The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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The Directors
China Harmony Auto Holding Limited
Goldman Sachs (Asia) L.L.C.
China International Capital Corporation Hong Kong Securities Limited

31 May 2013

Dear Sirs,

We set out below our report on the financial information of China Harmony Auto Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2010, 2011 and 2012 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012, and the statement of financial position of the Company as at 31 December 2012, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 31 May 2013 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24 September 2012. Pursuant to a group reorganisation (the "Reorganisation") as set out in note 2.1 of Section II below, which was completed on 29 September 2012, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganisation described above.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 39 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 39 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Company as at 31 December 2012, and the Group as at 31 December 2010, 2011 and 2012 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

The following is the Financial Information of the Group for the Relevant Periods prepared on the basis set out in Note 2.1 of Section II:

1. Consolidated income statements

	Section II Notes	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000
REVENUE	5(a)	1,801,358	3,031,856	5,656,744
Cost of sales and services provided	6(b)	(1,569,951)	(2,614,356)	(4,993,298)
Gross profit		231,407	417,500	663,446
Other income and gains, net	5(b)	23,634	78,903	236,658
Selling and distribution costs		(64,517)	(106,737)	(237,030)
Administrative expenses		(18,716)	(30,330)	(71,611)
Profit from operations		171,808	359,336	591,463
Finance costs	7	(19,956)	(61,872)	(116,403)
Share of profit of an associate	17	–	–	222
Profit before tax	6	151,852	297,464	475,282
Tax	8(a)	(39,152)	(77,014)	(124,563)
Profit for the year		112,700	220,450	350,719
Attributable to:				
Owners of the parent		112,700	220,466	350,822
Non-controlling interests		–	(16)	(103)
		112,700	220,450	350,719
Earnings per share attributable to equity holders of the parent	12	N/A	N/A	N/A

2. Consolidated statements of comprehensive income

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
PROFIT FOR THE YEAR	112,700	220,450	350,719
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations	–	–	(15)
Total comprehensive income for the year	112,700	220,450	350,704
Attributable to:			
Owners of the parent	112,700	220,466	350,807
Non-controlling interests	–	(16)	(103)
	112,700	220,450	350,704

3. Consolidated statements of financial position

	Section II Notes	31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	130,550	311,130	1,149,926
Land use rights	14	14,297	13,897	13,497
Intangible assets	15	974	1,007	1,050
Prepayments	16	7,803	21,417	31,943
Investment in an associate	17	–	6,000	6,222
Deferred tax assets	28	2,806	6,732	10,092
Total non-current assets		156,430	360,183	1,212,730
CURRENT ASSETS				
Inventories	18	160,490	333,692	710,554
Trade receivables	19	11,678	16,666	59,112
Prepayments, deposits and other receivables	20	289,756	672,401	688,221
Amounts due from related parties	35(b)	305,633	993,194	679,448
Pledged bank deposits	21	215,837	281,023	665,055
Cash in transit	22	9,974	13,646	17,333
Cash and cash equivalents	23	193,475	179,383	342,685
Total current assets		1,186,843	2,490,005	3,162,408
CURRENT LIABILITIES				
Bank loans and other borrowings	24	395,416	859,535	1,777,774
Trade and bills payables	25	418,081	722,329	818,129
Other payables and accruals	26	131,760	274,992	626,852
Income tax payable		58,161	134,977	255,415
Total current liabilities		1,003,418	1,991,833	3,478,170
NET CURRENT ASSETS/(LIABILITIES)		183,425	498,172	(315,762)
TOTAL ASSETS LESS CURRENT LIABILITIES		339,855	858,355	896,968
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	24	–	–	290,000
Deferred tax liabilities	28	–	–	4,929
Total non-current liabilities		–	–	294,929
NET ASSETS		339,855	858,355	602,039
EQUITY				
Equity attributable to owners of the parent				
Share capital	29	–	–	–
Reserves	30	339,855	853,371	588,758
		339,855	853,371	588,758
Non-controlling interests		–	4,984	13,281
Total equity		339,855	858,355	602,039

4. Consolidated statements of changes in equity

	Attributable to owners of the parent							
	Share capital	Statutory reserve	Merger reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note 29 RMB'000	Note 30(i) RMB'000*	Note 30(ii) RMB'000*	RMB'000*	RMB'000*	RMB'000	RMB'000	RMB'000
At 31 December 2009	–	9,542	72,000	–	83,363	164,905	–	164,905
Contribution by the then equity holders	–	–	62,250	–	–	62,250	–	62,250
Total comprehensive income for the year	–	–	–	–	112,700	112,700	–	112,700
Transfer from retained profits	–	10,001	–	–	(10,001)	–	–	–
At 31 December 2010	–	19,543	134,250	–	186,062	339,855	–	339,855
Contribution by the then equity holders	–	–	369,050	–	–	369,050	–	369,050
Non-controlling interest arising from establishing of a new subsidiary	–	–	–	–	–	–	5,000	5,000
Acquisition of equity interests by the Group from the then equity holders	–	–	(76,000)	–	–	(76,000)	–	(76,000)
Total comprehensive income for the year	–	–	–	–	220,466	220,466	(16)	220,450
Transfer from retained profits	–	18,242	–	–	(18,242)	–	–	–
At 31 December 2011	–	37,785	427,300	–	388,286	853,371	4,984	858,355
Contribution by the then equity holders	–	–	193,900	–	–	193,900	–	193,900
Non-controlling interest arising from establishing of a new subsidiary	–	–	–	–	–	–	8,400	8,400
Acquisition of equity interests by the Group from the then equity holders	–	–	(250,000)	–	–	(250,000)	–	(250,000)
Dividends paid to the then equity holders	–	–	–	–	(559,320)	(559,320)	–	(559,320)
Total comprehensive income for the year	–	–	–	(15)	350,822	350,807	(103)	350,704
Transfer from retained profits	–	20,664	–	–	(20,664)	–	–	–
At 31 December 2012	–	58,449	371,200	(15)	159,124	588,758	13,281	602,039

* These reserve accounts comprise the consolidated reserves of RMB339,855,000, RMB853,371,000 and RMB558,758,000 in the consolidated statements of financial position as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

