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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安 永

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December 2, 2011

The Directors
Baoxin Auto Group Limited
Morgan Stanley Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information of Baoxin Auto Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined 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 December 31, 2008, 2009 and 2010, and the six months period ended June 30, 2011 (the "Relevant Periods"), and the combined statements of financial position of the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 and the statements of financial position of the Company as at December 31, 2010 and June 30, 2011, together with the notes thereto (the "Financial Information"), and the comparative combined income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months period ended June 30, 2010 (the "Interim Comparative 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 December 2, 2011 (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 September 6, 2010. Pursuant to a group reorganisation (the "Reorganisation") as set out in note 2.1 of Section II below, which was completed on August 4, 2011, the Company became the holding company of the subsidiaries now 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 December 31 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 combined 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 December 31, 2008, 2009 and 2010, and the six months period ended June 30, 2011 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, the Financial Information and the Interim Comparative 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, the Financial Information and the Interim Comparative 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 and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion 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.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagement 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

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 December 31, 2010 and June 30, 2011, and the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 and of the combined results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

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

1. Combined Income Statements

		Year ended December 31,			Six-month period ended June 30,	
	Section II Notes	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 RMB'000 (unaudited)	2011 RMB'000
Revenue	*5(a)*	3,701,261	5,164,730	7,716,564	3,392,733	5,233,328
Cost of sales and services provided	*6(b)*	(3,445,172)	(4,726,644)	(7,028,566)	(3,090,381)	(4,714,265)
Gross profit		256,089	438,086	687,998	302,352	519,063
Other income and gains, net	*5(b)*	12,903	26,965	37,482	16,654	38,414
Selling and distribution costs		(97,892)	(133,756)	(177,100)	(82,195)	(131,761)
Administrative expenses		(53,469)	(68,596)	(90,985)	(42,119)	(90,997)
Profit from operations		117,631	262,699	457,395	194,692	334,719
Finance costs	*7*	(39,671)	(26,033)	(48,378)	(19,378)	(48,076)
Share of (loss)/profit of a jointly-controlled entity	*17(b)*	—	(33)	2,907	118	2,275
Profit before tax	*6*	77,960	236,633	411,924	175,432	288,918
Tax	*8(a)*	(20,504)	(60,788)	(104,266)	(44,239)	(75,014)
Profit for the year/period		57,456	175,845	307,658	131,193	213,904
Attributable to:						
Owners of the parent		57,673	174,756	303,940	129,298	204,013
Non-controlling interests		(217)	1,089	3,718	1,895	9,891
		57,456	175,845	307,658	131,193	213,904
Earnings per share attributable to equity holders of the parent	*12*	N/A	N/A	N/A	N/A	N/A

2. Combined Statements of Comprehensive Income

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PROFIT FOR THE YEAR/PERIOD	57,456	175,845	307,658	131,193	213,904
Total comprehensive income for the year/period, net of tax	57,456	175,845	307,658	131,193	213,904
Attributable to:					
Owners of the parent	57,673	174,756	303,940	129,298	204,013
Non-controlling interests	(217)	1,089	3,718	1,895	9,891
	57,456	175,845	307,658	131,193	213,904

