                                 | -                   | 110,996             |
|   | <u>9,935,435</u>    | <u>5,385,834</u>    |
| Borrowings due after one year – obligations under finance lease | -                   | -                   |
| Short-term borrowings   | <u>\$ 9,935,435</u> | <u>\$ 5,385,834</u> |

The bank borrowings, which are mainly used to finance the purchase of vehicles, and stocking loans are secured by pledged bank deposits and/or guarantees provided by fellow subsidiaries and are interest-bearing. The interest rates are generally based on the bank's best lending rate plus a certain percentage and the credit lines are normally subject to periodic review. The range of effective interest rates (which are also equal to contracted interest rates) on the Company's borrowings for the year ended December 31, 2008 were from 4.25% to 6.25% per annum (2007: 6% to 8.50% per annum). Vehicles included in inventory of approximately \$1,541,204 and \$2,091,150 were pledged to secure the stocking loans outstanding as of December 31, 2008 and 2007, respectively (See Note 6). The weighted average effective interest rate on the short-term borrowings as at December 31, 2008 was 4.90% (2007: 7%).

At December 31, 2007, the current portion together with the non-current portion of finance lease was secured by motor vehicle included in property and equipment with a carrying value of approximately \$239,041 (See Note 8).

Bills payable for both periods presented represent letters of credit obtained for the purchase of motor vehicles and are interest free. Once the bills payable are due, the bills payable are converted to bank borrowings.

## NOTE 12. DEPOSITS RECEIVED

The deposits received mainly represent the amounts received from customers in relation to the purchase of new vehicles. The customer is required to make a deposit when a sales contract is executed between the customer and the Company and the amount of deposit being made is in accordance to the terms and conditions of the sales contract.

## NOTE 13. OTHER CURRENT LIABILITIES

Other current liabilities by major categories at December 31 are summarized as follows:

|                | <b>2008</b>         | <b>2007</b>         |
|----------------|---------------------|---------------------|
| Accruals       | \$ 1,687,143        | \$ 1,067,884        |
| Other payables | 5,718,311           | 6,020,545           |
|                | <u>\$ 7,405,454</u> | <u>\$ 7,088,429</u> |

The other payables mainly comprised the first registration tax on motor vehicles sold. First registration tax is applicable to new motor vehicles sold in Hong Kong and is computed on a progressive rate based on the gross selling price of the new motor vehicles.

#### **NOTE 14. AMOUNTS DUE FROM/TO AFFILIATES**

The amounts due from/to affiliates comprised the amounts due from/to entities that are under the common control, where Mr. Richard Man Fai LEE is the common director of the Company and the affiliates.

Of the amounts due from affiliates as of December 31, 2008, approximately \$11,031,165 (2007: \$10,189,000) in aggregate were unsecured, interests bearing at a rate of 5.5% per annum (2007: 8.25%-8.5% per annum) and payable on demand. The remaining amounts due from related parties of approximately \$115,938 (2007: \$38,000) were unsecured, interest free and payable on demand. The transactions resulting in amounts due from affiliates were interest bearing loans to the affiliate companies mainly for the purpose of providing working capital to such companies. The amounts due to affiliates were unsecured, interest free and repayable on demand.

Our policy for evaluating the collectability of amounts due from affiliates is similar to the other receivables. The Company periodically considers a provision for uncollectible portions of the amounts due from affiliates based on management's judgment resulting from an evaluation of the collectability of amounts due from affiliates by assessing, among other factors, the related party's willingness and ability to pay, repayment history and general economic conditions.

#### **NOTE 15. STOCKHOLDERS' EQUITY**

##### *General*

The Company's total authorized capital at December 31, 2008, is 100,000,000 shares of common stock, par value \$0.005. At December 31, 2008, 23,323,860 shares of common stock were issued and outstanding.

##### *Common stock*

The following is the movement of common stock for the period from July 1, 2006 to September 4, 2006:

- During August 2006, 1,800,000 shares of common stock of the Company owned by Fred De Luca and Federico G. Cabo, directors of the Company, were cancelled pursuant to the share exchange agreement in connection to the reverse merger.
- During September 2006, 3,320,000 shares of the Company's restricted common stock were issued to Edward W. Withrow, III ("Withrow"), a stockholder of the Company, to fully settle the Company's promissory note payable in the principal amount of \$950,000.
- During September 2006, 1,005,867 shares of the Company's restricted common stock were issued as the holders of the Company's 10% callable convertible notes agreed to convert the 10% callable convertible notes in the principal amount of \$1,000,000 into such number of shares.

The following is the movement of common stock for the period from September 5, 2006 to December 31, 2006:

- On September 5, 2006, the Company issued an aggregate of 14,400,000 shares of its common stock in connection with the acquisition of 49% of the issued and outstanding shares of Technorient. The issuance of common stock was in pursuant to the terms and conditions of the Share Exchange Agreement and the Reformation Agreement between the Company and Technorient.
- On November 15, 2006, the Company issued 140,000 shares of its common stock to Withrow as compensation for consultancy services received in the amount of \$175,000. The common stock issued was pursuant to a consulting agreement between the Company and Withrow.

The following is the movement of common stock during the year 2007:

- On December 7, 2007, the Company effected a reverse stock split pursuant to which each five outstanding shares of common stock, par value \$0.001, were automatically converted into one share of common stock, par value \$0.005, and the total number of shares of our common stock outstanding was reduced from 98,929,180 shares to 19,785,836 (the "Reverse Stock Split"). No change was made in the number of the Company's authorized shares. No script or fractional share certificates were issued in connection with the Reverse Stock Split. Stockholders received a number of shares of new common stock rounded up to the nearest whole number in lieu of fractional interests resulting from the Reverse Stock Split. All of the share number, share prices and per-share amounts have been adjusted, on a retroactive basis, to reflect the effect of the Reverse Stock Split. Each stockholder's percentage ownership interest in the Company and proportional voting power remains unchanged after the Reverse Stock Split except for minor changes and adjustments resulting from rounding of fractional interests. The rights and privileges of the holders of common stock are substantially unaffected by the Reverse Stock Split.
- During the year ended December 31, 2007, the Company issued an aggregate of 3,537,977 shares of its common stock in connection with the acquisition of 49% of the issued and outstanding shares of Technorient. The issuance of common stock was in pursuant to the terms and conditions of Share Exchange Agreement and the Reformation Agreement between the Company and Technorient.

#### **NOTE 16. EQUITY STOCK PLAN**

On May 2005, the Company adopted an incentive equity stock plan (the "2005 Plan") that authorized the issuance of options, right to purchase common stock and stock bonuses up to 500,000 shares. The purpose of the 2005 Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company by offering them an opportunity to participate in the Company's future performance through awards of stock options, the right to purchase common stock.

The 2005 Plan was filed with the Securities and Exchange Commission on June 2, 2005 as an Exhibit to a Form S-8 Registration Statement. There have been no options granted under the 2005 Plan during the periods presented and the number of securities remaining available for future issuance under the 2005 Plan was 19,500 as of December 31, 2008.

#### **NOTE 17. INTEREST EXPENSES AND OTHER FINANCE COSTS**

Interest expenses represent interest charged by banks and other financial institution on bank borrowings and stocking loans granted to the Company and are computed based on the applicable interest rates on the unpaid amounts of those bank borrowings or stocking loans. The range of effective interest rates on the Company's borrowings for the year ended December 31, 2008 were from 4.25% to 6.25% per annum (2007: 6% to 8.50% per annum).

Other finance costs comprised bank and administrative charges charged by banks on the opening and drawing letter of credit. The bank and administrative charges are computed based on a certain percentage of the amount as per each individual letter of credit.

#### **NOTE 18. BUSINESS SEGMENTS AND GEOGRAPHICAL INFORMATION**

##### **Business Segments**

The Company operates in two business segments: Vehicles and Fashion Apparel. The Company's reporting segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations.

The Vehicles segment consists primarily of the group of companies doing business as Auto Italia Limited and Dalian Auto Italia Car Trading Co., Limited. The Vehicle segment includes sales of new and used vehicles, provision of vehicle maintenance and repair services, and sales of vehicle parts.

The Fashion Apparel segment consists primarily of CPMM (Asia) Limited. The Fashion Apparel segment provides wholesale and retailing of fashion apparel.

Information by industry segment is set forth below for the years ended December 31:

| <b>2008</b>  | <b>Vehicles</b>    | <b>Fashion<br/>Apparel</b> | <b>Corporate</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|--------------------|----------------------------|------------------|--------------------|---------------------|
| <b>Sales</b>   |                    |                            |                  |                    |                     |
| External sales   | \$ 122,649,104     | \$ 930,411                 | \$ -             | \$ -               | \$ 123,579,515      |
| Inter-segment sales                                    | 2,441              | -                          | -                | (2,441)            | -                   |
| Net sales  | <u>122,651,545</u> | <u>\$ 930,411</u>          | <u>-</u>         | <u>(2,441)</u>     | <u>123,579,515</u>  |
| <b>Results</b>   |                    |                            |                  |                    |                     |
| Operating earnings                                     | 4,479,778          | (1,209,140)                | (1,312,483)      |                    | 1,958,155           |
| Interest revenue                                       | 101,779            | 12,650                     | -                |                    | 114,429             |
| Interest expense                                       | (554,747)          | (14,726)                   | -                |                    | (569,473)           |
| Other income   |                    |                            |                  |                    | 1,452,138           |
| Earnings before minority interests and<br>income taxes |                    |                            |                  |                    | <u>2,955,249</u>    |
| Provision for income tax                               | (954,560)          | -                          | -                |                    | <u>(954,560)</u>    |
| Earnings before minority interests                     |                    |                            |                  |                    | 2,000,689           |
| Minority interests                                     |                    |                            |                  |                    | <u>(2,185,697)</u>  |
| Net loss   |                    |                            |                  |                    | <u>(185,008)</u>    |
| <b>2007</b>  |                    |                            |                  |                    |                     |
|  | <b>Vehicles</b>    | <b>Fashion<br/>Apparel</b> | <b>Corporate</b> | <b>Elimination</b> | <b>Consolidated</b> |
| <b>Sales</b>   |                    |                            |                  |                    |                     |
| External sales   | \$ 106,503,302     | \$ 9,169                   | \$ -             | \$ -               | \$ 106,512,471      |
| Inter-segment sales                                    | -                  | -                          | -                | -                  | -                   |
| Net sales  | <u>106,503,302</u> | <u>\$ 9,169</u>            | <u>-</u>         | <u>-</u>           | <u>106,512,471</u>  |
| <b>Results</b>   |                    |                            |                  |                    |                     |
| Operating earnings                                     | 3,883,557          | (174,508)                  | (753,384)        |                    | 2,955,665           |
| Interest revenue                                       | 28,248             | -                          | -                |                    | 28,248              |
| Interest expense                                       | (770,243)          | (278)                      | -                |                    | (770,521)           |
| Other income   |                    |                            |                  |                    | 1,149,919           |
| Loss on disposal of interest in an associate           |                    |                            |                  |                    | (252,305)           |
| Share of result of an associate                        |                    |                            |                  |                    | (149,871)           |
| Earnings before minority interests and<br>income taxes |                    |                            |                  |                    | <u>2,961,135</u>    |
| Provision for income tax                               | (538,579)          | -                          | -                |                    | <u>(538,579)</u>    |
| Earnings before minority interests                     |                    |                            |                  |                    | 2,422,556           |

|                    |                       |
|--------------------|-----------------------|
| Minority interests | <u>(1,600,294)</u>    |
| Net earnings       | <u><u>822,262</u></u> |

| <u>2006</u>   | <u>Vehicles</u>   | <u>Fashion<br/>Apparel</u> | <u>Corporate</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|-------------------|----------------------------|------------------|--------------------|---------------------|
| <b>Sales</b>  |                   |                            |                  |                    |                     |
| External sales                                      | \$ 71,534,590     | \$ -                       | \$ -             | \$ -               | \$ 71,534,590       |
| Inter-segment sales                                 | 946               | -                          | -                | (946)              | -                   |
| Net sales   | <u>71,535,536</u> | <u>\$ -</u>                | <u>-</u>         | <u>(946)</u>       | <u>71,534,590</u>   |
| <b>Results</b>                                      |                   |                            |                  |                    |                     |
| Operating earnings                                  | 2,026,610         | -                          | (386,873)        |                    | 1,639,737           |
| Interest revenue                                    | 3,912             | -                          | -                |                    | 3,912               |
| Interest expense                                    | (432,651)         | -                          | (123)            |                    | (432,774)           |
| Other income  |                   |                            |                  |                    | 220,577             |
| Loss on disposal of interest in an associate        |                   |                            |                  |                    | -                   |
| Share of result of an associate                     |                   |                            |                  |                    | 358,792             |
| Earnings before minority interests and income taxes |                   |                            |                  |                    | <u>1,790,244</u>    |
| Provision for income tax                            | (270,514)         | -                          | -                |                    | <u>(270,514)</u>    |
| Earnings before minority interests                  |                   |                            |                  |                    | 1,519,730           |
| Minority interests                                  |                   |                            |                  |                    | <u>(960,666)</u>    |
| Net earnings  |                   |                            |                  |                    | <u>559,064</u>      |

|                               | <u>Vehicles</u> | <u>Fashion<br/>Apparel</u> | <u>Corporate</u> | <u>Consolidated</u> |
|-------------------------------|-----------------|----------------------------|------------------|---------------------|
| <b>2008</b>                   |                 |                            |                  |                     |
| Total assets (Restated)       | \$ 53,363,259   | \$ 2,318,442               | \$ 487           | \$ 55,682,188       |
| Depreciation and amortization | 761,274         | 65,448                     | -                | 826,722             |
| Net capital expenditures      | 1,611,026       | 250,585                    | -                | 1,861,611           |
| <b>2007</b>                   |                 |                            |                  |                     |
| Total assets (Restated)       | \$ 41,584,774   | \$ 1,138,072               | \$ 522           | \$ 42,723,368       |
| Depreciation and amortization | 706,813         | 15,548                     | -                | 722,361             |
| Net capital expenditures      | 340,361         | 77,634                     | -                | 417,995             |
| <b>2006</b>                   |                 |                            |                  |                     |
| Total assets (Restated)       | \$ 32,697,892   | \$ -                       | \$ 510           | \$ 32,698,402       |
| Depreciation and amortization | 568,655         | -                          | -                | 568,655             |
| Net capital expenditures      | 890,769         | -                          | -                | 890,769             |

### Geographic Information:

No segment information is provided as the Group only has one geographical segment. The Group's reportable business segments are Vehicle and Fashion Apparel, which the operations are located in PRC (including Hong Kong and Macau) and sales were predominately made to customers located in the PRC (including Hong Kong and Macau).