5. Consolidated cash flow statements

	Section II Notes	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000
Operating activities				
Profit before tax		151,852	297,464	475,282
Adjustments for:				
– Share of profit of an associate		–	–	(222)
– Depreciation of property, plant and equipment	13	8,792	15,659	37,368
– Amortisation of land use rights	14	400	400	400
– Amortisation of intangible assets	15	234	205	334
– Interest income	5(b)	(14,919)	(56,334)	(156,169)
– Net loss/(gain) on disposal of property, plant and equipment	6(c)	–	(497)	1,630
– Finance costs	7	19,956	61,872	116,403
		166,315	318,769	475,026
Increase in pledged bank deposits		(62,647)	(65,186)	(384,032)
Increase in cash in transit		(5,324)	(3,672)	(3,687)
Increase in trade receivables		(509)	(4,988)	(42,446)
Increase in prepayments, deposits and other receivables		(168,511)	(389,583)	(25,329)
Increase in inventories		(69,539)	(173,202)	(376,862)
Increase in trade and bills payables		164,954	304,248	95,800
Increase in other payables and accruals		75,426	110,581	355,065
Cash generated from operations		100,165	96,967	93,535
Income Tax paid		(3,060)	(4,124)	(2,556)
Net cash generated from operating activities		97,105	92,843	90,979

	Section II Notes	Year ended 31 December 2010 RMB'000	2011 RMB'000	2012 RMB'000
Investing activities				
Purchase of items of property, plant and equipment		(56,437)	(174,761)	(877,409)
Proceeds from disposal of items of property, plant and equipment		–	4,994	15,109
Purchase of intangible assets		(225)	(238)	(377)
Investment in an associate		–	(6,000)	–
Advance to/(Repayment of advance from) an associate		–	(3,117)	121
Advance to the Controlling Shareholder, net		(198,191)	(630,928)	(97,955)
Acquisition of equity interests by the Group from the then equity holders		–	(76,000)	(250,000)
Interest received		1,514	2,818	8,429
Net cash used in investing activities		(253,339)	(883,232)	(1,202,082)
Financing activities				
Proceeds from bank loans and other borrowings		659,981	1,810,166	3,714,604
Repayment of bank loans and other borrowings		(471,122)	(1,346,047)	(2,506,365)
Contribution by the then equity holders		62,250	369,050	193,900
Contributions by non-controlling shareholders		–	5,000	8,400
Interest paid		(19,956)	(61,872)	(136,119)
Net cash generated from financing activities		231,153	776,297	1,274,420
Net increase/(decrease) in cash and cash equivalents		74,919	(14,092)	163,317
Cash and cash equivalents at the beginning of each year		118,556	193,475	179,383
Effect of foreign exchange rate changes		–	–	(15)
Cash and cash equivalents at the end of each year	23	193,475	179,383	342,685

6. Company Statements of Financial Position

	Section II Note	31 December 2012 RMB'000
NON-CURRENT ASSETS		
Interest in a subsidiary		–
Total non-current assets		–
CURRENT ASSETS		
Cash and cash equivalents		–
Total current assets		–
CURRENT LIABILITIES		
Other payables and accruals		–
Total current liabilities		–
NET CURRENT ASSETS		–
TOTAL ASSETS LESS CURRENT ASSETS		–
NET ASSETS		–
EQUITY		
Share capital	29	–
Reserves		–
Total equity		–

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Particulars of the companies now comprising the Group are set out in Note 39 of Section II below.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the sale and service of motor vehicles (the "Listing Business").

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Eagle Seeker Company Limited, which is incorporated in the British Virgin Islands ("BVI").

Before the formation of the Group, the Listing Business was carried out by the subsidiaries now comprising the Group as set out in Note 39 of section II below, all of which were controlled by Mr. Feng Changge (the "Controlling Shareholder").

Pursuant to the Reorganisation as described in the section headed "Our History and Reorganisation" in the Prospectus and in Appendix IV "Statutory and General Information" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 29 September 2012.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Our Reorganisation" in the section headed "Our History and Reorganisation" in the Prospectus, the Company became the holding company of the companies now comprising the Group on 29 September 2012. The companies now comprising the Group were under the common control of the Controlling Shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interest in subsidiaries held by parties other than the Controlling Shareholder, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidated in full.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

3.1 ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of this Financial Information, the Group has adopted, at the beginning of the Relevant Periods, all the new and revised HKFRSs applicable to the Relevant Periods.

3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods.

As explained in Note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All significant intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group.

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

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

Category	Estimated useful life	Estimated residual value
Buildings	20 years	5%
Leasehold improvements	Over the shorter of the lease terms and 20 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	3-10 years	5%
Motor vehicles	4-10 years	5%

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

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

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

Intangible assets (other than goodwill)

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

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful life of software is 5 years.

Leases

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

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

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the consideration paid for such rights are recorded as land use rights, which are amortised over the lease terms of 40 years using the straight-line method.

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and bills payables, other payables, and bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

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

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

Vendor rebate

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

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

Employee benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 8.0% has been applied to the expenditure on the individual assets during the year ended 31 December 2012.

Dividends

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

Foreign currencies

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

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

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

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

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

3.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB2,806,000, RMB6,732,000 and RMB10,092,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. More details are given in Note 28.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

4. SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue from the sale of motor vehicles	1,616,681	2,752,772	5,244,449
Others	184,677	279,084	412,295
	1,801,358	3,031,856	5,656,744

(b) Other income and gains, net:

		Year ended 31 December		
		2010	2011	2012
	Note	RMB'000	RMB'000	RMB'000
Commission income		4,563	13,211	61,141
Advertisement support received from motor vehicle manufacturers		2,474	3,843	5,326
Bank interest income		1,514	2,818	8,429
Interest income from the Controlling Shareholder	(i)	13,405	53,516	147,740
Net gain on disposal of items of property, plant and equipment		–	497	–
Others		1,678	5,018	14,022
Total		23,634	78,903	236,658

(i) Interest income from the Controlling Shareholder was generated from loans the Group granted to the Controlling Shareholder which bore an annual interest rate of 15% during the Relevant Periods.