3. Combined Statements of Financial Position

	Section II Notes	December 31, 2008 RMB'000	December 31, 2009 RMB'000	December 31, 2010 RMB'000	June 30, 2011 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*13*	280,982	409,274	520,707	664,000
Land use rights	*14*	74,296	72,638	327,938	175,163
Intangible assets	*15*	—	—	—	2,264
Prepayments	*16*	2,110	2,171	7,554	12,125
Interest in a jointly-controlled entity	*17*	—	4,967	7,874	10,149
Deferred tax assets	*28*	6,371	5,782	6,549	9,171
Total non-current assets		363,759	494,832	870,622	872,872
CURRENT ASSETS					
Inventories	*18*	359,894	420,165	737,953	1,515,202
Trade receivables	*19*	28,849	41,736	42,847	54,253
Prepayments, deposits and other receivables	*20*	214,596	478,905	897,726	1,078,113
Amounts due from a related party	*36(b)(i)*	—	1,000	33,900	37,835
Pledged bank deposits	*21*	111,971	163,623	276,149	496,818
Cash in transit	*22*	7,550	17,423	14,022	33,660
Cash and cash equivalents	*23*	86,194	212,793	384,476	414,099
Total current assets		809,054	1,335,645	2,387,073	3,629,980
CURRENT LIABILITIES					
Bank loans and other borrowings	*24*	262,159	547,988	807,339	1,182,456
Trade and bills payables	*25*	297,836	327,593	589,645	1,222,511
Dividends payable		—	—	—	4,932
Other payables and accruals	*26*	130,186	170,324	164,375	281,564
Amounts due to related parties	*36(b)(ii)*	17,879	148,814	5,385	1,143,991
Income tax payable		18,196	69,804	152,713	176,607
Total current liabilities		726,256	1,264,523	1,719,457	4,012,061
NET CURRENT ASSETS/ (LIABILITIES)		82,798	71,122	667,616	(382,081)
TOTAL ASSETS LESS CURRENT LIABILITIES		446,557	565,954	1,538,238	490,791
NET ASSETS		446,557	565,954	1,538,238	490,791
EQUITY					
Equity attributable to owners of the parent					
Share capital	*29*	—	—	—	—
Reserves	*30*	443,926	562,234	1,465,573	463,804
		443,926	562,234	1,465,573	463,804
Non-controlling interests		2,631	3,720	72,665	26,987
Total equity		446,557	565,954	1,538,238	490,791

4. Combined Statements of Changes in Equity

	Attributable to owners of the parent							
	Share capital *Note 29*	Statutory reserve *Note 30(i)*	Merger reserve *Note 30(ii)*	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000 *	RMB'000 *	RMB'000 *	RMB'000 *	RMB'000	RMB'000	RMB'000
At January 1, 2008	**—**	**22,043**	**150,900**	**—**	**175,310**	**348,253**	**1,848**	**350,101**
Contribution by the then equity holders	—	—	39,000	—	—	39,000	—	39,000
Disposal of interest in a subsidiary to a non-controlling shareholder without loss of control	—	—	(1,000)	—	—	(1,000)	1,000	—
Transfer from retained profits	—	6,073	—	—	(6,073)	—	—	—
Comprehensive income for the year	—	—	—	—	57,673	57,673	(217)	57,456
At December 31, 2008	**—**	**28,116**	**188,900**	**—**	**226,910**	**443,926**	**2,631**	**446,557**
Acquisition of equity interests by the Group from the then equity holders	—	—	(41,800)	—	—	(41,800)	—	(41,800)
Dividends paid to the then equity holders of the subsidiaries	—	—	—	—	(14,648)	(14,648)	—	(14,648)
Transfer from retained profits	—	21,290	—	—	(21,290)	—	—	—
Comprehensive income for the year	—	—	—	—	174,756	174,756	1,089	175,845
At December 31, 2009	**—**	**49,406**	**147,100**	**—**	**365,728**	**562,234**	**3,720**	**565,954**
Acquisition of equity interests by the Group from the then equity holders	—	—	(146,000)	—	—	(146,000)	—	(146,000)
Contribution by the then equity holders	—	—	710,125	—	—	710,125	45,327	755,452
Non-controlling interest arising from establishing of new subsidiaries	—	—	—	—	—	—	7,900	7,900
Dividends paid to the then equity holders	—	—	—	—	(4,401)	(4,401)	—	(4,401)
Transfer from retained profits	—	31,421	—	—	(31,421)	—	—	—
Disposal of interest in a subsidiary to a non-controlling shareholder without loss of control	—	—	39,675	—	—	39,675	12,000	51,675
Comprehensive income for the year	—	—	—	—	303,940	303,940	3,718	307,658
At December 31, 2010	**—**	**80,827**	**750,900**	**—**	**633,846**	**1,465,573**	**72,665**	**1,538,238**
Acquisition of equity interests by the Group from the then equity holders	—	—	(291,251)	—	—	(291,251)	—	(291,251)
Contribution by the then equity holders	—	—	40,000	—	—	40,000	—	40,000
Non-controlling interest arising from establishing of a new subsidiary	—	—	—	—	—	—	1,000	1,000
Deemed distribution to equity holders of the Company pursuant to the Reorganisation *(Note 31)*	—	—	(7,794)	—	—	(7,794)	—	(7,794)
Dividends paid to the then equity holders	—	—	—	—	(434,922)	(434,922)	—	(434,922)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	(18,384)	(18,384)
Acquisition of non-controlling interests by the Group	—	—	(511,815)	—	—	(511,815)	(38,185)	(550,000)
Comprehensive income for the period	—	—	—	—	204,013	204,013	9,891	213,904
At June 30, 2011	**—**	**80,827**	**(19,960)**	**—**	**402,937**	**463,804**	**26,987**	**490,791**
At December 31, 2009	**—**	**49,406**	**147,100**	**—**	**365,728**	**562,234**	**3,720**	**565,954**
Contribution by the then equity holders	—	—	17,000	—	—	17,000	—	17,000
Non-controlling interest arising from establishing of new subsidiaries	—	—	—	—	—	—	7,900	7,900
Disposal of interest in a subsidiary to a non-controlling interest without loss of control	—	—	39,675	—	—	39,675	12,000	51,675
Comprehensive income for the period	—	—	—	—	129,298	129,298	1,895	131,193
At June 30, 2010 (unaudited)	**—**	**49,406**	**203,775**	**—**	**495,026**	**748,207**	**25,515**	**773,722**