### NOTE 19. COMMITMENTS AND CONTINGENT LIABILITIES

#### *Litigation, Claims and Assessments*

From time to time the Company may be involved in various disputes and litigation matters arising in the normal course of business. It is the Company's belief that the resolution of these matters will not have a material adverse effect on its financial position or results of operations, however, management cannot provide assurance that damages that result in a material adverse effect on its financial position or results of operations will not be imposed in these matters. The Company accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

On December 19, 2008, the Company filed an action, styled *China Premium Lifestyle Enterprise, Inc. v. Happy Emerald Limited, et al.*, in the United States District Court, Central District of California, Case No. SACV08-1439 (the "Federal Court Action"), asserting claims for Securities Fraud, Breach of Contract, Fraud, Conversion, Unjust Enrichment, Constructive Trust, Breach of Fiduciary Duty and Declaratory Relief. The Company has named Happy Emerald Ltd., a purported British Virgin Islands corporate entity ("HEL"), Global Premium Brands Co., Inc., a defunct California Corporation ("California Global"), Global Premium Brands Co., Inc., a Nevada corporation ("Nevada Global"), Fred De Luca, Charles Miseroy, Delia Rodriguez, Robert G. Pautsch, Richard Cabo and Federico Cabo as defendants (collectively, the "Defendants").

The Company asserts in the Federal Court Action that the Defendants have acted in concert to fraudulently obtain shares of the Company's Series A Convertible Preferred Stock (the "Preferred Shares") and, in some instances, have breached their fiduciary duties to the Company relating to their conducts involving the Preferred Shares. The Company authorized the issuance of the Preferred Shares as consideration for certain future services to be performed by HEL under a July 15, 2006 Consulting Services Agreement. HEL, however, as alleged in the Federal Court Action, has not performed the required services and the Preferred Shares have accordingly never been paid for. The Company believes the Preferred Shares are subject to cancellation. In the Federal Court Action, the Company alleges that the Defendants have improperly obtained certificates for the Preferred Shares, attempted to transfer the Preferred Shares between themselves, and sought to have the restrictive legend removed from a portion of the Preferred Shares. The Company is seeking a declaration of the parties' respective rights regarding the Preferred Shares as well as injunctive relief and damages against the Defendants.

In a related matter, the Company was named as a defendant in a state court action, styled *Federico G. Cabo, et al. v. China Premium Lifestyle Enterprise, Inc., et al.*, California Superior Court, Ventura County, Case No. 56-2008-00333382-CU-BC-VTA (the “State Court Action”). The plaintiffs in the State Court Action (defendants in the Federal Court Action) Federico Cabo, Fred De Luca, and Nevada Global, asserted various claims against multiple defendants relating to the Preferred Shares issued to HEL in which these plaintiffs claim an interest. The plaintiffs asserted claims for estoppels, slander of title, conversion and constructive trust against the Company in the State Court Action. By agreement with the plaintiffs in the State Court Action, the State Court Action was dismissed, without prejudice, and it is anticipated that the same or similar claims will be asserted in the Federal Court Action. The Company denies any such alleged wrongdoing and will vigorously defend these claims if they are asserted in the Federal Court Action. The Company, however, is unable to evaluate the likelihood of an outcome, favorable or unfavorable, to the Company at this time or to estimate the amount or range of a possible loss.

Effective March 1, 2010, the Company settled the Federal Court Action. Under the terms of the settlement: (1) the defendants agreed to return to the Company for cancellation 247,798 shares of preferred stock and 4,569,619 shares of common stock; (2) Mr. De Luca resigned from the Company’s board of directors effective March 1, 2010; (3) the parties executed a mutual release; and (4) the Company dismissed the action with prejudice.

In December 2006, the Company had delivered 65,454 shares of preferred stock to Bern Noble, Ltd. (“Bern Noble”) for consulting services rendered in connection with the Exchange. In March 2007, Bern Noble converted such shares into 1,210,631 shares of common stock. As discussed in the Explanatory Note at the beginning of this Report and as previously disclosed in the Company’s Current Report on Form 8-K, as filed with the SEC on May 11, 2009, the Company later determined that it was never authorized to issue any shares of preferred stock. In connection with the settlement, Bern Noble agreed to return to us for cancellation certificates representing the 1,210,631 shares of common stock. We also agreed to replace the shares with an equal number of new shares of common stock in consideration of services rendered to us in 2006 in connection with the closing of the Share Exchange Agreement. We agreed to deliver the replacement shares in nine monthly installments.

*Operating Lease Commitments*

The Company leases its dealership facilities, service center facilities and office space under non-cancellable operating leases in Hong Kong and PRC. Minimum future rental payments required under non-cancellable operating leases in effect as of December 31, 2008 are as follows:

|      |                      |
|------|----------------------|
| 2009 | \$ 3,975,750         |
| 2010 | 3,577,845            |
| 2011 | 2,184,334            |
| 2012 | 2,076,543            |
| 2013 | 1,889,374            |
|      | <u>\$ 13,703,846</u> |

Rent expense for the years ended December 31, 2008, 2007 and 2006 was \$3,507,032, \$1,291,705 and \$1,178,404, respectively.

*Employment Agreements*

The Company maintains employment agreements with its executive officers which extend through 2009. The agreements provide for a base salary, annual bonus to be determined by the Board of Directors, termination payments, stock options, non-competition provisions, and other terms and conditions of employment. In addition, the Company maintains employment agreements with other key employees with similar terms and conditions. As of December 31, 2008, termination payments totaling \$617,258 remain in effect.



## NOTE 20. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of significant transactions among certain related parties and the Company during the years ended December 31, 2008, 2007 and 2006:

|   | Note | 2008    | 2007       | 2006      |
|---|------|---------|------------|-----------|
| <b>Sales to:</b>                        |      |         |            |           |
| - A related company                     | (a)  | \$ -    | \$ 395,277 | \$ -      |
| - Affiliates                            | (a)  | 30,068  | 203,853    | 601,645   |
| - An associate                          | (a)  | -       | -          | 70,733    |
| <b>Purchases from:</b>                  |      |         |            |           |
| - Director of the Company               | (a)  | 600,000 | 173,115    | -         |
| - Affiliates                            | (a)  | 97,332  | 261,179    | 17,945    |
| - An associate                          | (a)  | -       | 6,831,036  | 1,677,790 |
| <b>Interest received from:</b>          |      |         |            |           |
| - Affiliates                            | (b)  | 579,640 | 605,496    | 19,751    |
| <b>Management fee paid to:</b>          |      |         |            |           |
| - Affiliates                            | (c)  | 386,852 | -          | 309,159   |
| <b>Management fee received from:</b>    |      |         |            |           |
| - Affiliates                            | (c)  | 184,938 | 153,880    | -         |
| <b>Service fee from:</b>                |      |         |            |           |
| - An associate                          | (c)  | -       | 630,802    | 643,818   |
| <b>Rental paid to:</b>                  |      |         |            |           |
| - Affiliates                            | (c)  | 13,903  | 2,180      | -         |
| <b>Rental income received from:</b>     |      |         |            |           |
| - Affiliates                            | (c)  | 154,115 | -          | -         |
| <b>Building management fee paid to:</b> |      |         |            |           |
| - Affiliates                            | (c)  | 2,707   | 614        | -         |
| <b>Warehouse expenses paid to:</b>      |      |         |            |           |
| - Affiliates                            | (c)  | 11,104  | -          | -         |
| <b>Issuance of common stock:</b>        |      |         |            |           |
| - A stockholder                         | (c)  | -       | -          | 175,000   |

### Notes:

- (a) The transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (b) The loan advance to a fellow subsidiary is unsecured, bears interest at 5.5% per annum (2007: 8.25% to 8.5% per annum; 2006: 9.25% per annum) and repayable on demand.
- (c) The transactions were carried out at terms agreed between both parties.

## NOTE 21. SUBSEQUENT EVENT

Effective February 25, 2009, Mr. Nils A. Ollquist was appointed as a director of the Company.

## NOTE 22. RESTATEMENT OF FINANCIAL STATEMENTS

### *Background*

In September 2006, the Company closed the transactions contemplated by that certain Share Exchange Agreement, dated July 15, 2006, among the Company, Fred De Luca, Corich Enterprises, Inc., a British Virgin Islands corporation, Herbert Adamczyk and Technorient Limited, a Hong Kong corporation (the “Share Exchange Agreement”). Pursuant to the terms of the Share Exchange Agreement, the Company issued an aggregate of 972,728 shares (the “Exchange Shares”) of Series A Convertible Preferred Stock in exchange for shares of the capital stock of Technorient.

In connection with the Share Exchange Agreement and prior to its closing, the Company entered into a consulting agreement dated July 15, 2006 with Happy Emerald Ltd. (“HEL”) pursuant to which the Company issued to HEL 561,245 shares (the “HEL Shares”) of Series A Convertible Preferred Stock in exchange for certain future services to be performed by HEL after the closing of the Share Exchange Agreement.

In January 2007, the Company authorized the delivery of 65,454 shares (the “Bern Noble Shares”) of the HEL Shares to Bern Noble, Ltd. (“Bern Noble”) for consulting services rendered by Bern Noble to the Company in connection with the Share Exchange Agreement. In March 2007, Bern Noble converted the Bern Noble Shares into 1,210,631 shares of common stock.

The following actions were also taken:

- on April 7, 2006, prior management filed an amendment to the Articles of Incorporation purporting to create a class of “blank check” preferred stock (the “Preferred Stock Amendment”);
- on August 16, 2006, prior management filed an amendment to the Articles of Incorporation purporting to designate 2,000,000 shares of the “blank check” preferred stock as “Series A Convertible Preferred Stock” (the “Certificate of Designation”); and
- on December 18, 2006, the Company filed an amendment to the Articles of Incorporation purporting to increase the number of shares of authorized common stock from 100,000,000 shares to 400,000,000 shares (the “Common Stock Amendment”).

On December 19, 2008, the Company filed an action in the United States District Court for the Central District of California (the “Federal Court Action”), for fraud, breach of fiduciary duty, breach of contract and conversion against HEL, certain members of the Company’s prior management, including Fred De Luca, Charles Miseroy, Robert G. Pautsch and Federico Cabo, and certain other defendants. In the Federal Court Action, the Company alleged that:

- HEL had never performed any services under the consulting agreement; and
- the defendants, including the members of prior management, had (1) fraudulently obtained certificates for 495,596 shares of the Series A Convertible Preferred Stock, (2) improperly attempted to transfer the shares among themselves and their affiliates, (3) improperly converted 247,798 of the shares into 4,569,619 shares of common stock, and (4) sought to have the restrictive legend removed from the resulting shares of common stock.

During the pendency of the Federal Court Action, the Company’s legal advisors discovered that the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment had not been properly authorized. Specifically:

- each of the Preferred Stock Amendment and the Common Stock Amendment was approved only by the written consent of a majority of the Company’s then-stockholders, whereas the By-Laws required such written consent to be approved unanimously; and

- at the time of the filing of the Certificate of Designation with the Secretary of State of the State of Nevada, the articles of incorporation did not authorize the Board of Directors to designate the rights, preferences and privileges of any “blank check” preferred stock.

The Company was advised that the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment were invalid and of no force or effect. Further, the Company was advised that the Company was never authorized to issue any shares of any class or series of preferred stock, including the Exchange Shares, the Bern Noble Shares and the HEL Shares, and that any shares of common stock underlying the shares of preferred stock would also not have been authorized. In addition, the Company was advised that the Company was never authorized to issue any shares of common stock in excess of 100,000,000 shares.