6. PROFIT BEFORE TAX

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

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration (Note 9)):			
Wages and salaries	16,769	29,994	61,664
Other welfare	6,094	9,695	20,847
	22,863	39,689	82,511
(b) Cost of sales and services:			
Cost of sales of motor vehicles	1,458,326	2,440,304	4,762,592
Others	111,625	174,052	230,706
	1,569,951	2,614,356	4,993,298
(c) Other items:			
Depreciation of items of property, plant and equipment	8,792	15,659	37,368
Amortisation of land use rights	400	400	400
Amortisation of intangible assets	234	205	334
Net loss/(gain) on disposal of items of property, plant and equipment	–	(497)	1,630
Advertisement and business promotion expenses	15,489	24,005	51,989
Bank charges	1,734	3,487	9,285
Lease expenses	2,202	6,814	18,649
Logistics and petroleum expenses	3,991	5,424	15,103
Office expenses	5,273	7,368	11,015

7. FINANCE COSTS

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Interest expense on bank borrowings wholly repayable within five years	19,654	60,327	131,275
Interest expense on other borrowings	302	1,545	4,844
Less: Interest capitalised	–	–	(19,716)
	19,956	61,872	116,403

8. TAX

(a) Tax in the consolidated income statements represents:

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current Mainland China corporate income tax	40,339	80,940	122,994
Deferred tax (Note 28)	(1,187)	(3,926)	1,569
	39,152	77,014	124,563

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

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

The subsidiaries incorporated in Hong Kong are subject to an income tax at the rate of 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate of the Mainland China subsidiaries is 25%.

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

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

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Profit before tax	151,852	297,464	475,282
Tax at applicable tax rates (25%)	37,963	74,366	118,821
Lower tax rates enacted by local authority	–	–	127
Profit attributable to an associate	–	–	(56)
Tax effect of non-deductible expenses	1,189	2,648	5,671
Tax charge	39,152	77,014	124,563

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and chief executive's remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December 2010				
	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Feng Changge	–	501	–	28	529
– Yu Feng (i)	–	350	–	28	378
– Yang Lei	–	331	–	28	359
– Cui Ke	–	292	–	23	315
– Ma Lintao	–	280	–	28	308
	–	1,754	–	135	1,889

	Year ended 31 December 2011				
	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Feng Changge	–	700	–	31	731
– Yu Feng (i)	–	450	–	31	481
– Yang Lei	–	372	–	31	403
– Cui Ke	–	371	–	49	420
– Ma Lintao	–	300	–	31	331
– Liu Wei	–	180	–	31	211
	–	2,373	–	204	2,577

	Year ended 31 December 2012				
	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Feng Changge	–	900	–	34	934
– Yu Feng (i)	–	600	–	34	634
– Liu Wei	–	500	–	34	534
– Yang Lei	–	454	–	34	488
– Cui Ke	–	474	–	54	528
– Ma Lintao	–	360	–	34	394
– Fong Heung Sang, Addy (Dexter)	–	140	–	–	140
	–	3,428	–	224	3,652

(i) Mr. Yu Feng is also the chief executive of the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

No emoluments were paid to the non-executive director and the independent non-executive directors of the Company during the Relevant Periods.

10. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2010, 2011 and 2012 include four, four and five directors, respectively, whose emoluments are reflected in the analysis presented above.

Details of the remuneration of the remaining one, one and nil highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
Salaries, bonuses, allowances and benefits in kind	280	300	–
Pension scheme contributions	28	31	–
	308	331	–

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
Nil to HK$1,000,000	**1**	**1**	**–**

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 were all generated by the subsidiaries now comprising the Group (Note 2.1).

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion is not considered meaningful for the purpose of this report.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2010	57,689	978	9,915	7,352	9,781	–	85,715
Additions	21,341	981	8,049	3,184	22,682	11,050	67,287
Disposals	–	–	–	–	–	–	–
At 31 December 2010	79,030	1,959	17,964	10,536	32,463	11,050	153,002
Accumulated depreciation:							
At 1 January 2010	4,278	140	3,334	2,430	3,478	–	13,660
Depreciation provided during the year	2,916	389	1,531	1,294	2,662	–	8,792
Disposals	–	–	–	–	–	–	–
At 31 December 2010	7,194	529	4,865	3,724	6,140	–	22,452
Net book value:							
At 31 December 2010	71,836	1,430	13,099	6,812	26,323	11,050	130,550
Cost:							
At 1 January 2011	79,030	1,959	17,964	10,536	32,463	11,050	153,002
Additions	59	–	6,170	5,668	45,658	143,181	200,736
Transfers	142,718	–	5,291	372	–	(148,381)	–
Disposals	–	–	–	–	(5,875)	–	(5,875)
At 31 December 2011	221,807	1,959	29,425	16,576	72,246	5,850	347,863
Accumulated depreciation:							
At 1 January 2011	7,194	529	4,865	3,724	6,140	–	22,452
Depreciation provided during the year	4,000	568	2,137	1,792	7,162	–	15,659
Disposals	–	–	–	–	(1,378)	–	(1,378)
At 31 December 2011	11,194	1,097	7,002	5,516	11,924	–	36,733
Net book value:							
At 31 December 2011	210,613	862	22,423	11,060	60,322	5,850	311,130
Cost:							
At 1 January 2012	221,807	1,959	29,425	16,576	72,246	5,850	347,863
Additions	30,207	5,276	14,113	15,072	80,935	747,300	892,903
Transfers	171,079	65,624	2,898	2,300	–	(241,901)	–
Disposals	–	–	–	–	(22,763)	–	(22,763)
At 31 December 2012	423,093	72,859	46,436	33,948	130,418	511,249	1,218,003
Accumulated depreciation:							
At 1 January 2012	11,194	1,097	7,002	5,516	11,924	–	36,733
Depreciation provided during the year	11,299	1,758	3,946	3,483	16,882	–	37,368
Disposals	–	–	–	–	(6,024)	–	(6,024)
At 31 December 2012	22,493	2,855	10,948	8,999	22,782	–	68,077
Net book value:							
At 31 December 2012	400,600	70,004	35,488	24,949	107,636	511,249	1,149,926

The application for the property ownership certificates for certain buildings with a net book value of approximately RMB29,700,000, RMB170,797,000 and RMB363,104,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, was still in progress.