* *These reserve accounts comprise the combined reserves of RMB443,926,000, RMB562,234,000, RMB1,465,573,000, RMB463,804,000 and RMB748,207,000 in the combined statements of financial position as at December 31, 2008, December 31, 2009, December 31, 2010, June 30, 2011 and June 30, 2010, respectively.*

5. Combined Cash Flow Statements

	Section II Notes	Year ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000	Six-month period ended June 30, 2010 RMB'000 (unaudited)	2011 RMB'000
Operating activities						
Profit before tax		77,960	236,633	411,924	175,432	288,918
Adjustments for:						
— Share of loss/(profit) of a jointly-controlled entity		—	33	(2,907)	(118)	(2,275)
— Depreciation of property, plant and equipment	13	27,870	32,199	42,654	18,615	29,962
— Amortisation of land use rights	14	1,656	1,658	2,098	935	4,726
— Amortisation of intangible assets	15	—	—	—	—	115
— Provision for impairment of trade receivables	19	—	—	—	—	4,179
— Interest income	5	(2,513)	(2,509)	(2,345)	(982)	(2,395)
— Net loss/(gain) on disposal of property, plant and equipment	5	318	(1,742)	(1,678)	(170)	(294)
— Finance costs	7	39,671	26,033	48,378	19,378	48,076
		144,962	292,305	498,124	213,090	371,012
Decrease/(increase) in pledged bank deposits		55,666	(51,652)	(112,526)	18,181	(220,669)
Decrease/(increase) in cash in transit		4,002	(9,873)	3,401	13,291	(19,946)
Decrease/(increase) in trade receivables		17,539	(12,887)	(1,111)	16,697	(15,935)
Decrease/(increase) in prepayments, deposits and other receivables		61,158	(256,400)	(419,782)	32,796	(216,005)
Increase in inventories		(48,696)	(60,271)	(317,788)	(230,833)	(777,249)
(Decrease)/increase in trade and bills payables		(165,590)	29,757	262,052	1,361	633,059
(Decrease)/increase in other payables and accruals		(42,486)	20,638	(11,493)	19,022	40,018
Cash generated from/(used in) operations		26,555	(48,383)	(99,123)	83,605	(205,715)
Tax paid		(8,662)	(8,591)	(22,124)	(11,230)	(54,160)
Net cash generated from/(used in) operating activities		17,893	(56,974)	(121,247)	72,375	(259,875)