Upon learning of the invalidity of the Preferred Stock Amendment, the Certificate of Designation and the Common Stock Amendment:

- current management took action to correct any potential defect in the transactions contemplated to acquire the shares of Technorient under the Share Exchange Agreement. On May 5, 2009, the Company entered into a reformation (“Reformation”) of the Share Exchange Agreement pursuant to which the parties agreed that the 17,937,977 shares of common stock (on a post-Reverse Stock Split basis) underlying the Exchange Shares were agreed to have been issued in lieu of the Exchange Shares themselves. Pursuant to the Reformation, the parties agreed that an aggregate of 14,400,000 shares of the Company’s common stock were deemed to have been issued on the closing date of the Share Exchange Agreement, and that upon the effectiveness of and giving effect to the Reverse Stock Split on December 7, 2007, an aggregate of an additional 3,537,977 shares of common stock were deemed to have been issued; and
- the Company amended its complaint in the Federal Court Action to allege that all of the disputed shares (the HEL Shares and, derivatively, the Bern Noble Shares), were void and subject to cancellation. Because of the uncertainty of the outcome of the Federal Court Action, however, the Company determined not to make any changes with respect to such shares on its financial statements until the pending litigation was finally resolved through a judgment in or settlement of the Federal Court Action.

On March 1, 2010, the Company settled the Federal Court Action. Under the terms of the settlement, the defendants agreed to return to the Company for cancellation all of the disputed shares, including 247,798 shares of the Series A Convertible Preferred Stock and 4,569,619 shares of common stock.

Further, in connection with the settlement, Bern Noble agreed to return to the Company for cancellation certificates representing the 1,210,631 shares of common stock that had originally been derived from the HEL Shares. The Company also agreed to replace the Bern Noble Shares with an equal number of new shares of common stock in consideration of services rendered to the Company in 2006 in connection with the closing of the Share Exchange Agreement. We agreed to deliver replacement shares in nine monthly installments.

#### *Restatements*

Certain items on the Company’s consolidated balance sheets, consolidated statements of operations and consolidated statements of stockholders’ equity and comprehensive income (loss) have been restated, based on the following:

- the Company’s determination that it was never authorized to issue any shares of any class or series of preferred stock, including the Exchange Shares, the Bern Noble Shares and the HEL Shares;
- the Company’s determination that the Preferred Stock Amendment, the Certificate of Designation designating the Series A Preferred Stock and the Common Stock Amendment were invalid and of no force and effect;

- the issuance of shares of common stock in connection with the Reformation;
- the cancellation and reissuance of the shares of common stock converted from the Bern Noble Shares (including the recognition of the receipt of the services performed by Bern Noble in 2006); and
- the settlement of the Federal Court Action.

The following describes the restatements to the Company's consolidated financial statements:

- On the consolidated balance sheets, at December 31, 2008 and 2007, prepayments decreased by \$1,468,930 to reflect the unauthorized issuance of preferred stock in connection with the Federal Court Action. Accordingly, at December 31, 2008, preferred stock decreased by \$248, common stock decreased by \$28,902, additional paid-in-capital decreased by \$1,439,780 and stockholders' equity decreased by \$1,468,930. At December 31, 2007, preferred stock decreased by \$496, common stock decreased by \$6,053, additional paid-in-capital decreased by \$1,462,381 and stockholders' equity decreased by \$1,468,930. Further, all references to an authorized class or series of preferred stock and any issued and outstanding shares of preferred stock have been deleted from the restated balance sheets at December 31, 2008 and 2007;
- On the consolidated statement of operations, for the year ended December 31, 2008, basic and diluted loss per share increased by \$0.0013, for the years ended December 31, 2007 and 2006, basic earnings per share decreased by \$0.0007 and \$0.3011, respectively, and for the years ended December 31, 2007 and 2006, diluted earnings per share increased by \$0.0126 and \$0.0100, respectively. In addition, for the year ended December 31, 2008, the basic and diluted weighted average number of outstanding shares decreased by 4,741,131, for the years ended December 31, 2007 and 2006, the basic weighted average number of outstanding shares increased by 329,306 and 17,860,874, respectively, and for the years ended December 31, 2007 and 2006, the diluted weighted average number of outstanding shares decreased by 8,809,926 and 10,426,969, respectively.
- On the consolidated statement of stockholders' equity, at December 31, 2008, 2007 and 2006, the number of issued and outstanding shares of preferred stock decreased to none from 247,798, 495,791 and 1,533,973, respectively. In addition, at December 31, 2008 and 2007, the number of issued and outstanding shares of common stock decreased to 23,323,860 by 5,780,250 and 1,210,631, respectively, and at December 31, 2006, the number of issued and outstanding shares of common stock increased to 19,785,836 by 14,400,000; and
- On the consolidated statement of cash flows, for the year ended December 31, 2006, as supplemental disclosure for a non-cash item, preferred stock issued for consulting services to be rendered was reduced to none from \$1,468,930. The restatements had no impact on the Company's cash or cash flows.

The restated consolidated balance sheets have been restated as follows:

### Consolidated Balance Sheets

|  | As of December 31, 2008   |                    |                   |
|--|---------------------------|--------------------|-------------------|
|  | As Previously<br>Reported | Adjustments        | As Restated       |
|  | \$                        | \$                 | \$                |
| <b>ASSETS</b>  |                           |                    |                   |
| Current assets:  |                           |                    |                   |
| Cash and cash equivalents                                  | 5,827,132                 | -                  | 5,827,132         |
| Restricted cash  | 4,427,439                 | -                  | 4,427,439         |
| Trade receivables, net of provision                        | 11,761,228                | -                  | 11,761,228        |
| Inventory, net   | 12,670,567                | -                  | 12,670,567        |
| Prepayments  | 1,952,882                 | (1,468,930)        | 483,952           |
| Other current assets                                       | 6,419,106                 | -                  | 6,419,106         |
| Amounts due from affiliates                                | 11,147,103                | -                  | 11,147,103        |
| Total current assets                                       | 54,205,457                | (1,468,930)        | 52,736,527        |
| Property and equipment, net                                | 2,905,927                 | -                  | 2,905,927         |
| Goodwill   | 39,734                    | -                  | 39,734            |
| <b>TOTAL ASSETS</b>  | <b>57,151,118</b>         | <b>(1,468,930)</b> | <b>55,682,188</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                |                           |                    |                   |
| Current liabilities:                                       |                           |                    |                   |
| Short-term borrowings                                      | 9,935,435                 | -                  | 9,935,435         |
| Obligations due under finance lease – current portion      | -                         | -                  | -                 |
| Bills payable  | 1,333,502                 | -                  | 1,333,502         |
| Trade payables   | 3,795,196                 | -                  | 3,795,196         |
| Deposits received  | 19,887,368                | -                  | 19,887,368        |
| Other current liabilities                                  | 7,405,454                 | -                  | 7,405,454         |
| Amounts due to affiliates                                  | 2,433,340                 | -                  | 2,433,340         |
| <b>TOTAL LIABILITIES</b>                                   | <b>44,790,295</b>         | <b>-</b>           | <b>44,790,295</b> |
| Minority interests   | 7,104,333                 | -                  | 7,104,333         |
| Commitments and Contingencies                              |                           |                    |                   |
| Stockholders' equity                                       |                           |                    |                   |
| Preferred stock  |                           |                    |                   |
| Authorized: 100,000,000 preferred stock, par value \$0.001 |                           |                    |                   |
| Issued and outstanding: 2008: 247,798 (note 1)             | 248                       | (248)              | -                 |
| Common stock   |                           |                    |                   |
| Authorized: 100,000,000 common stock, par value \$0.005    |                           |                    |                   |
| Issued and outstanding: 2008: 29,104,110 (note 2)          | 145,521                   | (28,902)           | 116,619           |
| Additional paid-in capital                                 | 5,558,888                 | (1,439,780)        | 4,119,108         |
| Accumulated other comprehensive income                     | 247,279                   | -                  | 247,279           |
| Accumulated deficit  | (695,446)                 | -                  | (695,446)         |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                          | <b>5,256,490</b>          | <b>(1,468,930)</b> | <b>3,787,560</b>  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>          | <b>57,151,118</b>         | <b>(1,468,930)</b> | <b>55,682,188</b> |

## Consolidated Balance Sheets

|  | As of December 31, 2007   |                    |                   |
|--|---------------------------|--------------------|-------------------|
|  | As Previously<br>Reported | Adjustments        | As Restated       |
|  | \$                        | \$                 | \$                |
| <b>ASSETS</b>  |                           |                    |                   |
| Current assets:  |                           |                    |                   |
| Cash and cash equivalents                                  | 6,583,566                 | -                  | 6,583,566         |
| Restricted cash  | 1,154,226                 | -                  | 1,154,226         |
| Trade receivables, net of provision                        | 10,440,455                | -                  | 10,440,455        |
| Inventory, net   | 9,162,934                 | -                  | 9,162,934         |
| Prepayments  | 1,602,793                 | (1,468,930)        | 133,863           |
| Other current assets                                       | 2,931,877                 | -                  | 2,931,877         |
| Amounts due from affiliates                                | 10,226,161                | -                  | 10,226,161        |
| Total current assets                                       | 42,102,012                | (1,468,930)        | 40,633,082        |
| Property and equipment, net                                | 2,050,850                 | -                  | 2,050,850         |
| Goodwill   | 39,436                    | -                  | 39,436            |
| <b>TOTAL ASSETS</b>  | <b>44,192,298</b>         | <b>(1,468,930)</b> | <b>42,723,368</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                |                           |                    |                   |
| Current liabilities:                                       |                           |                    |                   |
| Short-term borrowings                                      | 5,274,838                 | -                  | 5,274,838         |
| Obligations due under finance lease – current portion      | 110,996                   | -                  | 110,996           |
| Bills payable  | 2,659,191                 | -                  | 2,659,191         |
| Trade payables   | 1,063,265                 | -                  | 1,063,265         |
| Deposits received  | 16,306,698                | -                  | 16,306,698        |
| Other current liabilities                                  | 7,088,429                 | -                  | 7,088,429         |
| Amounts due to affiliates                                  | 1,457,134                 | -                  | 1,457,134         |
| <b>TOTAL LIABILITIES</b>                                   | <b>33,960,551</b>         | <b>-</b>           | <b>33,960,551</b> |
| Minority interests   | 4,918,636                 | -                  | 4,918,636         |
| Commitments and Contingencies                              |                           |                    |                   |
| Stockholders' equity                                       |                           |                    |                   |
| Preferred stock  |                           |                    |                   |
| Authorized: 100,000,000 preferred stock, par value \$0.001 |                           |                    |                   |
| Issued and outstanding: 2007: 495,791 (note 1)             | 496                       | (496)              | -                 |
| Common stock   |                           |                    |                   |
| Authorized: 100,000,000 common stock, par value \$0.005    |                           |                    |                   |
| Issued and outstanding: 2007: 24,534,491 (note 2)          | 122,672                   | (6,053)            | 116,619           |
| Additional paid-in capital                                 | 5,581,489                 | (1,462,381)        | 4,119,108         |
| Accumulated other comprehensive income                     | 118,892                   | -                  | 118,892           |
| Accumulated deficit  | (510,438)                 | -                  | (510,438)         |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                          | <b>5,313,111</b>          | <b>(1,468,930)</b> | <b>3,844,181</b>  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>          | <b>44,192,298</b>         | <b>(1,468,930)</b> | <b>42,723,368</b> |

Note:

1. The Company did not have any authorized shares or any class or series of preferred stock at any of the dates referenced in the balance sheets. The references to an authorized class or series of preferred stock and any issued and outstanding shares of preferred stock have been deleted from the restated balance sheets at December 31, 2008 and 2007.
2. At December 31, 2008 and 2007, giving effect to the transactions related to the restatements discussed in this Note 22, there were issued and outstanding 23,323,860 shares of common stock.

The restated consolidated statements of operations have been restated as follows:

### Consolidated Statement of Operations

|  | <b>For the year ended December 31, 2008</b> |                    |                      |
|--|---|--------------------|----------------------|
|  | <b>As Previously<br/>Reported</b>           | <b>Adjustments</b> | <b>As Restated</b>   |
| <b>Sales:</b>  |   |                    |                      |
| New and used vehicles                                      | \$ 115,351,403                              | \$ -               | \$ 115,351,403       |
| Parts and services and others                              | 7,297,701                                   | -                  | 7,297,701            |
| Fashion apparel and accessories                            | 930,411                                     | -                  | 930,411              |
| <b>Net sales</b>   | <b>123,579,515</b>                          | <b>-</b>           | <b>123,579,515</b>   |
| <b>Cost of sales:</b>                                      |   |                    |                      |
| New and used vehicles                                      | (100,359,636)                               | -                  | (100,359,636)        |
| Parts and services and others                              | (1,715,857)                                 | -                  | (1,715,857)          |
| Fashion apparel and accessories                            | (581,167)                                   | -                  | (581,167)            |
| <b>Total cost of sales</b>                                 | <b>(102,656,660)</b>                        | <b>-</b>           | <b>(102,656,660)</b> |
| <b>Gross profit:</b>                                       |   |                    |                      |
| New and used vehicles                                      | 14,991,767                                  | -                  | 14,991,767           |
| Parts and services and others                              | 5,581,844                                   | -                  | 5,581,844            |
| Fashion apparel and accessories                            | 349,244                                     | -                  | 349,244              |
| <b>Total gross profit</b>                                  | <b>20,922,855</b>                           | <b>-</b>           | <b>20,922,855</b>    |
| Selling, general and administrative expenses               | (18,964,700)                                | -                  | (18,964,700)         |
| <b>Operating earnings</b>                                  | <b>1,958,155</b>                            | <b>-</b>           | <b>1,958,155</b>     |
| <b>Other income (expenses)</b>                             |   |                    |                      |
| Interest expenses and other finance costs                  | (569,473)                                   | -                  | (569,473)            |
| Share of result of an associate                            | -   | -                  | -                    |
| Other income   | 1,566,567                                   | -                  | 1,566,567            |
| Loss on disposal of interest in an associate               | -   | -                  | -                    |
| Total other income (expenses)                              | 997,094                                     | -                  | 997,094              |
| <b>Earnings before minority interests and income taxes</b> | <b>2,955,249</b>                            | <b>-</b>           | <b>2,955,249</b>     |
| Provision for income taxes                                 | (954,560)                                   | -                  | (954,560)            |
| <b>Earnings before minority interests</b>                  | <b>2,000,689</b>                            | <b>-</b>           | <b>2,000,689</b>     |
| Minority interests   | (2,185,697)                                 | -                  | (2,185,697)          |
| <b>Net (loss) earnings</b>                                 | <b>\$ (185,008)</b>                         | <b>\$ -</b>        | <b>\$ (185,008)</b>  |
| <b>(Loss) Earnings per share</b>                           |   |                    |                      |
| <b>Basic</b>   | <b>\$ (0.0066)</b>                          | <b>\$ (0.0013)</b> | <b>\$ (0.0079)</b>   |

|  |    |            |    |             |       |            |
|--|----|------------|----|-------------|-------|------------|
| <b>Diluted</b>                                       | \$ | (0.0066)   | \$ | (0.0013)    | \$    | (0.0079)   |
| <hr/>  |    |            |    |             |       |            |
| <b>Weighted average number of shares outstanding</b> |    |            |    |             |       |            |
| <hr/>  |    |            |    |             |       |            |
| Basic  |    | 28,064,991 |    | (4,741,131) |       | 23,323,860 |
|  |    | <hr/>      |    |             | <hr/> | <hr/>      |
| Diluted  |    | 28,064,991 |    | (4,741,131) |       | 23,323,860 |
|  |    | <hr/>      |    |             | <hr/> | <hr/>      |