Certain of the Group's buildings with aggregate net book values of approximately RMB42,136,000, RMB39,816,000 and RMB37,496,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, were pledged as security for the Group's bank borrowings (Note 24(a)).

14. LAND USE RIGHTS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost:			
At the beginning of each year	15,981	15,981	15,981
Additions	–	–	–
At the end of each year	15,981	15,981	15,981
Accumulated amortisation:			
At the beginning of each year	(1,284)	(1,684)	(2,084)
Charged for the year	(400)	(400)	(400)
At the end of each year	(1,684)	(2,084)	(2,484)
Net book value:			
At the end of each year	14,297	13,897	13,497

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China and are held under medium-term lease.

All of the Group's land use rights were pledged as security for the Group's bank loans and other borrowings as at 31 December 2010, 2011 and 2012 (Note 24(a)).

15. INTANGIBLE ASSETS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost:			
At the beginning of each year	1,421	1,646	1,884
Additions	225	238	377
At the end of each year	1,646	1,884	2,261
Accumulated amortisation:			
At the beginning of each year	(438)	(672)	(877)
Charged for the year	(234)	(205)	(334)
At the end of each year	(672)	(877)	(1,211)
Net book value:			
At the end of each year	974	1,007	1,050

16. PREPAYMENTS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Prepayments for purchase of items of plant, property and equipment	2,519	9,195	10,212
Prepaid lease for buildings and land use rights	5,284	12,222	21,731
	7,803	21,417	31,943

17. INVESTMENT IN AN ASSOCIATE

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Share of net assets	–	6,000	6,222

鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("Yongda Hexie") is an associate of the Group and is considered to be a related party of the Group.

(a) Particulars of an associate

			Percentage of			
Associate	Place and date of incorporation	Registered/ paid-in capital	Ownership interest	Voting power	Profit sharing	Principal activities
Yongda Hexie	Zhengzhou, the PRC 26 December 2011	RMB20,000,000	30%	30%	30%	Sale and service of motor vehicles

(b) The following table illustrates the summarised financial information of the Group's associate shared by the Group:

Share of the associate's assets and liabilities:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Non-current assets	–	–	11,959
Current assets	–	6,000	57,660
Current liabilities	–	–	63,397
Net assets	–	6,000	6,222

Share of the associate's results:

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue	–	–	28,092
Expenses	–	–	(27,795)
Tax	–	–	(75)
Profit for the year	–	–	222

18. INVENTORIES

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Motor vehicles	145,817	309,027	655,809
Spare parts and accessories	14,673	24,665	54,745
	160,490	333,692	710,554

Certain of the Group's inventories with a carrying amount of RMB31,030,000, RMB87,842,000 and RMB242,559,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, were pledged as security for the Group's bank loans and other borrowings (Note 24(a)).

Certain of the Group's inventories with a carrying amount of RMB69,146,000, RMB132,776,000 and RMB165,826,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, were pledged as security for the Group's bills payables (Note 25(a)).

As at 31 December 2010, 31 December 2011 and 31 December 2012, none of the Group's inventories were carried at fair value less costs to sell.

19. TRADE RECEIVABLES

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables	11,678	16,666	59,112

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

An aged analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Within 3 months	10,738	15,284	54,222
More than 3 months but less than 1 year	940	1,382	4,890
	11,678	16,666	59,112

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	11,678	16,666	59,112

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	198,557	532,738	262,433
Rebate receivables	77,380	101,018	229,329
VAT recoverable (i)	11,027	30,376	164,094
Staff advances	626	1,673	9,629
Others	2,166	6,596	22,736
	289,756	672,401	688,221

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is deductible input VAT which has not been claimed to the tax bureau. The applicable tax rate for domestic sales of the Group is 17%.

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

21. PLEDGED BANK DEPOSITS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	215,837	281,023	665,055

Pledged bank deposits, which are all denominated in RMB at each end of the reporting period, earn interest at interest rates stipulated by respective finance institutions.

22. CASH IN TRANSIT

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash in transit	9,974	13,646	17,333

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

23. CASH AND CASH EQUIVALENTS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash and bank balances	193,475	179,383	342,685
Cash and cash equivalents	193,475	179,383	342,685

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The Group's cash and bank balances at each reporting date are denominated in the following currencies:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
RMB	193,475	179,383	332,609
US$	–	–	10,047
HK$	–	–	29
	193,475	179,383	342,685

24. BANK LOANS AND OTHER BORROWINGS

		At 31 December				
	2010		2011		2012	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current						
Bank loans	5.3-8.3	320,000	6.6-12.8	671,000	6.2-12.0	1,283,000
Other borrowings	5.3-6.0	75,416	5.8-9.2	188,535	5.8-8.5	494,774
		395,416		859,535		1,777,774
Non-current						
Bank loans		–		–	6.6-7.2	60,000
Other borrowings		–		–	8.5	230,000
		–		–		290,000
		395,416		859,535		2,067,774
Bank loans and other borrowings representing:						
– secured	(a)	30,000		105,000		455,000
– guaranteed	(b)	225,000		331,000		675,000
– secured and guaranteed	(a)(b)	120,416		393,535		889,774
– unsecured		20,000		30,000		48,000
		395,416		859,535		2,067,774

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable			
Within one year or on demand	320,000	671,000	1,283,000
In the second year	–	–	60,000
	320,000	671,000	1,343,000
Other borrowings repayable			
Within one year or on demand	75,416	188,535	494,774
In the second year	–	–	230,000
	75,416	188,535	724,774
Total	395,416	859,535	2,067,774

(a) Certain of the Group's bank loans and other borrowing are secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB14,297,000, RMB13,897,000 and RMB13,497,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB42,136,000, RMB39,816,000 and RMB37,496,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively;

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB31,030,000, RMB87,842,000 and RMB242,559,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively;