	Section II Notes	Year ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000	Six-month period ended June 30, 2010 RMB'000 (unaudited)	2011 RMB'000
Investing activities						
Purchase of items of property, plant and equipment		(41,514)	(163,265)	(163,100)	(35,063)	(189,548)
Proceeds from disposal of items of property, plant and equipment		3,158	21,403	17,147	3,123	7,994
Purchase of land use rights		(88)	—	(257,398)	(37,396)	(15,481)
Purchase of intangible assets		—	—	—	—	(2,379)
Investment in a jointly-controlled entity		—	(5,000)	—	—	—
Advance to a jointly-controlled entity		—	(1,000)	(32,900)	—	(3,935)
Acquisition of equity interests by the Group from the then equity holders		—	(41,800)	(146,000)	—	(2,000)
Interest received		2,513	2,509	2,345	982	2,395
Net cash used in investing activities		(35,931)	(187,153)	(579,906)	(68,354)	(202,954)
Financing activities						
Proceeds from bank loans and other borrowings		1,483,318	1,934,848	2,471,674	1,150,621	1,724,731
Repayment of bank loans and other borrowings		(1,494,637)	(1,649,019)	(2,212,323)	(952,806)	(1,199,614)
Contributions from the then equity holders		39,000	—	755,452	17,000	40,000
Contribution from non-controlling shareholders		—	—	7,900	7,900	1,000
Proceeds from disposal of interest in a subsidiary to a non-controlling shareholder without loss of control		—	—	51,675	51,675	—
Dividends paid to the then equity holders		—	(14,648)	(4,401)	—	—
Advances from the Controlling Shareholder, net		8,473	130,935	—	—	—
Repayment of advances from the Controlling Shareholder, net		—	—	(143,429)	(182,849)	(12,029)
Deemed distribution to equity holders of the Company pursuant to the Reorganisation	*31*	—	—	—	—	(10,891)
Interest paid		(43,481)	(31,390)	(53,712)	(22,045)	(50,745)
Net cash (used in)/generated from financing activities		(7,327)	370,726	872,836	69,496	492,452
Net (decrease)/increase in cash and cash equivalents		(25,365)	126,599	171,683	73,517	29,623
Cash and cash equivalents at the beginning of each year/period		111,559	86,194	212,793	212,793	384,476
Cash and cash equivalents at the end of each year/period	*23*	86,194	212,793	384,476	286,310	414,099

6. Company Statements of Financial Position

	Section II Note	December 31, 2010 RMB'000	June 30, 2011 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 LIABILITIES		—	—
NET ASSETS		—	—
EQUITY			
Share capital	*29*	—	—
Reserves		—	—
Total equity		—	—

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated on September 6, 2010 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 P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, 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 Baoxin Investment Management Ltd., which is incorporated in the British Virgin Islands ("BVI").

Before the formation of the Group, except for the case of Shanghai Kailong Automobiles Sales Co., Ltd. ("Shanghai Kailong"), 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. Yang Aihua (the "Controlling Shareholder").

In June 2011, Shanghai Minhang Automobiles Sales Co., Ltd. ("Minhang Automobiles") was established to acquire the entire business of sale and service of motor vehicles together with certain operating assets and liabilities from Shanghai Kailong on June 30, 2011. After the business acquisition, Shanghai Kailong ceased its business of sale and service of motor vehicles.