**For the year ended December 31, 2007**

|  | <b>As Previously<br/>Reported</b> | <b>Adjustments</b> | <b>As Restated</b>  |
|--|-----------------------------------|--------------------|---------------------|
| <b>Sales:</b>  |                                   |                    |                     |
| New and used vehicles                                      | \$ 99,968,991                     | \$ -               | \$ 99,968,991       |
| Parts and services and others                              | 6,534,311                         | -                  | 6,534,311           |
| Fashion apparel and accessories                            | 9,169                             | -                  | 9,169               |
| <b>Net sales</b>   | <b>106,512,471</b>                | <b>-</b>           | <b>106,512,471</b>  |
| <b>Cost of sales:</b>                                      |                                   |                    |                     |
| New and used vehicles                                      | (87,694,346)                      | -                  | (87,694,346)        |
| Parts and services and others                              | (2,071,029)                       | -                  | (2,071,029)         |
| Fashion apparel and accessories                            | (3,083)                           | -                  | (3,083)             |
| <b>Total cost of sales</b>                                 | <b>(89,768,458)</b>               | <b>-</b>           | <b>(89,768,458)</b> |
| <b>Gross profit:</b>                                       |                                   |                    |                     |
| New and used vehicles                                      | 12,274,645                        | -                  | 12,274,645          |
| Parts and services and others                              | 4,463,282                         | -                  | 4,463,282           |
| Fashion apparel and accessories                            | 6,086                             | -                  | 6,086               |
| <b>Total gross profit</b>                                  | <b>16,744,013</b>                 | <b>-</b>           | <b>16,744,013</b>   |
| Selling, general and administrative expenses               | (13,788,348)                      | -                  | (13,788,348)        |
| <b>Operating earnings</b>                                  | <b>2,955,665</b>                  | <b>-</b>           | <b>2,955,665</b>    |
| <b>Other income (expenses)</b>                             |                                   |                    |                     |
| Interest expenses and other finance costs                  | (770,521)                         | -                  | (770,521)           |
| Share of result of an associate                            | (149,871)                         | -                  | (149,871)           |
| Other income   | 1,178,167                         | -                  | 1,178,167           |
| Loss on disposal of interest in an associate               | (252,305)                         | -                  | (252,305)           |
| Total other income (expenses)                              | 5,470                             | -                  | 5,470               |
| <b>Earnings before minority interests and income taxes</b> | <b>2,961,135</b>                  | <b>-</b>           | <b>2,961,135</b>    |
| Provision for income taxes                                 | (538,579)                         | -                  | (538,579)           |
| <b>Earnings before minority interests</b>                  | <b>2,422,556</b>                  | <b>-</b>           | <b>2,422,556</b>    |
| Minority interests   | (1,600,294)                       | -                  | (1,600,294)         |
| <b>Net (loss) earnings</b>                                 | <b>\$ 822,262</b>                 | <b>\$ -</b>        | <b>\$ 822,262</b>   |
| <b>(Loss) Earnings per share</b>                           |                                   |                    |                     |
| <b>Basic</b>   | <b>\$ 0.0418</b>                  | <b>\$ (0.0007)</b> | <b>\$ 0.0411</b>    |
| <b>Diluted</b>   | <b>\$ 0.0285</b>                  | <b>\$ 0.0126</b>   | <b>\$ 0.0411</b>    |
| <b>Weighted average number of shares outstanding</b>       |                                   |                    |                     |
| Basic  | 19,689,806                        | 329,306            | 20,019,112          |
| Diluted  | 28,829,038                        | (8,809,926)        | 20,019,112          |

**For the year ended December 31, 2006**

|  | <u>As Previously<br/>Reported</u> | <u>Adjustments</u>  | <u>As Restated</u>  |
|--|-----------------------------------|---------------------|---------------------|
| <b>Sales:</b>  |                                   |                     |                     |
| New and used vehicles                                      | \$ 65,625,911                     | \$ -                | \$ 65,625,911       |
| Parts and services and others                              | 5,908,679                         | -                   | 5,908,679           |
| Fashion apparel and accessories                            | -                                 | -                   | -                   |
| <b>Net sales</b>   | <u>71,534,590</u>                 | <u>-</u>            | <u>71,534,590</u>   |
| <b>Cost of sales:</b>                                      |                                   |                     |                     |
| New and used vehicles                                      | (56,865,472)                      | -                   | (56,865,472)        |
| Parts and services and others                              | (2,095,726)                       | -                   | (2,095,726)         |
| Fashion apparel and accessories                            | -                                 | -                   | -                   |
| <b>Total cost of sales</b>                                 | <u>(58,961,198)</u>               | <u>-</u>            | <u>(58,961,198)</u> |
| <b>Gross profit:</b>                                       |                                   |                     |                     |
| New and used vehicles                                      | 8,760,439                         | -                   | 8,760,439           |
| Parts and services and others                              | 3,812,953                         | -                   | 3,812,953           |
| Fashion apparel and accessories                            | -                                 | -                   | -                   |
| <b>Total gross profit</b>                                  | <u>12,573,392</u>                 | <u>-</u>            | <u>12,573,392</u>   |
| Selling, general and administrative expenses               | (10,933,655)                      | -                   | (10,933,655)        |
| <b>Operating earnings</b>                                  | <u>1,639,737</u>                  | <u>-</u>            | <u>1,639,737</u>    |
| <b>Other income (expenses)</b>                             |                                   |                     |                     |
| Interest expenses and other finance costs                  | (432,774)                         | -                   | (432,774)           |
| Share of result of an associate                            | 358,792                           | -                   | 358,792             |
| Other income   | 224,489                           | -                   | 224,489             |
| Loss on disposal of interest in an associate               | -                                 | -                   | -                   |
| Total other income (expenses)                              | <u>150,507</u>                    | <u>-</u>            | <u>150,507</u>      |
| <b>Earnings before minority interests and income taxes</b> | <u>1,790,244</u>                  | <u>-</u>            | <u>1,790,244</u>    |
| Provision for income taxes                                 | (270,514)                         | -                   | (270,514)           |
| <b>Earnings before minority interests</b>                  | <u>1,519,730</u>                  | <u>-</u>            | <u>1,519,730</u>    |
| Minority interests   | (960,666)                         | -                   | (960,666)           |
| <b>Net (loss) earnings</b>                                 | <u>\$ 559,064</u>                 | <u>\$ -</u>         | <u>\$ 559,064</u>   |
| <b>(Loss) Earnings per share</b>                           |                                   |                     |                     |
| <b>Basic</b>   | <u>\$ 0.3297</u>                  | <u>\$ (0.3011)</u>  | <u>\$ 0.0286</u>    |
| <b>Diluted</b>   | <u>\$ 0.0186</u>                  | <u>\$ 0.0100</u>    | <u>\$ 0.0286</u>    |
| <b>Weighted average number of shares outstanding</b>       |                                   |                     |                     |
| Basic  | <u>1,695,914</u>                  | <u>17,860,874</u>   | <u>19,556,788</u>   |
| Diluted  | <u>29,983,757</u>                 | <u>(10,426,969)</u> | <u>19,556,788</u>   |

The restated consolidated statement of stockholders' equity and comprehensive income have been restated as follows:

For the year ended December 31, 2008

|                        | Preferred stock |        | Common stock |          | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity | Comprehensive income (loss) |
|------------------------|-----------------|--------|--------------|----------|----------------------------|---------------------|--|----------------------------|-----------------------------|
|                        | Shares          | Amount | Shares       | Amount   |                            |                     |  |                            |                             |
| As Previously Reported | 247,798         | 248    | 29,104,110   | 145,521  | 5,558,888                  | (695,446)           | 247,279                                | 5,256,490                  | (56,621)                    |
| Adjustments            | (247,798)       | (248)  | (5,780,250)  | (28,902) | (1,439,780)                | -                   | -                                      | (1,468,930)                | -                           |
| As Restated            | -               | -      | 23,323,860   | 116,619  | 4,119,108                  | (695,446)           | 247,279                                | 3,787,560                  | \$ (56,621)                 |

For the year ended December 31, 2007

|                        | Preferred stock |        | Common stock |         | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity | Comprehensive income (loss) |
|------------------------|-----------------|--------|--------------|---------|----------------------------|---------------------|--|----------------------------|-----------------------------|
|                        | Shares          | Amount | Shares       | Amount  |                            |                     |  |                            |                             |
| As Previously Reported | 495,791         | 496    | 24,534,491   | 122,672 | 5,581,489                  | (510,438)           | 118,892                                | 5,313,111                  | 889,647                     |
| Adjustments            | (495,791)       | (496)  | (1,210,631)  | (6,053) | (1,462,381)                | -                   | -                                      | (1,468,930)                | -                           |
| As Restated            | -               | -      | 23,323,860   | 116,619 | 4,119,108                  | (510,438)           | 118,892                                | 3,844,181                  | \$ 889,647                  |

For the year ended December 31, 2006

|                        | Preferred stock |         | Common stock |        | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity | Comprehensive income (loss) |
|------------------------|-----------------|---------|--------------|--------|----------------------------|---------------------|--|----------------------------|-----------------------------|
|                        | Shares          | Amount  | Shares       | Amount |                            |                     |  |                            |                             |
| As Previously Reported | 1,533,973       | 1,534   | 5,385,836    | 26,961 | 5,676,162                  | (1,332,700)         | 51,507                                 | 4,423,464                  | 564,395                     |
| Adjustments            | (1,533,973)     | (1,534) | 14,400,000   | 72,000 | (1,539,396)                | -                   | -                                      | (1,468,930)                | -                           |
| As Restated            | -               | -       | 19,785,836   | 98,961 | 4,136,766                  | (1,332,700)         | 51,507                                 | 2,954,534                  | \$ 564,395                  |

The restated consolidated statement of cash flows have been restated as follows:

**Consolidated Statement of Cash Flows**

|   | <b>For the year ended December 31, 2006</b> |                    |                     |
|---|---|--------------------|---------------------|
|   | <b>As Previously<br/>Reported</b>           | <b>Adjustments</b> | <b>As Restated</b>  |
| <b>Cash flows from operating activities:</b>  |   |                    |                     |
| Net (loss) earnings   | \$ 559,064                                  | \$ -               | \$ 559,064          |
| Adjustments to reconcile net (loss)/earnings to net cash provided by operating activities |   |                    |                     |
| Minority interests  | 960,666                                     | -                  | 960,666             |
| Depreciation and amortization   | 568,655                                     | -                  | 568,655             |
| Gain on disposal of property and equipment  | -   | -                  | -                   |
| Loss on disposal of investment in associate   | -   | -                  | -                   |
| Provision (written back) for bad debts and bad debts written off                          | 41,016                                      | -                  | 41,016              |
| Provision (written back) for inventory  | -   | -                  | -                   |
| Equity earnings of an associate   | (358,792)                                   | -                  | (358,792)           |
| Provision for income taxes  | 270,514                                     | -                  | 270,514             |
| Common stock issued for services received   | 175,000                                     | -                  | 175,000             |
| Other non-cash items  | 27,627                                      | -                  | 27,627              |
| Changes in operating assets and liabilities:  |   |                    |                     |
| Trade receivables   | (5,892,474)                                 | -                  | (5,892,474)         |
| Other current assets  | 1,997,229                                   | -                  | 1,997,229           |
| Inventory   | (1,757,085)                                 | -                  | (1,757,085)         |
| Trade payables  | 335,229                                     | -                  | 335,229             |
| Other current liabilities   | 5,253,962                                   | -                  | 5,253,962           |
| Net cash provided by operating activities   | <u>2,180,611</u>                            | <u>-</u>           | <u>2,180,611</u>    |
| <b>Cash flows from investing activities:</b>  |   |                    |                     |
| Acquisition of additional interest in a subsidiary  | -   | -                  | -                   |
| Cash acquired upon reverse merger   | 1,272                                       | -                  | 1,272               |
| Increase in restricted cash   | (385,629)                                   | -                  | (385,629)           |
| Purchases of property, plant and equipment  | (890,769)                                   | -                  | (890,769)           |
| Proceeds from disposal of property and equipment  | -   | -                  | -                   |
| Proceeds from disposal of interest in an associate  | -   | -                  | -                   |
| Net cash used in investing activities   | <u>(1,275,126)</u>                          | <u>-</u>           | <u>(1,275,126)</u>  |
| <b>Cash flows from financing activities:</b>  |   |                    |                     |
| Advances to affiliates  | (4,455,496)                                 | -                  | (4,455,496)         |
| Repayments from (advances to) an associate  | 85,876                                      | -                  | 85,876              |
| Increase (decrease) in short-term borrowings and bills payable                            | 6,487,016                                   | -                  | 6,487,016           |
| Net cash provided by (used in) financing activities                                       | <u>2,117,396</u>                            | <u>-</u>           | <u>2,117,396</u>    |
| (Decrease) increase in cash and cash equivalents  | 3,022,881                                   | -                  | 3,022,881           |
| Cash and cash equivalents at beginning of the period                                      | 452,754                                     | -                  | 452,754             |
| Cash and cash equivalents at end of the period  | <u>\$ 3,475,635</u>                         | <u>\$ -</u>        | <u>\$ 3,475,635</u> |
| <b>Supplemental disclosure of cash flows information:</b>                                 |   |                    |                     |
| Cash paid for:  |   |                    |                     |
| Interest  | \$ 432,774                                  | \$ -               | \$ 432,774          |
| Income taxes  | \$ -  | \$ -               | \$ -                |
| <b>Supplemental disclosure of non-cash information:</b>                                   |   |                    |                     |
| Preferred stock issued for consulting services to be received                             | \$ 1,468,930                                | \$ (1,468,930)     | \$ -                |

Common stock issued for consulting services received

|                             |         |                             |   |                             |         |
|-----------------------------|---------|-----------------------------|---|-----------------------------|---------|
| \$                          | 175,000 | \$                          | - | \$                          | 175,000 |
| <u>                    </u> |         | <u>                    </u> |   | <u>                    </u> |         |
| <u>                    </u> |         | <u>                    </u> |   | <u>                    </u> |         |

*End of consolidated financial statements.*

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A(T). CONTROLS AND PROCEDURES**

*NOTE: This Item 9A(T). Controls and Procedures has been updated to reflect the restatement of our audited financial statements for the years ended December 31, 2008, 2007 and 2006, the restatement of our unaudited interim financial statements for the periods ended September 30, 2006 through September 30, 2009, the amendment of certain Notes to our audited financial statements for our former fiscal year ended June 30, 2006 and the amendment of certain Notes to our unaudited interim financial statements for the period ended March 31, 2006, as discussed above in the Explanatory Note at the beginning of this Report and in Note 22 of the Notes to the consolidated financial statements included in this Report.*

#### **Reevaluation of Effectiveness of Internal Control over Financial Reporting and Disclosure Controls and Procedures**

This Form 10-K/A presents restatements of the financial statements for the covered period. In connection with this Form 10-K/A, our management reevaluated the effectiveness of our internal control over financial reporting and our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2008. In assessing whether our internal control over financial reporting and disclosure controls and procedures were effective as of such date, our management considered the impact of the restatements to our consolidated audited financial statements for the year ended December 31, 2008, as outlined in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under the section heading "Restatements," as well as our control environment. In connection with our reevaluation, we discovered material weaknesses in our internal control over financial reporting and determined that our disclosure controls and procedures were not adequate as of the end of the period covered by this report.

#### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by Section 404A of the Sarbanes-Oxley Act of 2002 ("SOX"). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

During the pendency of the Federal Court Action and preparing for our 2009 year end evaluation of effectiveness of our system of internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and SEC guidance on conducting such assessments, our management concluded that our system of internal control over financial reporting was not effective as of the period ended March 31, 2006 through the period ended September 30, 2009, which resulted in the restatements described in the Explanatory Note at the beginning of this Report and Note 22 of the Notes to the consolidated financial statements included in this Report.

Our management has identified internal control deficiencies which resulted in the material restatements described above and which, in our management's judgment, represented a material weakness in internal control over financial reporting. The control deficiencies related to controls over the accounting and disclosure for certain transactions to ensure that such transactions were recorded as necessary to permit preparation of financial statements and disclosure in accordance with GAAP.

Specifically, the control deficiencies related to:

- the invalid adoption of certain purported amendments to our Articles of Incorporation,
- the unauthorized issuance by prior management of shares of our capital stock, and
- the lack of recognition of the receipt of services from certain third party consultants on our financial statements.

A material weakness in internal controls is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by us.

In the course of our revised assessment of internal controls over financial reporting, we also re-assessed our disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act. Our management is responsible for establishing and maintaining an adequate system of disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls also are designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls include components of internal control over financial reporting, which consists of control processes designated to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles.

We have determined that our material weakness in internal controls over financial reporting was also a weakness in our disclosure controls and procedures, since such weakness related to the disclosure controls which provide us with reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on its assessment, including consideration of the aforementioned material weaknesses, and the criteria discussed above, management has restated its conclusion relative to the effectiveness of our internal control over financial reporting and disclosure controls and procedures as of December 31, 2008. Accordingly, our management has concluded that our internal control over financial reporting and our disclosure controls and procedures were not effective as of December 31, 2008 to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, and summarized within the appropriate periods.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the our registered public accounting firm pursuant to temporary rules of the SEC to provide only management's report in this annual report.

## **Management's Report on Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining an adequate system of disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls also are designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls include components of internal control over financial reporting, which consists of control processes designated to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

We have determined that our material weakness in internal controls over financial reporting was also a weakness in our disclosure controls and procedures, since such weakness related to the disclosure controls which provide us with reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on its assessment, including consideration of the above-mentioned material weakness, and the criteria discussed above, management has restated its conclusion relative to the effectiveness of our internal control over financial reporting and disclosure controls and procedures as of December 31, 2008. Accordingly, our management has concluded that our internal control over financial reporting and that our disclosure controls and procedures were not effective as of December 31, 2008 to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, and summarized within the appropriate periods.

This Form 10-K/A does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the our registered public accounting firm pursuant to temporary rules of the SEC to provide only management's report in this annual report.

Management will continue to evaluate the effectiveness of our internal controls over financial reporting and our disclosure controls and procedures on an ongoing basis, and has taken action and implemented improvements as necessary.

## **Changes in Internal Controls over Financial Reporting**

No changes to our internal control over financial reporting or disclosure controls and procedures were made to rectify the material weakness during the period covered by this Form 10-K/A because such weakness was not known at that time. However, subsequent to the period, we remediated this weakness by:

- retaining new advisors to advise us and adopting a policy to consult with such advisors (or other outside experts) regarding complex legal and accounting issues;
- completing a review and updated risk assessment of all of our financial controls and procedures; and
- reviewing and instituting controls for each weakness.



**ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following tables set forth information regarding the Company's current executive officers and directors of the Company. The Board of Directors is comprised of only one class. Except as otherwise described below, all of the directors will serve until the next annual meeting of stockholders or until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Also provided herein are brief descriptions of the business experience of each director and executive officer during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the federal securities laws.

| <u>Name</u>          | <u>Age</u> | <u>Position</u>   | <u>Director Since</u> |
|----------------------|------------|---|-----------------------|
| Richard Man Fai Lee  | 52         | Chief Executive Officer, President and Chairman of the Board of Directors | November 2006         |
| Herbert Adamczyk     | 68         | Chief Operating Officer and Director                                      | November 2006         |
| Joseph Tik Tung Wong | 52         | Chief Financial Officer and Treasurer                                     | November 2006         |
| Fred De Luca         | 78         | Director  | September 2005        |
| Yun Fai Leung        | 52         | Independent Non-Executive Director  | November 2008         |
| Nils A. Ollquist     | 52         | Director  | February 2009         |

#### BUSINESS EXPERIENCE DESCRIPTIONS

The business background descriptions of the executive officers and directors are as follows:

*Richard Man Fai Lee* is 52 years old and has served as the Company's Chief Executive Officer and President since 2006. Mr. Lee is the Executive Chairman and Chief Executive Officer of Wo Kee Hong (Holdings) Limited, a Hong Kong Stock Exchange listed company, and through Corich Enterprises Inc., the controlling shareholder of Technorient Limited. He is responsible for formulating the overall strategic planning and business development of Wo Kee Hong (Holdings) Limited and its group companies (the "Wo Kee Hong Group"), which include the Company. Mr. Lee has 29 years experience in marketing consumer products. He has a bachelor's degree and a master's degree in business administration from the University of Minnesota. In September 2006, Mr. Lee was bestowed the title of "Commander of the Order of the Star of Italian Solidarity" by Hon. Romano Prodi, the Prime Minister of Italy, in recognition of his contribution in advancing Italian business and culture in Hong Kong and China. He was also elected and had served for two consecutive terms as the Chairman of the Radio Association of Hong Kong, the trade association of audio visual business in Hong Kong. He has been with the Wo Kee Hong Group for 25 years.

*Herbert Adamczyk* is 68 years old and has served as the Company's Chief Operating Officer since 2006. Mr. Adamczyk is also the Managing Director of Technorient. He has over 44 years of experience in the automotive trade in Hong Kong. Originally a semi-professional racing driver and a senior engineer with Volkswagen and Porsche in Germany, Middle East and Hong Kong, Mr. Adamczyk has been with Technorient, a member of the Wo Kee Hong Group, for 26 years.

*Joseph Tik Tung Wong, FCCA, CPA* is 52 years old and has served as the Company's Chief Financial Officer and Treasurer since 2006. Mr. Wong is also an Executive Director and the Chief Financial Officer of Wo Kee Hong (Holdings) Limited. He is a qualified accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is an Independent Non-executive Director of Chi Cheung Investment Company, Limited.

*Fred De Luca* is 78 years old and has been a Director of the Company since September 2005. Mr. De Luca practiced corporate law over a twenty-nine year period as a former member of the State Bar of California (“State Bar”). Some years thereafter, from July 1999 until January 2003, Mr. De Luca served as Secretary and as a consultant to Quicktest 5, Inc. In January 2003, Quicktest 5, Inc. was the surviving entity of a merger with a public company and became QT5, Inc., the predecessor entity to the Company. Mr. De Luca continued to serve as Secretary and consultant to Addison-Davis Diagnostics, Inc. (formerly QT 5, Inc.) from January 2003 to the present. In addition, in September 2004 he became a director of Addison-Davis Diagnostics, Inc. From July 1995 to the present, Mr. De Luca has also served as Secretary, director and consultant to Sound City Entertainment Group. From September 1989 to the present, Mr. De Luca has been a consultant to Automotive Racing Products. Mr. De Luca served as Secretary of the Company from September 2005 until November 2006. Mr. De Luca earned his undergraduate degree at University California Los Angeles (UCLA) and his law degree at Southwestern University School of Law. In connection with the Company’s investigation regarding its claims in the Federal Court Action, the Company has learned the following according to State Bar records: On February 16, 1989, Mr. De Luca became voluntarily inactive, tendering his resignation to the State Bar (with charges pending). State Bar records list a disciplinary file number of 89-Q-10417 for Mr. De Luca. On February 2, 1990, his status was officially changed to “resigned from the California State Bar.” Further, as set forth in court filings and local media accounts, following a 1988 indictment, Mr. De Luca plead guilty to failure to report a foreign bank account and submitting false tax returns. Mr. De Luca served six months in prison and received five years’ probation.

*Yun Fai Leung* is 52 years old and is an independent non-executive Director of the Company. Mr. Leung has been a senior manager at HLM & Co a certified public accounting firm since June 2004. From March 2000 to June 2004, Mr. Leung was a director at High Progress Consultants LTD where he worked in finance and investment projects. Mr. Leung is also currently a director of G-Prop (Holdings) Ltd., a Hong Kong listed public company, and High Progress Consultants Ltd. Mr. Leung received his BBA from Newport University.

*Nils A. Ollquist* is 52 years old and is a Director of the Company. Mr. Ollquist holds degrees in economics and law from the Australian National University at Canberra, is Managing Director and a Principal of OFS Capital Group Ltd., an international merchant banking firm providing listing and capital raising services for clients through offices in the U.S., Hong Kong, Switzerland and India. Prior to founding OFS Capital Group Ltd., Mr. Ollquist served as head of Bank of America’s mergers & acquisitions group for Asia based in San Francisco and subsequently Hong Kong. Prior to his career in banking, Mr. Ollquist served as a senior executive in the Australia Federal Treasury, including a term as Senior Executive Assistant to the then Treasury Secretary. Mr. Ollquist was appointed to the Board of Directors effective February 25, 2009 to hold office for a period of six (6) months from the date of his election. Mr. Ollquist’s appointment may be extended by mutual consent or earlier terminated if he resigns or is removed by the Company.

## **OTHER KEY MANAGEMENT**

In addition to Messrs. Lee, Adamczyk and Wong whose biographical information is set forth above, the following individuals constitute the senior management of the Technorient Group.