(iv) As at 31 December 2011 and 31 December 2012, certain of the Group's bank loans amounted to RMB95,000,000 and RMB35,000,000 were secured by the equity shares of two subsidiaries of the Group, Henan Zhongdebao Automobile Sales & Services Co., Ltd. and Beijing Huadebao Automobile Sales & Services Co., Ltd., respectively;

(v) As at 31 December 2011, certain of the Group's bank loans amounted to RMB50,000,000 were secured by the equity shares of two subsidiaries of the Group, Luoyang Yudebao Automobile Sales & Services Co., Ltd. and Nanyang Wandebao Automobile Sales & Services Co., Ltd.;

(vi) As at 31 December 2011 and 31 December 2012, certain of the Group's bank loans amounted to RMB60,000,000 and RMB60,000,000 were secured by the equity share of a subsidiary of the Group, Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd., respectively;

(vii) As at 31 December 2012, certain of the Group's bank loans amounted to RMB40,000,000 were secured by the equity shares of a subsidiary of the Group, Henan Zhongdebao Automobile Sales & Services Co., Ltd.; and

(viii) As at 31 December 2012, certain of the Group's bank loans amounted to RMB200,000,000 were secured by the equity shares of two subsidiaries of the Group, Zhengzhou Huacheng Automobile Sales & Services Co., Ltd. and Zhengzhou Huading Automobile Sales & Services Co., Ltd.

(b) Certain of the Group's bank loans and other borrowing are guaranteed by:

(i) Certain of the Group's bank loans and other borrowing amounted to RMB160,416,000, RMB167,952,000 and RMB315,228,000 were guaranteed by the Controlling Shareholder as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively;

(ii) Certain of the Group's bank loans amounted to RMB60,000,000 and RMB15,000,000 were guaranteed by the Controlling Shareholder and 河南遠達投資有限公司 (Henan Yuanda Investment Co., Ltd. ("Yuanda Investment")), which is controlled by the Controlling Shareholder, as at 31 December 2010 and 31 December 2011, respectively;

(iii) Certain of the Group's bank loans amounted to RMB45,000,000, RMB35,000,000 and RMB35,000,000 were guaranteed by the Controlling Shareholder and 河南省同樂醫藥有限公司 (Henan Tongle Pharmaceutical Co., Ltd. ("Tongle Pharmaceutical")), which is controlled by a close family member of the Controlling Shareholder, as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively;

(iv) Certain of the Group's bank loans amounted to RMB30,000,000 were guaranteed by Yuanda Investment as at 31 December 2010;

(v) Certain of the Group's bank loans amounted to RMB10,000,000 were guaranteed by the Controlling Shareholder, Tongle Pharmaceutical and Mr. Liu Fenglei, who is an employee of the Group, as at 31 December 2010;

(vi) Certain of the Group's bank loans amounted to RMB20,000,000 and RMB20,000,000 were guaranteed by Mr. Liu Fenglei as at 31 December 2010 and 31 December 2011, respectively;

(vii) Certain of the Group's bank loans which amounted to RMB20,000,000 were guaranteed by Mr. Lan Haibo, who is an employee of the Group, and Mr. Zhang Junsheng, who is a close family member of the Controlling Shareholder, as at 31 December 2010;

(viii) Certain of the Group's bank loans amounted to RMB20,000,000 was guaranteed by Mr. Lan Haibo as at 31 December 2011;

(ix) Certain of the Group's bank loans amounted to RMB15,000,000 and RMB15,000,000 were guaranteed by the Controlling Shareholder and Mr. Liu Fenglei as at 31 December 2011 and 31 December 2012, respectively;

(x) Certain of the Group's bank loans and other borrowing amounted to RMB220,583,000 and RMB679,546,000 were guaranteed by the Controlling Shareholder and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group")), which is controlled by the Controlling Shareholder, as at 31 December 2011 and 31 December 2012, respectively;

(xi) Certain of the Group's bank loans amounted to RMB60,000,000 was guaranteed by the Controlling Shareholder, Mr. Liu Fenglei and Hexie Industrial Group as at 31 December 2011;

(xii) Certain of the Group's bank loans amounted to RMB26,000,000 was guaranteed by the Controlling Shareholder, Mr. Liu Fenglei, Hexie Industrial Group, Ms. Liu Dan and Mr. Li Lusheng, who are both close family members of the Controlling Shareholder and employees of the Group, as at 31 December 2011;

(xiii) Certain of the Group's bank loans amounted to RMB50,000,000 were guaranteed by the Controlling Shareholder, Hexie Industrial Group and 河南東方金沙湖國際高爾夫俱樂部有限公司 ("Henan Jinshahu Golf Club Co., Ltd."), which is controlled by the Controlling Shareholder, as at 31 December 2011;

(xiv) Certain of the Group's bank loans amounted to RMB95,000,000 and RMB35,000,000 were guaranteed by the Controlling Shareholder, Hexie Industrial Group, Henan Jinshahu Golf Club Co., Ltd. and Ms. Zhao Lu, who is a close family member of the Controlling Shareholder, as at 31 December 2011 and 31 December 2012, respectively;

(xv) Certain of the Group's bank loans amounted to RMB285,000,000 were guaranteed by the Controlling Shareholder, and secured by certain of the land use rights of 河南和諧置業有限公司 ("Henan Hexie Property Co., Ltd."), which is controlled by the Controlling Shareholder, as at 31 December 2012;

(xvi) Certain of the Group's bank loans amounted to RMB60,000,000 was guaranteed by the Controlling Shareholder, Liu Fenglei, Hexie Industrial Group, Henan Jinshahu Golf Club CO., Ltd. and Henan Hexie Property Co., Ltd. as at 31 December 2012;

(xvii) Certain of the Group's bank loans amounted to RMB40,000,000 was guaranteed by Hexie Industrial Group as at 31 December 2012; and

(xviii) Certain of the Group's bank loans amounted to RMB100,000,000 was guaranteed by the Controlling Shareholder, Hexie Industrial Group and Henan Hexie Property Co., Ltd. as at 31 December 2012.