Pursuant to the Reorganisation as described in the section headed "Our History and Reorganisation" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on August 4, 2011.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "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 subsequent to the end of the Relevant Periods on August 4, 2011. 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 combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The combined income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the six months period ended June 30, 2010 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 and/or businesses first came under the common control of the Controlling Shareholder, where this is a shorter period. The combined statements of financial position of the Group as at December 31, 2008, 2009 and 2010 and June 30, 2011 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses 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.

The accounts of Shanghai Kailong have been included in the Financial Information throughout the Relevant Periods since it was 100% owned by the Controlling Shareholder and that its business throughout the Relevant Periods formed an integral part of the Listing Business. Accordingly, it was reflected in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles.

All intra-group transactions and balances have been eliminated on combination.

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 HKICPA, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from January 1, 2011, 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—Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures—Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[3]
HKFRS 10	*Consolidated Financial Statements*[3]
HKFRS 11	*Joint Arrangements*[3]
HKFRS 12	*Disclosure of Interests in Other Entities*[3]
HKFRS 13	*Fair Value Measurement*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes—Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 Amendments	*Employee Benefits*[3]
HKAS 27 Amendments	*Separate Financial Statements*[3]
HKAS 28 Amendments	*Investments in Associates and Joint Ventures*[3]

1 Effective for annual periods beginning on or after July 1, 2011
2 Effective for annual periods beginning on or after January 1, 2012
3 Effective for annual periods beginning on or after January 1, 2013

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 combined 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.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the combined 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 its jointly-controlled entities is included in the combined income statements and combined reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), 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 combined 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 recognized 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 combined 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;

(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. If the Group is itself such a plan and the sponsoring employers of the post-employment benefit plan;

(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. 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 depreciation.

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 5 years	—
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–5 years	5%
Motor vehicles	4–5 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 and 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 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 lives of intangible assets are as follows:

Software	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, 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 combined 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 combined income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised 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 right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 40 to 50 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, held-to-maturity investments and available-for-sale financial investments, 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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, dividends receivable, amounts due from related parties and quoted and unquoted financial instruments.

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. Financial assets are classified as held for trading if they are acquired for the purpose of sale 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or 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.

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 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 these financial assets in rare circumstances. 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.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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 finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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 income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity 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 valuation 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, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from available-for-sale investment valuation reserve. Interest and dividends earned 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 securities 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 securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When 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 in rare circumstances. 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. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, 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 expected cash flows 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;

- 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, and 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 has 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 either directly or through the use of an allowance account and the amount of 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 future 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, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, and bank loans and other borrowings.

Subsequent measurement

The 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 HKAS39. 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 or includes any interest charged on these financial liabilities.

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 method 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.

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, and only 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. These 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 combined 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:

- where 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, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. 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 discounts the estimated future cash receipts through 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 ranging between 5.82% and 6.80% has been applied to the expenditure on the individual assets.

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

The Financial Information is 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 ruling 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. All differences are taken to 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 functional currencies of 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 ruling 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 combined 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 the disclosure of contingent liabilities, at the reporting date. However, 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 RMB6,371,000, RMB5,782,000, RMB6,549,000 and RMB9,171,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, 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 each reporting date. 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. 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 December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from the sale of motor vehicles	3,336,222	4,728,922	7,168,106	3,154,820	4,922,060
Others	365,039	435,808	548,458	237,913	311,268
	3,701,261	5,164,730	7,716,564	3,392,733	5,233,328

(b) Other income and gains, net:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Commission income	7,081	16,818	21,533	10,926	24,494
Advertisement support received from motor vehicle manufacturers	1,815	1,432	3,184	1,297	2,982
Government grants	1,097	3,243	6,904	2,373	6,921
Interest income	2,513	2,509	2,345	982	2,395
Net (loss)/gain on disposal of items of property, plant and equipment	(318)	1,742	1,678	170	294
Others	715	1,221	1,838	906	1,328
Total	12,903	26,965	37,482	16,654	38,414