*John Newman* - MIMI, is 42 years old and is the Executive Vice President of the Company. He is also Wo Kee Hong Group General Manager of Auto Italia and IML, both subsidiaries of the Technorient Group. He has 21 years of experience with blue chip sports and luxury car manufacturers and importers, and was a director of a successful motor racing team in Europe. He holds a Diploma in Business and Finance, is a qualified pilot and is a member of the Institute of the Motor Industry in the UK. Experienced in sales, marketing, distribution, dealer development, media communications and customer relationship management, he joined the company in 2005.

*Patrick Man Kit Li* is 52 years old and is the Corporate Secretary of the Company and the Company Secretary of the Wo Kee Hong Group. He holds a bachelor’s degree in law from Nottingham Trent University and a master’s degree in Chinese law from Peking University. Mr. Li has worked in various public companies in the fields of construction, trading and transportation listed in Hong Kong, London and Shanghai and has many years of experience in corporate compliance and corporate finance. He is an associate member of both the Institute of Chartered Secretaries and Administrators and the Association of Chartered Certified accountants.

## **FAMILY RELATIONSHIPS**

There are no family relationships among any of our directors or officers.

## **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

Richard Lee, our Chief Executive Officer, was also a director of Forward International Singapore (Private) Limited, Wo Kee Hong (Singapore) Pte Limited and Forward Electronics (Malaysia) Sdn. Bhd. Forward International Singapore (Private) Limited and Wo Kee Hong (Singapore) Pte Limited had been dissolved pursuant to creditors' winding-up proceedings commenced in the High Court of the Republic of Singapore based on an outstanding judgment debt on January 4, 2002 for the amount of Singapore Dollars 4,074,944.10 and Singapore Dollars 2,024,942.53, respectively. These winding-up proceedings concluded on September 8, 2005. Creditors' winding up proceedings of Forward Electronics (Malaysia) Sdn. Bhd. was commenced on February 13, 2008 at the High Court of Malaysia at Kuala Lumpur and was based on an outstanding judgment debt for the amount of Malaysian Ringgits 670,060.77. A winding up petition will be held on April 29, 2009 in relation thereto.

Other than the above-described bankruptcy proceeding, none of our directors or executive officers has, during the past five years:

- had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;
- been convicted in a criminal proceeding and none of our directors or executive officers is subject to a pending criminal proceeding;
- been subject to any order, judgment, or decree not subsequently reversed, suspended or vacated of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities; or
- been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Federico G. Cabo, the Company's former Chief Executive Officer and a former Director, Charles Miseroy, the Company's former Chief Financial Officer, Robert G. Pautsch, the Company's former President and a former Director, and Fred De Luca, the Company's former Secretary and a former Director, were named as defendants in the Company's Federal Court Action against HEL et al. On March 1, 2010, we settled the Federal Court Action. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.

## **COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT**

The Company is not subject to the requirements of Section 16.

## **CODE OF ETHICS**

On April 24, 2008, the Company adopted a Code of Business Conduct and Ethics (the "Code") applicable to its employees, officers and directors. A copy of the Code is filed herewith as Exhibit 14.

## **BOARD OF DIRECTORS**

Our Board of Directors is currently composed of five members, two of whom are employees. All members of our Board of Directors serve in this capacity until their terms expire or until their successors are duly elected and qualified. Our bylaws provide that the authorized number of directors shall be determined from time to time by a majority of our board of directors or stockholders.

Mr. Richard Man Fai Lee has been appointed as the Chairman of the Board of Directors and is also our Chief Executive Officer. In this capacity, he is responsible for meeting with the other executive officers and the Board to review financial and operating results, agendas and minutes of board and committee meetings, and presiding at the meetings of the committees of the Board of Directors. On November 8, 2007, Mr. Federico G. Cabo and Mr. Fred De Luca were re-elected as directors by a unanimous vote of all of the holders of preferred stock. However, as discussed in the Explanatory Note at the beginning of this Report and as previously disclosed in the Company's Current Report on Form 8-K, as filed with the SEC on May 11, 2009, the Company later determined that it was never authorized to issue any shares of preferred stock. As a result, the Company disputes whether Messrs. Cabo and De Luca were properly elected to the Board of Directors. Mr. Cabo resigned as a director of the Company on March 27, 2008. Further, Mr. De Luca resigned as a director of the Company on March 1, 2010, in connection with the settlement of the Federal Court Action. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.

#### **Board Committees and Audit Committee Financial Expert**

As of the date of this annual report, our Board of Directors had not appointed an audit, nominating or compensation committee, however, we are not currently required to have such committees. Accordingly, we do not have an "audit committee financial expert" as such term is defined in the rules promulgated under the Securities Act of 1933 and the Exchange Act of 1934, as amended. The functions ordinarily handled by these committees are currently handled by our entire Board of Directors. Our Board of Directors intends, however, to review our governance structure and institute board committees, including audit, nomination and compensation committees as necessary and advisable in the future, to facilitate the management of our business.

On November 13, 2008, prior to the Company's filing of the Federal Court Action against Happy Emerald Limited, *et al.*, the Board of Directors formed a Litigation Committee and appointed Mr. Richard Lee, Mr. Herbert Adamczyk and Mr. Yun Fai Leung to serve as the committee's members on an indefinite basis. The Litigation Committee was formed for the purpose of assisting and evaluating the Company's legal rights and interests with respect to the shares of Series A Preferred Stock that were purportedly issued to Happy Emerald Limited, all shares of common stock converted therefrom, and related matters and for making a determination as to whether the Company should file a lawsuit to protect those rights and interests. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.

### **ITEM 11. EXECUTIVE COMPENSATION**

#### **Director Compensation**

We did not have any compensation agreements or arrangements with the members of our Board of Directors for their service on the Board for our fiscal year ended December 31, 2006.

On August 20, 2007, our Board approved the payment of fees to two of our directors, namely Messrs. Cabo and De Luca, in the amount of \$5,000 per year. Accordingly, Messrs. Cabo and De Luca, each received a pro-rated director fee of \$2,500 for service on our Board from July 1, 2007 to December 31, 2007.

However, as discussed in the Explanatory Note at the beginning of this Report and as previously disclosed in the Company's Current Report on Form 8-K, as filed with the SEC on May 11, 2009, the Company later determined that it was never authorized to issue any shares of preferred stock. As a result, the Company disputes whether Messrs. Cabo and De Luca were properly elected to the Board of Directors and has accordingly suspended payments of director fees to Messrs. Cabo and De Luca.

#### **SUMMARY OF COMPENSATION**

Set out in the following table is information we are required to disclose with respect to the compensation of our executive officers for each of the last three fiscal years. The table only includes compensation information regarding our executive officers for which disclosure is required:

**SUMMARY COMPENSATION TABLE**

| Name and Principal Position  | Year | Salary  | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation Earnings | All Other Compensation | Total   |
|--|------|---------|-------|--------------|---------------|--|---|------------------------|---------|
|  |      | \$      | \$    | \$           | \$            | \$                                     | \$  | \$                     | \$      |
| Richard Man Fai Lee,<br>Chief Executive Officer and President (1)  | 2008 | 144,660 | -     | -            | -             | -                                      | -   | -                      | 144,660 |
|  | 2007 | 144,000 | -     | -            | -             | -                                      | -   | -                      | 144,000 |
|  | 2006 | 22,000  | -     | -            | -             | -                                      | -   | -                      | 22,000  |
| Herbert Adamczyk,<br>Chief Operating Officer (2)                   | 2008 | 96,440  | -     | -            | -             | -                                      | -   | -                      | 96,440  |
|  | 2007 | 96,000  | -     | -            | -             | -                                      | -   | -                      | 96,000  |
|  | 2006 | 14,667  | -     | -            | -             | -                                      | -   | -                      | 14,667  |
| Joseph Tik Tung Wong,<br>Chief Financial Officer and Treasurer (3) | 2008 | 60,275  | -     | -            | -             | -                                      | -   | -                      | 60,275  |
|  | 2007 | 60,000  | -     | -            | -             | -                                      | -   | -                      | 60,000  |
|  | 2006 | 9,167   | -     | -            | -             | -                                      | -   | -                      | 9,167   |

- (1) Mr. Richard Man Fai Lee was appointed as Chief Executive Officer and President of the Company on November 6, 2006. Pursuant to an Employment Agreement effective November 6, 2008, incorporated by reference from the Company's Report on Form 10-Q filed November 6, 2008, Mr. Lee was re-appointed Chief Executive Officer and President of the Company.
- (2) Mr. Herbert Adamczyk was appointed as Chief Operating Officer of the Company on November 6, 2006. Pursuant to an Employment Agreement effective November 6, 2008, incorporated by reference from the Company's Report on Form 10-Q filed November 6, 2008, Mr. Adamczyk was re-appointed Chief Operating Officer of the Company.
- (3) Mr. Joseph Tik Tung Wong was appointed as Chief Financial Officer and Treasurer of the Company on November 6, 2006. Pursuant to an Employment Agreement effective November 6, 2008, incorporated by reference from the Company's Report on Form 10-Q filed November 6, 2008, Mr. Wong was re-appointed Chief Financial Officer and Treasurer of the Company.

**Narrative Disclosure to Summary Compensation Table**

The following are summaries of the Company's employment agreements (collectively referred to hereinafter as the "Executive Employment Agreements") with the executive officers described above. Copies of these Employment Agreements are attached hereto as Exhibits 10.6 through 10.9 to the Current Report on Form 8-K filed by the Company with the SEC on November 6, 2008 and are incorporated herein by reference. The descriptions in these summaries are qualified, in their entirety, by the text of such exhibits.

The Company entered into an Employment Agreement with Mr. Richard Man Fai Lee on November 6, 2008. Effective November 6, 2008, Mr. Lee was re-appointed Chief Executive Officer and President of the Company and his salary is US\$148,320 per year for a term of two years. Such salary is subject to an annual review and upward adjustment or no adjustment in the sole discretion of the Company. Mr. Lee is also eligible for a bonus for each calendar year in an amount to be determined by the Company's Board of Directors. Pursuant to the terms of the agreement, Mr. Lee is also entitled to receive reimbursements for all reasonable and necessary business and entertainment expenses, including but not limited to expenses for business development, travel, meals and accommodations that Mr. Lee incurs in connection with the performance of his duties. Mr. Lee is also entitled to all insurance and other benefit plans and policies maintained for the Company's senior executives, as well as being entitled to coverage under the Company's indemnification policies and director and officer liability policies in amounts reasonably determined by the Company.

The Company entered into an Employment Agreement with Mr. Herbert Adamczyk on November 6, 2008. Effective November 6, 2008, Mr. Adamczyk was re-appointed Chief Operating Officer of the Company and his salary is US\$98,880 per year for a term of two years. Such salary is subject to an annual review and upward adjustment or no adjustment in the sole discretion of the Company. Mr. Adamczyk is also eligible for a bonus for each calendar year in an amount to be determined by the Company's Board of Directors. Pursuant to the terms of the agreement, Mr. Adamczyk is also entitled to receive reimbursements for all reasonable and necessary business and entertainment expenses, including but not limited to expenses for business development, travel, meals and accommodations that Mr. Adamczyk incurs in connection with the performance of his duties. Mr. Adamczyk is also entitled to all insurance and other benefit plans and policies maintained for the Company's senior executives, as well as being entitled to coverage under the Company's indemnification policies and director and officer liability policies in amounts reasonably determined by the Company.

The Company entered into an Employment Agreement with Mr. Joseph Tik Tung Wong on November 6, 2008. Effective November 6, 2008, Mr. Wong was re-appointed Chief Financial Officer and Treasurer of the Company and his salary is US\$61,800 per year for a term of two years. Such salary is subject to an annual review and upward adjustment or no adjustment in the sole discretion of the Company. Mr. Wong is also eligible for a bonus for each calendar year in an amount to be determined by the Company's Board of Directors. Pursuant to the terms of the agreement, Mr. Wong is also entitled to receive reimbursements for all reasonable and necessary business and entertainment expenses, including but not limited to expenses for business development, travel, meals and accommodations that Mr. Wong incurs in connection with the performance of his duties. Mr. Wong is also entitled to all insurance and other benefit plans and policies maintained for the Company's senior executives, as well as being entitled to coverage under the Company's indemnification policies and director and officer liability policies in amounts reasonably determined by the Company.

All of the above-described Employment Agreements state that the executive officer's (the "Executive") employment may be terminated prior to the expiration the agreement's two year term upon the occurrence of the following: (a) voluntarily termination of the agreement by the Executive giving three (3) months' notice in writing; (b) the Executive's death; (c) upon termination of the Executive by the Company for "cause", which is defined as any of the following: (i) the Executive is convicted of, or pleads nolo contendere to, a felony, (ii) the Executive has committed an act of fraud, bad faith or willful misconduct against the Company that is materially detrimental to the Company, or (iii) the Executive has materially breached any of the terms of this Agreement after written notice has been provided by the Company to the Executive regarding the specific nature of such breach and the Executive fails to cure such breach within thirty (30) days; (d) upon the good faith determination of the Board that the Executive has become so physically or mentally incapacitated or disabled as to be unable to satisfactorily perform his duties hereunder for a period of one hundred twenty (120) consecutive calendar days or for one hundred eighty (180) days in any three hundred sixty (360) day period, such determination based upon a certificate as to such physical or mental disability issued by a licensed physician and/or psychiatrist (as the case may be) mutually agreed upon by the Executive and the Company; (e) upon termination of the Executive by the Company for any reason other than for "cause" as defined in (c) above; and (f) upon termination by the Executive of his/her employment for "good reason" which is defined as the occurrence of any of the following events without the express written consent of the Executive: (i) reduction in the Executive's Salary or the benefits set forth above, and (ii) the Company breaching any of the terms of the Employment Agreement.