25. TRADE AND BILLS PAYABLES

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
Trade payables	5,633	7,457	11,383
Bills payable	412,448	714,872	806,746
Trade and bills payables	418,081	722,329	818,129

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

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
Within 3 months	376,984	616,424	777,735
3 to 6 months	40,759	105,455	37,193
6 to 12 months	–	151	2,836
Over 12 months	338	299	365
	418,081	722,329	818,129

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

(a) Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB69,146,000, RMB132,776,000 and RMB165,826,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

(b) Certain of the Group's bills payable amounted to RMB412,448,000, RMB504,909,000 and RMB505,745,000 were guaranteed by the Controlling Shareholder as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

(c) Certain of the Group's bills payable amounted to RMB209,963,000 and RMB139,202,000 were guaranteed by the Controlling Shareholder and Hexie Industrial Group as at 31 December 2011 and 31 December 2012, respectively.

(d) Certain of Group's bills payable which amounted to RMB40,000,000 were guaranteed by the Controlling Shareholder and Tongle Pharmaceutical as at 31 December 2012.

(e) Certain of Group's bills payable which amounted to RMB32,235,000 were guaranteed by Hexie Industrial Group as at 31 December 2012.

26. OTHER PAYABLES AND ACCRUALS

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Payables for purchase of items of property, plant and equipment	10,546	43,197	39,992
Advances and deposits from distributors	900	3,864	8,764
Advances from customers	62,017	104,946	244,313
Taxes payable (other than income tax)	46,869	101,531	271,641
Lease payables	186	1,232	10,846
Staff payroll and welfare payables	9,148	17,207	25,851
Others	2,094	3,015	25,445
	131,760	274,992	626,852

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 20% to 22% (2011: 20% to 22%; 2010: 20%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% (2011: 5% to 12%; 2010: 5% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2010, 31 December 2011 and 31 December 2012, the Group had no significant obligation apart from the contributions as stated above.

28. DEFERRED TAX

Deferred tax assets:

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the years are as follows:

	Losses available for offset against future taxable profit	Accrued payroll	Deferred rental expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	504	1,115	–	1,619
Deferred tax credited/(charged) to the consolidated income statement during the year (Note 8(a))	(32)	1,172	47	1,187
At 31 December 2010	472	2,287	47	2,806
Deferred tax credited/(charged) to the consolidated income statement during the year (Note 8(a))	1,650	2,015	261	3,926
At 31 December 2011	2,122	4,302	308	6,732
Deferred tax credited/(charged) to the consolidated income statement during the year (Note 8(a))	(2,023)	1,752	3,631	3,360
At 31 December 2012	99	6,054	3,939	10,092

Deferred tax liabilities:

The components of deferred tax liabilities recognised in the consolidated statements of financial position and the movements during the years are as follows:

	Capitalised interest expense
	RMB'000
At 1 January 2012	–
Deferred tax charged to the consolidated income statement during the year (Note 8(a))	4,929
At 31 December 2012	4,929

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors.

The Group has not provided for withholding taxes on accumulated earnings amounting to RMB188,763,000, RMB404,123,000 and RMB150,329,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, generated by its PRC entities during the Relevant Periods. In the opinion of the Director, it is not probable that such accumulated earnings will be distributed to the holding company outside the PRC in the foreseeable future.

29. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24 September 2012 with an initial authorised share capital of HK$380,000 divided into 38,000,000 shares of a nominal or par value of HK$0.01 each. On the date of incorporation, 1 ordinary share of HK$0.01 was allotted and issued by the Company to its then shareholder.

30. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in Note 39 of this report are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the Relevant Periods represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were consolidated from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholder. The deductions during the Relevant Periods represent the decrease in the Group's net assets resulted from distribution to equity holders of the Company and acquisition of equity interests in subsidiaries from the Controlling Shareholder for business combination under common control.

31. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

	Loans and receivables		
	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables	11,678	16,666	59,112
Financial assets included in prepayments, deposits and other receivables	80,172	109,287	261,694
Amounts due from related parties	305,633	993,194	679,448
Pledged bank deposits	215,837	281,023	665,055
Cash in transit	9,974	13,646	17,333
Cash and cash equivalents	193,475	179,383	342,685
	816,769	1,593,199	2,025,327

Financial liabilities

	Financial liabilities at amortised cost		
	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade and bills payables	418,081	722,329	818,129
Financial liabilities included in other payables and accruals	13,540	50,076	74,201
Bank loans and other borrowings	395,416	859,535	2,067,774
	827,037	1,631,940	2,960,104

32. CONTINGENT LIABILITIES

As at 31 December 2011, the Group provided corporate guarantee to Tongle Pharmaceutical for its bank loans of RMB13,000,000. As at 31 December 2010 and 2012, neither the Group nor the Company had any significant contingent liabilities.

33. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property and equipment outstanding at each reporting date not provided for in the Financial Information were as follows:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for land use rights and buildings	32,856	5,600	164,592

(b) Operating lease commitments

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 31 December					
	2010		2011		2012	
	Properties	Land	Properties	Land	Properties	Land
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	979	1,608	10,446	3,342	23,451	11,277
After 1 year but within 5 years	2,818	7,165	76,342	12,273	73,019	38,763
After 5 years	2,966	87,032	67,572	103,708	30,078	163,138
	6,763	95,805	154,360	119,323	126,548	213,178

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

34. PLEDGE OF ASSETS

Further to the details of the Group's assets pledged for its bank loans and other borrowings and bills payable as disclosed in Note 13, Note 14, Note 18 and Note 21 to the Financial Information, as at 31 December 2011 and 31 December 2012, the equity shares of four subsidiaries of the Group, Nanyang Wandebao Automobile Sales & Services Co., Ltd., Henan Hedebao Automobile Services Co., Ltd., Anyang Andebao Automobile Sales & Service Co., Ltd. and Beijing Huadebao Automobile Sales & Services Co., Ltd. ("Huadebao") were pledged to Hua Ao International Trust Co., Ltd. ("HAT") as security of the credit facilities of RMB180 million granted to Hexie Industrial Group by HAT. In addition, two subsidiaries of the Group, Henan Zhongdebao Automobile Sales & Services Co., Ltd. and Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd., provided corporate guarantee to Hexie Industrial Group by HAT.

35. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Controlling Shareholder of the Group and is also considered to be a related party of the Group.

Save as disclosed in Note 5, Note 24, Note 25, Note 32 and Note 34, other significant related party transactions are set out below:

(a) Transactions with related parties

(i) During the Relevant Periods, revenue from sale of motor vehicles to certain related parties are as follow:

		Year ended 31 December		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
Tongle Pharmaceutical	(a)	–	–	15,480
河南省醫藥超市有限公司 ("Henan Pharmaceutical Supermarket Co., Ltd.")	(a)	–	–	6,684
河南銀保投資擔保有限公司 ("Henan Yinbao Investment Guarantee Co., Ltd.")	(b)	–	–	8,204
鄭州金沙湖置業有限公司 ("Henan Jinshahu Property Co., Ltd.")	(c)	–	–	1,521
Henan Jinshahu Golf Club Co., Ltd.	(c)	–	–	699
		–	–	32,588

(a) Tongle Pharmaceutical & Henan Pharmaceutical Supermarket Co., Ltd. are both controlled by a close family member of the Controlling Shareholder.

(b) Henan Yinbao Investment Guarantee Co., Ltd. is controlled by a close family member of the Controlling Shareholder.

(c) Henan Jinshahu Golf Club Co., Ltd. and Henan Jinshahu Property Co., Ltd. are both controlled by the Controlling Shareholder.

(b) Balances with related parties

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

Due from related parties:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Non-trade related:			
The Controlling Shareholder			
– Mr. Feng Changge	305,633	990,077	676,452
An associate			
– Yongda Hexie	–	3,117	2,996
	305,633	993,194	679,448

Except for the amounts due from the Controlling Shareholder which are interest-bearing and had no fixed repayment terms, other balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Short term employee benefits	2,065	2,752	3,744
Post-employee benefits	105	148	162
Total compensation paid to key management personnel	2,170	2,900	3,906

Further details of directors' and chief executive's emoluments are included in Note 9 to the Financial Information.

36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year ended 31 December 2012, certain of the subsidiaries now comprising the Group declared dividend of RMB559,320,000 to the Controlling Shareholder, which was then offset against the loan due from the Controlling Shareholder to the Group.

37. FAIR VALUE

The fair value of current portion of the Group's and the Company's financial instruments approximate to their carrying amounts due to the short term maturities. For non-current portion of bank loans and other borrowings, the fair value has been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities, which is also approximate to their carrying amounts.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (Note 21), cash and cash equivalents (Note 23) and amounts due from the Controlling Shareholders (Note 35(b)).

The Group's interest rate risk arises from its bank loans and other borrowings, details of which are set out in Note 24. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

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

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

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

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax
		RMB'000
Year ended 31 December 2012		
RMB	50	(1,171)
RMB	(50)	1,171
Year ended 31 December 2011		
RMB	50	(1,251)
RMB	(50)	1,251
Year ended 31 December 2010		
RMB	50	(806)
RMB	(50)	806

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ as disclosed in note 23.

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

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, cash and cash equivalents, trade and other receivables, amounts due from related parties included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2010, 31 December 2011 and 31 December 2012, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

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

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

	As at 31 December 2010					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	–	90,613	314,030	–	–	404,643
Trade and bills payables	1,106	380,527	36,448	–	–	418,081
Other payables and accruals	13,540	–	–	–	–	13,540
	14,646	471,140	350,478	–	–	836,264

	As at 31 December 2011					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	–	261,075	625,915	–	–	886,990
Trade and bills payables	725	561,699	159,905	–	–	722,329
Other payables and accruals	50,076	–	–	–	–	50,076
	50,801	822,774	785,820	–	–	1,659,395

	As at 31 December 2012					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	–	753,563	1,094,347	298,412	–	2,146,322
Trade and bills payables	3,805	584,558	229,766	–	–	818,129
Other payables and accruals	74,434	–	–	–	–	74,434
	78,239	1,338,121	1,324,113	298,412	–	3,038,885

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents. The gearing ratios as at each of the statement of financial position dates were as follows:

	At 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	395,416	859,535	2,067,774
Trade and bills payables	418,081	722,329	818,129
Other payables and accruals	131,760	274,992	626,852
Less: Cash and cash equivalents	(193,475)	(179,383)	(342,685)
Net debt	751,782	1,677,473	3,170,070
Equity attributable to owners of the parent	339,855	853,371	588,758
Gearing ratio	68.9%	66.3%	84.3%

39. DETAILS OF SUBSIDIARIES NOW COMPRISING THE GROUP

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	*Notes*	Place and date of incorporation/ operations	Authorised/ registered/ paid-in/issued capital	Proportion of ownership interest Direct %	Indirect %	Principal activities
河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.)	(i)	Zhengzhou, the PRC 2011	Registered and paid-in capital of RMB245,000,000	–	100%	Investment holding
河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.)	(iii)(x)	Zhengzhou, the PRC 2005	Registered and paid-in capital of RMB42,860,000	–	100%	Sale and service of motor vehicles
鄭州鄭德寶汽車銷售服務有限公司 (Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.)	(i)	Zhengzhou, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.)	(ii)	Xian, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
河南英之翼汽車銷售有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC 2012 under construction	Registered and paid-in capital of RMB10,010,000	–	100%	Sale of motor vehicles
廣州市廣德寶汽車銷售服務有限公司 (Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.)	(ii)	Guangzhou, the PRC 2012 under construction	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.)	(ii)(xiii)	Zhengzhou, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
洛陽路和汽車銷售服務有限公司 (Luoyang Luhe Automobile Sales & Services Co., Ltd.)	(ii)	Luoyang, the PRC 2012 under construction	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Services Co., Ltd.)	(i)	Shanghai, the PRC 2011	Registered and paid-in capital of RMB50,000,000	–	90%	Sale and service of motor vehicles

Company name	Notes	Place and date of incorporation/ operations	Authorised/ registered/ paid-in/issued capital	Proportion of ownership interest Direct %	Indirect %	Principal activities
宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.)	(ii)	Yichang, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
新鄉市新德寶汽車服務有限公司 (Xinxiang Xindebao Automobile Services Co., Ltd.)	(iv)	Xinxiang, the PRC 2009	Registered and paid-in capital of RMB1,500,000	–	100%	Service of motor vehicles
洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.)	(v)(xi)	Luoyang, the PRC 2009	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.)	(vi)(xi)(xiv)	Nanyang, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
河南和德寶汽車服務有限公司 (Henan Hedebao Automobile Services Co., Ltd.)	(vii)(xiv)	Zhengzhou, the PRC 2011 under construction	Registered and paid-in capital of RMB20,000,000	–	100%	Service of motor vehicles
鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.)	(viii)(xiii)	Zhengzhou, the PRC 2011	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.)	(ix)(xiv)	Anyang, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.)	(ii)	Kaifeng, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.)	(i)(x)(xiv)	Beijing, the PRC 2010	Registered and paid-in capital of RMB55,000,000	–	100%	Sale and service of motor vehicles
鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(i)(xii)	Zhengzhou, the PRC 2006	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(i)	Xiamen, the PRC 2011 under construction	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.)	(ii)	Wuhan, the PRC 2012 under construction	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

Company name	Notes	Place and date of incorporation/ operations	Authorised/ registered/ paid-in/issued capital	Proportion of ownership interest Direct %	Indirect %	Principal activities
武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.)	(ii)	Wuhan, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.)	(ii)	Suzhou, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.)	(ii)	Xinxiang, the PRC 2012 under construction	Registered and paid-in capital of RMB10,000,000	–	51%	Sale and service of motor vehicles
瀋陽瀋德寶汽車銷售服務有限公司 (Shenyang Shendebao Automobile Sales & Services Co., Ltd.)	(ii)	Shenyang, the PRC 2013 under construction	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
瀋陽瀋之翼汽車銷售服務有限公司 (Shenyang Shenzhiyi Automobile Sales & Services Co., Ltd.)	(ii)	Shenyang, the PRC 2013 under construction	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.)	(ii)	Beijing, the PRC 2013 under construction	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.)	(ii)	Luohe, the PRC 2013 under construction	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
Crystalline Prestige Investments Limited	(ii)	Tortola, British Virgin Islands 2012	Registered capital of USD500 and paid-in capital of USD0.01	100%	–	Investment holding
LC Gloricar Investment Limited	(i)	Tortola, British Virgin Islands 2011	Registered capital of USD1,000,000 and paid-in capital of USD10,000	–	100%	Investment holding
Ace Manufacturing Holding Limited	(ii)	Hong Kong, the PRC 2012	Registered capital of HKD10,000 and paid-in capital of HKD100	–	100%	Investment holding
Daoable Future Limited	(i)	Hong Kong, the PRC 2011	Registered capital of USD10,000 and paid-in capital of USD100	–	100%	Investment holding

Notes:

(i) No statutory accounts have been prepared for these subsidiaries since their incorporation as there is no statutory requirement for these companies to prepare audited financial statements.

(ii) For the year ended 31 December 2011, these subsidiaries have not yet to be incorporated.

(iii) No statutory account for the year ended 31 December 2010 has been prepared for this subsidiary as there is no statutory requirement for this company to prepare audited financial statements. The statutory account for the year ended 31 December 2011 was audited by 河南鑫華會計師事務所 (Henan Xinhua Certified Public Accountants).

(iv) The statutory accounts for the year ended 31 December 2010 and 2011 were audited by 河南中新會計師事務所有限公司 (Henan Zhongxin Certified Public Accountants Co., Ltd.).

(v) No statutory account for the year ended 31 December 2010 has been prepared for this subsidiary as there is no statutory requirement for this company to prepare audited financial statements. The statutory account for the year ended 31 December 2011 was audited by 河南捷創會計師事務所 (Henan Jiechuang Certified Public Accountants).

(vi) No statutory account for the year ended 31 December 2010 has been prepared for this subsidiary as there is no statutory requirement for this company to prepare audited financial statements. The statutory account for the year ended 31 December 2011 was audited by 南陽宏泰聯合會計師事務所 (Nanyang Hongtai United Certified Public Accountants).

(vii) The statutory account for the year ended 31 December 2011 was audited by 河南鑫華會計師事務所 (Henan Xinhua Certified Public Accountants).

(viii) The statutory account for the year ended 31 December 2011 was audited by 河南明泰會計師事務所 (Henan Mingtai Certified Public Accountants).

(ix) The statutory account for the year ended 31 December 2011 was audited by 河南永太會計師事務所 (Henan Yongtai Certified Public Accountants).

(x) As disclosed in Note 24(a), the equity shares of these companies have been pledged for certain of the Group's bank loans which amounted to RMB95,000,000 and RMB35,000,000 as at 31 December 2011 and 31 December 2012, respectively.

(xi) As disclosed in Note 24(a), the equity shares of these companies have been pledged for certain of the Group's bank loans which amounted to RMB50,000,000 as at 31 December 2011.

(xii) As disclosed in Note 24(a), the equity share of this company has been pledged for certain of the Group's bank loans which amounted to RMB60,000,000 and RMB60,000,000 as at 31 December 2011 and 31 December 2012, respectively.

(xiii) As disclosed in Note 24(a), the equity shares of these companies have been pledged for certain of the Group's bank loans which amounted to RMB200,000,000 as at 31 December 2012.

(xiv) As disclosed in Note 34, the equity shares of these companies have been pledged to HAT as security of the credit facilities of RMB180 million granted to Hexie Industrial Group by HAT as at 31 December 2011 and 31 December 2012.

(xv) No statutory accounts for the year ended 31 December 2012 have been prepared by any of the subsidiaries as at the date of this report.

40. POST BALANCE SHEET EVENTS

1. On 23 April 2013, the authorized share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional 1,962,000,000 shares with a nominal value of HK$0.01 each.

2. On 20 May 2013, a restricted share unit scheme was conditionally approved and adopted by the Company's shareholders. Details of the principal terms of this schemes and the restricted share units granted are summarized in the section headed "Statutory and General Information" in Appendix IV of this Prospectus.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2012.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
Hong Kong