#### **TERMINATION OR CHANGE-IN-CONTROL**

SEC regulations state that we must disclose information regarding agreements, plans or arrangements that provide for payments or benefits to our executive officers in connection with any termination of employment or change in control of the Company. Under our 2005 Equity Incentive Plan any unvested options will, under certain circumstances, become immediately exercisable in the event of certain mergers or similar transactions involving the Company or in the event of the dissolution or liquidation of Company. However, no options, stock bonuses or stock awards have been granted to our named executive officers as of December 31, 2008 under our 2005 Equity Incentive Plan.

Pursuant to our Executive Employment Agreements with all of our Company's named executive officers that are described more fully above under the section "Narrative Disclosure To Summary Compensation Table," in the event an executive officer's voluntarily terminates his employment with the Company or such officer is terminated by the Company "for cause," (these triggering events are collectively referred to as "Trigger Events A") the Company is obligated to pay to the executive officer or his representatives on the date of termination of employment ("Termination Date"): (a) all salary compensation as is due under the Executive Employment Agreement, prorated through the Termination Date; (b) all expense reimbursements due and owed to the executive officer through the Termination Date, including reimbursements for reasonable and necessary business expenses incurred prior to the Termination Date, as long as the Executive submits a an itemized written accounting of such expenditures within forty-five (45) days of the Termination Date; and (c) all benefits due the Executive, including benefits under insurance, group health and retirement benefit plans in accordance with the Company's standard policy, if any, through the Termination Date.

Further, pursuant to these Executive Employment Agreements, in the event that an executive officer's employment is terminated without cause, terminated because of death or "physical or mental disability", or terminated by the executive officer for "good reason" (as such terms are defined and discussed more fully above under the section "Narrative Disclosure To Summary Compensation Table And Grants Of Plan-Based Awards - these triggering events are collectively referred to as "Trigger Events B") the Company is obligated to: (a) pay to the executive officer or his representatives all salary compensation that is due or will be due through the entire term of this Executive Employment Agreement; (b) pay to the executive officer or his representatives all expense reimbursements due and owing the such officer through the Termination Date, including reimbursements for reasonable and necessary business expenses incurred prior to the Termination Date, as long as the Executive submits an itemized written accounting of such expenditures within forty-five (45) days of the Termination Date; and (c) pay to the executive officer or his representatives all benefits due to such officer, including benefits, if any, under insurance, group health and retirement benefit plans in accordance with the Company's standard policy, through the Termination Date.

## **EQUITY COMPENSATION PLAN**

On May 20, 2005, we adopted an incentive equity stock plan (the "2005 Plan") that authorized the issuance of options, right to purchase common stock and stock bonuses up to 500,000 shares (as adjusted for the reverse stock split in December 2007). The purpose of the Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company by offering them an opportunity to participate in the Company's future performance through awards of stock options, the right to purchase common stock ("stock awards") and stock bonuses.

The Plan allows for the issuance of incentive stock options (which can only be granted to employees, including officers and directors of the Company's), non-qualified stock options, stock awards, or stock bonuses pursuant to Section 422 of the Internal Revenue Code. All other Awards may be granted to employees, officers, directors, consultants, independent contractors, and advisors of the Company, provided such consultants, independent contractors and advisors render bona-fide services not in connection with the offer and sale of securities in a capital-raising transaction or promotion of the Company's securities.

The Plan is administered and interpreted by a committee consisting of two or more members of the Company's Board of Directors. The 2005 Plan was filed with the Securities and Exchange Commission on June 2, 2005 as an Exhibit to a Form S-8 Registration Statement. As of December 31, 2008, there were 2,402,500 shares (before adjustment for the stock split taken place on December 7, 2007) issued and no options granted and outstanding under the 2005 Plan, and 19,500 shares were available for options, stock awards and stock bonus grants.



## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND RELATED STOCKHOLDER MATTERS

### SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

*NOTE: This Item 12 Security Ownership of Certain Beneficial Owners and Related Stockholder Matters has not been updated to reflect the restatement of our audited financial statements for the years ended December 31, 2008, 2007 and 2006, the restatement of our unaudited interim financial statements for the periods ended September 30, 2006 through September 30, 2009. the amendment of certain Notes to our audited financial statements for our former fiscal year ended June 30, 2006 or the amendment of certain Notes to our unaudited interim financial statements for the period ended March 31, 2006, but is presented herein as originally filed. As discussed above in the Explanatory Note at the beginning of this Report and in Note 22 of the Notes to the consolidated financial statements included in this Report, the Company has determined that it was never authorized to issue any shares of preferred stock or the shares of common stock converted therefrom. For a more detailed discussion, please refer to the Explanatory Note at the beginning of this Report and Note 22 of the Notes to the consolidated financial statements included in this Report.*

The following table presents certain information with respect to the beneficial ownership of our common stock as of March 23, 2009 by the following persons:

- each of our directors;
- each of our executive officers named in the Summary Compensation Table under “Item 6. Executive Compensation – Summary Compensation Table”;
- each person known by us to beneficially own more than 5% of any class of our outstanding voting securities; and
- all of our directors and executive officers as a group.

As of March 23, 2009, there were 29,104,110 shares of common stock and 247,798 shares of Series A Preferred Stock outstanding. None of the shares of Series A Preferred Stock is beneficially owned by any of our directors or executive officers.

As used in the table below, the term “beneficial ownership” is defined by the SEC’s rules to mean:

- the sole or shared power to vote, or to direct the voting of, a security, or
- the sole or shared power to dispose of, or to direct the disposition of, a security.

Information contained in this table does not necessarily indicate beneficial ownership for any other purpose, such as under any tax law. This table is based upon information derived from our stock records. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned. Unless otherwise indicated, the address of each beneficial owner listed below is 10/F, Wo Kee Hong Building, 585-609 Castle Peak Road, Kwai Chung, N.T. Hong Kong. Applicable percentages are based upon 29,104,110 voting shares of common stock outstanding as of March 23, 2009:

| Name of Executive Officers and Directors                    | Amount and<br>Nature of<br>Beneficial<br>Ownership | Percentage of<br>Outstanding<br>Shares (%) |
|---|--|--|
| Richard Man Fai Lee, CEO, President and Chairman            | 0 (1)  | 0  |
| Herbert Adamczyk, Chief Operating Officer and Director      | 3,084,665  | 10.6                                       |
| Joseph Tik Tung Wong, Chief Financial Officer and Treasurer | 0  | 0  |
| Fred De Luca, Director                                      | 4,764 (2)  | *  |
| Yun Fai Leung, Director                                     | 0  | 0  |
| Nils A. Ollquist, Director                                  | 0  | 0  |
| Name of Principal Stockholders (5% Beneficial Owners)       |  |  |
| Corich Enterprises Inc.                                     | 13,411,569 (3)                                     | 46.1                                       |
| Wo Kee Hong (Holdings) Limited                              | 13,411,569 (3)                                     | 46.1                                       |
| Wo Kee Hong (B.V.I.) Limited                                | 13,411,569 (3)                                     | 46.1                                       |
| Happy Emerald Ltd.  | 4,569,619 (4)                                      | 13.6                                       |

|  |               |      |
|--|---------------|------|
| Global Premium Brands Co., Inc.                                    | 4,569,619 (5) | 13.6 |
| Main Pacific Ltd.  | 1,460,000 (6) | 5.0  |
| <b>All directors and executive officers as a group (6 persons)</b> | 3,089,429     | 12.6 |

\* denotes holdings of less than 1%

- (1) Mr. Richard Man Fai Lee is the Executive Chairman and Chief Executive Officer of Wo Kee Hong (Holdings) Limited. Mr. Lee is one of the beneficiaries of a discretionary trust the trustee of which holds a 39.64% interest in Wo Kee Hong (Holdings) Limited. Mr. Lee personally holds approximately 1% interest in Wo Kee Hong (Holdings) Limited. Mr. Lee disclaims beneficial ownership of the shares of the Company beneficially owned by Wo Kee Hong (Holdings) Limited.
- (2) The address of Mr. Fred De Luca is 2306 Sugarloaf Drive, Agoura, California 91301. Mr. De Luca resigned as a director of the Company on March 1, 2010, in connection with the settlement of the Federal Court Action. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.
- (3) Wo Kee Hong (Holdings) Limited wholly owns Wo Kee Hong (B.V.I.) Limited, an intermediate holding company that, in turn, wholly owns Corich Enterprises Inc., which, is the direct stockholder of record of these shares. All three of these entities share voting power over these shares.
- (4) Based on 33,673,729 voting shares outstanding assuming the full conversion of the Series A Preferred Stock purportedly owned by Happy Emerald. Calculated based on 247,798 shares of Series A Convertible Preferred Stock, each share convertible into 18.4409 shares of common stock. Mr. Charles Miseroy, former CFO of Xact Aid, Inc. (the predecessor name of the Company) is the controlling equity holder of Happy Emerald Ltd. Happy Emerald Ltd.'s address is 12318 Foxcroft Place, Granada Hills, California 91344-1621. As discussed in the Explanatory Note at the beginning of this Report and in Note 22 of the Notes to the consolidated financial statements included in this Report, the Company has determined that it was never authorized to issue any shares of preferred stock or the shares of common stock converted therefrom. Certificates representing all the shares of Series A Convertible Preferred Stock held of record by Happy Emerald Ltd. were returned to the Company in connection with the settlement of the Federal Court Action. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.
- (5) Based on 33,673,729 voting shares outstanding assuming the purported full conversion of the Series A Preferred Stock purportedly owned by Global Premium Brands Co., Inc., a suspended California corporation. Calculated based on 247,798 shares of Series A Convertible Preferred Stock, each share convertible into 18.4409 shares of common stock. In connection with the Company's investigation with respect to its claims in the Federal Court Action, the Company has learned that its former director, Federico G. Cabo, and Mr. Cabo's son, Richard Cabo, were the principals of Global Premium Brands Co. Inc. at its inception in 2002, and Federico Cabo served as its director and President and Richard Cabo served as its director, Secretary and Chief Financial Officer.. Mr. Cabo's wife, Delia Cabo (a/k/a/ Delia Rodriguez) has from time to time represented herself as President, Secretary, Treasurer and director of Global Premium Brands Co., Inc. The address of Global Premium Brands, Co., Inc. is 171 South Bellaza Lane, Anaheim, California 92807. As discussed in the Explanatory Note at the beginning of this Report and in Note 22 of the Notes to the consolidated financial statements included in this Report, the Company has determined that it was never authorized to issue any shares of preferred stock or the shares of common stock converted therefrom. Certificates representing all the shares of common stock held of record by Global Premium Brands Co., Inc. were returned to the Company in connection with the settlement of the Federal Court Action. For a more detailed discussion of the Federal Court Action and the settlement, please refer to the Explanatory Note at the beginning of this Report and disclosure contained in Part I, Item 3. Legal Proceedings, of this Report.

- (6) The Company has not been able to obtain information confirming the identity of the control person or persons of Main Pacific, Ltd. Main Pacific Ltd.'s address is c/o Troy & Gould P.C., 1801 Century Park East, #1600, Los Angeles, California 90067-2367.

#### CHANGE IN CONTROL

We are not aware of any arrangements that may result in a change in control of our company. There are no pending or anticipated arrangements that we are aware of that may cause a change in control of our Company. We are not currently engaged in any activities or arrangements that we anticipate will result in a change in our control.

#### EQUITY COMPENSATION PLAN

##### *Equity Compensation Plan Information*

| <b>Plan Category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans</b> |
|--|--|--|---|
| Equity compensation plans approved by security holders     | —  | —  | —   |
| Equity compensation plans not approved by security holders | —  | —  | 19,500  |
| <b>Total</b>   | <b>—</b>   | <b>—</b>   | <b>19,500</b>   |

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Set forth below is a summary of significant transactions among certain related parties and the Company during the years ended December 31, 2008, 2007 and 2006. Wo Kee Hong (Holdings) Limited wholly owns Wo Kee Hong (B.V.I.) Limited, an intermediate holding company that, in turn, wholly owns Corich Enterprises Inc.. All of these entities own beneficially 46.1 % of our common stock. Corich Enterprises Inc. is the direct stockholder of record of these shares. All three of these entities share voting power over these shares.

|   | Note | 2008<br>\$ | 2007<br>\$ | 2006<br>\$ |
|---|------|------------|------------|------------|
| <b>Sales to:</b>  |      |            |            |            |
| - Wo Kee Hong Limited, Affiliate  | (a)  | -          | 187,272    | 436,788    |
| - Wo Kee Hong (Holdings) Limited, Affiliate                                 | (a)  | 27,850     | 16,581     | 164,857    |
| - Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd, Associate | (a)  | -          | -          | 70,733     |
| - Vogue World Limited, related company                                      | (a)  | -          | 395,277    | -          |
| - Auto Sportiva Limited, Affiliate  | (a)  | 2,217      | -          | -          |
| <b>Purchases from:</b>  |      |            |            |            |
| - Wo Kee Hong Limited, Affiliate  | (a)  | 18,546     | 111,305    | 1,075      |
| - Wo Kee Hong (Holdings) Limited, Affiliate                                 | (a)  | -          | 2,693      | -          |
| - Wo Kee Services Limited, Affiliates                                       | (a)  | 18,732     | 18,069     | 11,198     |
| - Rogers Entertainment International Limited, Affiliates                    | (a)  | -          | -          | 2,576      |
| - Wo Kee Hong (Shenzhen) Limited, Affiliates                                | (a)  | -          | -          | 3,096      |
| - Shinwa Engineering Company Limited, Affiliates                            | (a)  | -          | -          | -          |
| - Auto Sportiva Limited, Affiliates   | (a)  | 60,054     | 129,054    | -          |
| - Mega Warehouse (HK) Limited, Affiliates                                   | (a)  | -          | 58         | -          |
| - Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd, Associate | (a)  | -          | 6,831,036  | 1,677,790  |
| - Jeff Man Bun Lee, Director of Technorient Limited                         | (a)  | -          | 173,115    | -          |
| - Mr Richard Lee, Director  | (a)  | 600,000    | -          | -          |
| <b>Interest received from:</b>  |      |            |            |            |
| - Wo Kee Hong Limited, Affiliate  | (b)  | -          | 77,282     | 19,751     |
| - Auto Sportiva Limited, Affiliates   | (b)  | 143,490    | 226,565    | -          |
| - Keyforce Holdings Limited, Affiliates                                     | (b)  | 281,314    | 286,688    | -          |
| - Keyforce (BVI) Limited, Affiliates  | (b)  | 145,733    | 14,961     | -          |
| - Wo Kee Hong (Holdings) Limited, Affiliate                                 | (b)  | 9,104      | -          | -          |
| <b>Management fee received from:</b>  |      |            |            |            |
| - Auto Sportiva Limited, Affiliates   | (c)  | 107,880    | 76,940     | -          |
| - Keyforce Holdings Limited, Affiliates                                     | (c)  | 38,529     | 38,470     | -          |
| - Noble Brand Investment Limited, Affiliates                                | (c)  | 38,529     | 38,470     | -          |
| <b>Management fee paid to:</b>  |      |            |            |            |
| - Wo Kee Hong (Holdings) Limited, Affiliate                                 | (c)  | 308,228    | -          | 309,159    |
| - Wo Kee Administration Limited, Affiliate                                  | (c)  | 78,624     | -          | -          |
| <b>Building management fee from:</b>  |      |            |            |            |
| - Wo Kee Services Limited, Affiliates                                       | (c)  | 2,707      | 614        | -          |
| <b>Rental from:</b>   |      |            |            |            |
| - Auto Sportiva Limited, Affiliates   | (c)  | 154,115    | -          | -          |
| <b>Rental paid to:</b>  |      |            |            |            |
| - Wo Kee Services Limited, Affiliates                                       | (c)  | 13,903     | 2,180      | -          |
| <b>Warehouse expenses paid to:</b>  |      |            |            |            |
| - Wo Kee Services Limited, Affiliates                                       | (c)  | 11,104     | -          | -          |
| <b>Service fee from:</b>  |      |            |            |            |
| - Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd, Associate | (c)  | -          | 630,802    | 643,818    |
| <b>Issuance of common stock pursuant to a consulting agreement:</b>         |      |            |            |            |
| - Edward W. Withrow, III, a stockholder                                     | (c)  | -          | -          | 175,000    |

Notes:

(a) The transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.



- (b) The loan advance to an affiliate is unsecured, bears interest rate at 5.5% per annum (2007: 8.25% to 8.5% per annum; 2006: 9.25% per annum) and repayable on demand.
- (c) The transactions were carried out at terms agreed between both parties.

## DIRECTOR INDEPENDENCE

We intend to review and select additional candidates to serve on our Board of Directors. Currently, one of the directors serving on our board is “independent,” within the meaning of the applicable federal securities laws.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2008 and December 31, 2007 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

|                         | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-------------------------|------------------------------|------------------------------|
| (i) Audit Fees          | \$ 221,955                   | \$ 233,829                   |
| (ii) Audit Related Fees | -                            | -                            |
| (iii) Tax Fees          | -                            | -                            |
| (iv) All Other Fees     | -                            | -                            |
| <b>Total fees</b>       | <b>\$ 221,955</b>            | <b>\$ 233,829</b>            |

**Audit Fees.** These fees consist of fees billed for professional services rendered for the audit of the Company’s consolidated financial statements and review of the interim condensed consolidated financial statements included in the Company’s periodic reports, statutory and regulatory filings or engagements.

**Audit-Related Fees.** These fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s consolidated financial statements and are not reported under “Audit Fees.” There were no Audit-Related services provided in fiscal 2008 or 2007.

**Tax Fees.** These fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. There were no tax fees in fiscal 2008 or 2007.

**All Other Fees.** These fees consist of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal years 2008 or 2007.

**Pre-Approval Policies and Procedures.** The Company currently does not have a designated Audit Committee, and accordingly, the Company’s Board of Directors’ policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, and tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Company’s Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

#### (A) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

##### (1) Financial Statements.

|  | <b>Page Number in<br/>this Annual Report</b> |
|--|--|
| Report of Independent Registered Public Accounting Firm                        | F-2  |
| Consolidated Balance Sheet   | F-3  |
| Consolidated Statement of Operations   | F-4  |
| Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) | F-5  |
| Consolidated Statement of Cash Flows   | F-6  |
| Notes To Consolidated Financial Statements                                     | F-7  |

##### (2) Financial Statement Schedules.

None.

##### (3) Exhibits.

The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Articles of Incorporation, dated as of April 19, 2004. (1)   |
| 3.2         | By-Laws of Xact Aid Inc. (1)   |
| 3.3         | Certificate of Amendment to Articles of Incorporation, effective date December 27, 2006. (2)   |
| 3.4         | Certificate of Amendment to Articles of Incorporation, effective date December 7, 2007. (3)  |
| 10.1        | Share Exchange Agreement dated July 15, 2006 among the Company, Inc., Fred De Luca, Corich Enterprises, inc., Herbert Adamczyk and Technorient Limited, incorporated by reference from the Form 8-K/A filed with the SEC on July 28, 2006. (4) |
| 10.2        | Consultancy Services Agreement dated July 15, 2006 by and between Xact Aid, Inc. and Happy Emerald Limited. (4)  |
| 10.3        | Stock Purchase dated as of May 24, 2006 between Xact Aid, Inc. and Nexgen Biogroup, Inc. incorporated by reference from the Form 8-K filed with the SEC on June 15, 2006. (4)  |
| 10.4        | Conversion Agreement dated as of July 26, 2006 among Xact Aid, Inc. on the one hand, and AJW Partners LLC, AJW Offshore, Ltd, AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC. (4)                                     |



- 10.5 Conversion Agreement between Xact Aid, Inc. and Edward W. Withrow, III.(4)
- 10.6 Employment Agreement by and among Richard Man Fai Lee and the Company dated November 6, 2008. (5)
- 10.7 Employment Agreement by and among Herbert Adamczyk and the Company dated November 6, 2008. (5)
- 10.8 Employment Agreement by and among Joseph Tik Tung Wong and the Company dated November 6, 2008. (5)
- 10.10 Shareholders' Agreement dated March 31, 1993, by and among Herbert Adamczyk, Klaus Jurgen Dorr, Andrew Ronald Turner, Happyland Company Limited and Corich Enterprises Inc. (4)
- 10.11 Import and distribution agreement for Hong Kong, Macau, dated January 1, 1992, by and between Ferrari S.p.A. and Italian Motors (Sales & Service) Limited. (4)
- 10.12 Letter of variation to "Import and Distribution Agreement" dated November 27, 2003, by and among Ferrari S.p.A., Italian Motors (Sales & Service) limited and Auto Italia Limited. (4)
- 10.13 Deed of Indemnity, dated November 27, 2003, by and among Ferrari S.p.A., Italian Motors (Sales & Service) Limited and Auto Italia Limited. (4)
- 10.14 Letter to vary the "Import and Distribution Agreement" dated July 23, 2004, by and between Italian Motors (Sales & Service Limited) and Ferrari S.p.A. (4)
- 10.15 Import and distribution agreement for Hong Kong and the Guangdong province of the People's Republic of China, dated January 1, 1996, by and between Maserati S.p.A. and Auto Italia Limited. (4)
- 10.16 Letter to vary the agreement, dated May 25, 2005, by and between Maserati S.p.A. and Auto Italia Limited. (4)
- 10.17 Services Agreement, dated July 1, 2002, by and between Italian Motors (Sales & Service) Limited, Auto Italia Limited and Herbert Adamczyk. (4)
- 10.18 Equity Joint Venture Agreement relating to the establishment of Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., by and among Poly Technologies, Inc., Italian Motors (Sales & Service) Limited and Ferrari S.p.A., dated March 23, 2004. (4)
- 10.19 Articles of Association of Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., by and among Poly Technologies, Inc., Italian Motors (Sales & Service) Limited and Ferrari S.p.A, dated March 23, 2004. (4)
- 10.20 Services Agreement by and between Auto Italia Limited and Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., dated November 4, 2004. (4)
- 10.21 Declaration of Trust in respect of Equity Interest of Dalian F.T.Z. Italian Motors Trading Co., Ltd., by and between Ko Mei Wah and Italian Motors (Sales & Service) Limited, dated December 19, 2005. (4)
- 10.22 Equity Interest Transfer Agreement in respect of Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., by and between Italian Motors (Sales & Service) Limited and Ferrari S.p.A., dated December 30, 2005. (4)
- 10.23 Side Agreement in respect of Transfer of Equity Interest of Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., by and between Italian Motors (Sales & Service) Limited and Ferrari S.p.A., dated December 30, 2005. (4)

- 10.25 Side Agreement relating to Amended and Restated Equity Joint Venture Contract in respect of Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., by and among Poly Technologies, Inc., Ferrari S.p.A., Italian Motors (Sales & Service) Limited and CTF Luxury Goods (China) Limited, dated July 18, 2006. (4)
- 10.26 License and Supply Agreement (the schedules have been omitted. The Company hereby undertakes to furnish such schedules to the Commission supplementally upon request) by and between Akkurate Ltd., Falber Confezioni S.R.L., CPMM (Asia) Ltd. and the Company, dated January 18, 2008. (7)
- 10.27 Distributor Agreement by and between King Express Group Limited and Agusta S.p.A. dated October 30, 2007. (2)
- 14 Code of Business Conduct and Ethics. (8)
- 21 List of Significant Subsidiaries. (8)
- 23.1 Consent of HLB Hodgson Impey Cheng. (8)
- 31.1 Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302. (\*)
- 31.2 Certification by Chief Financial Officer pursuant to Sarbanes Oxley Section 302. (\*)
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350. (\*)
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- 99.1 Letter to Shareholders, dated June 18, 2007. (6)
- 99.2 Letter of Resignation from Federico G. Cabo dated March 27, 2008. (2)

(\*) Filed herewith.

- (1) Filed as an exhibit to the Company's Form SB-2 Registration Statement filed with the Securities and Exchange Commission on November 26, 2004 (File No. 333-120807) and incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission on March 31, 2008 and incorporated herein by reference.
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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 17, 2010

**CHINA PREMIUM LIFESTYLE  
ENTERPRISE, INC.  
(Registrant)**

By: /s/ Richard Man Fai Lee

Richard Man Fai Lee  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                       | <u>Title</u>   | <u>Date</u>  |
|--|--|--------------|
| <u>/s/Richard Man Fai LEE</u><br>Richard Man Fai Lee   | Chief Executive Officer, President and Chairman of the Board | May 17, 2010 |
| <u>/s/Joseph Tik Tung WONG</u><br>Joseph Tik Tung WONG | Chief Financial Officer and Treasurer                        | May 17, 2010 |
| <u>/s/Herbert Adamczyk</u><br>Herbert Adamczyk         | Chief Operating Officer and Director                         | May 17, 2010 |
| <u>/s/Yun Fai LEUNG</u><br>Yun Fai LEUNG               | Director   | May 17, 2010 |

## EXHIBIT INDEX

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- (8) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on March 31, 2009 and incorporated herein by reference.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Man Fai Lee, certify that:

1. I have reviewed this annual report on Form 10-K/A of China Premium Lifestyle Enterprise, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2010

/s/ Richard Man Fai Lee

Richard Man Fai Lee  
Chief Executive Officer

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph Tik Tung Wong, certify that:

1. I have reviewed this annual report on Form 10-K/A of China Premium Lifestyle Enterprise, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2010

/s/ Joseph Tik Tung Wong

Joseph Tik Tung Wong  
Chief Financial Officer and Treasurer

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**CERTIFICATION PURSUANT TO RULE 13A-14(B) OR RULE 15D-14(B)  
OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Annual Report of China Premium Lifestyle Enterprise, Inc. (the "Company") on Form 10-K/A for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Man Fai Lee, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard Man Fai Lee

Richard Man Fai Lee  
Chief Executive Officer

Dated: May 17, 2010

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**CERTIFICATION PURSUANT TO RULE 13A-14(B) OR RULE 15D-14(B)  
OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Annual Report of China Premium Lifestyle Enterprise, Inc. (the "Company") on Form 10-K/A for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Tik Tung Wong, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph Tik Tung Wong

Joseph Tik Tung Wong  
Chief Financial Officer and Treasurer

Dated: May 17, 2010

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