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Employee benefit expense (including directors' remuneration *(Note 9)*):					
Wages and salaries	38,267	52,899	58,545	28,287	37,581
Other welfare	10,922	14,050	19,574	9,435	11,578
	49,189	66,949	78,119	37,722	49,159
(b) Cost of sales and services:					
Cost of sales of motor vehicles	3,232,140	4,493,285	6,740,711	2,964,259	4,552,403
Others	213,032	233,359	287,855	126,122	161,862
	3,445,172	4,726,644	7,028,566	3,090,381	4,714,265
(c) Other items:					
Depreciation of items of property, plant and equipment	27,870	32,199	42,654	18,615	29,962
Amortisation of land use rights	1,656	1,658	2,098	935	4,726
Amortisation of intangible assets	—	—	—	—	115
Advertisement and business promotion expenses	12,970	22,919	37,469	16,231	32,188
Bank charges	4,185	4,408	6,913	3,266	9,113
Lease expenses	15,031	18,165	24,107	9,854	22,088
Logistics and petroleum expenses	7,693	14,222	18,837	9,473	12,006
Office expenses	3,960	5,579	6,909	3,099	4,597

7. FINANCE COSTS

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expense on bank borrowings wholly repayable within five years	35,792	29,933	51,684	21,077	49,602
Interest expense on other borrowings	7,689	1,457	2,028	968	1,143
Less: interest capitalised	(3,810)	(5,357)	(5,334)	(2,667)	(2,669)
	39,671	26,033	48,378	19,378	48,076

8. TAX

(a) Tax in the combined income statements represents:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current Mainland China corporate income tax	23,735	60,199	105,033	44,565	78,250
Deferred tax *(Note 28)*	(3,231)	589	(767)	(326)	(3,236)
	20,504	60,788	104,266	44,239	75,014

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council 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 or its operations.

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

The subsidiary incorporated in Hong Kong is 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 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 December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	77,960	236,633	411,924	175,432	288,918
Tax at applicable tax rates (25%)	19,490	59,158	102,981	43,858	72,230
Tax effect of non-deductible expenses	1,014	1,622	2,012	411	3,353
Loss/(profit) attributable to a jointly-controlled entity	—	8	(727)	(30)	(569)
Tax charge	20,504	60,788	104,266	44,239	75,014

9. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company during the Relevant Periods and the six-month period ended June 30, 2010, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended December 31, 2008				
	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					
— Yang Aihua	—	300	—	39	339
— Yang Hansong	—	330	—	39	369
— Yang Zehua	—	304	—	39	343
— Zhao Hongliang	—	344	—	39	383
— Hua Xiuzhen	—	294	—	—	294
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,572	—	156	1,728

	Year ended December 31, 2009				
	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					
— Yang Aihua	—	226	—	44	270
— Yang Hansong	—	536	—	44	580
— Yang Zehua	—	500	—	44	544
— Zhao Hongliang	—	493	—	44	537
— Hua Xiuzhen	—	493	—	—	493
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	2,248	—	176	2,424

	Year ended December 31, 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					
— Yang Aihua	—	1,040	—	56	1,096
— Yang Hansong	—	440	—	56	496
— Yang Zehua	—	384	—	56	440
— Zhao Hongliang	—	424	—	56	480
— Hua Xiuzhen	—	424	—	—	424
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	2,712	—	224	2,936

	Six-month period ended June 30, 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					
— Yang Aihua	—	540	—	29	569
— Yang Hansong	—	270	—	29	299
— Yang Zehua	—	240	—	29	269
— Zhao Hongliang	—	210	—	29	239
— Hua Xiuzhen	—	210	—	—	210
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,470	—	116	1,586

	Six-month period ended June 30, 2010 (unaudited)				
	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					
— Yang Aihua	—	360	—	28	388
— Yang Hansong	—	240	—	28	268
— Yang Zehua	—	200	—	28	228
— Zhao Hongliang	—	200	—	28	228
— Hua Xiuzhen	—	200	—	—	200
Non-executive directors					
— Zhang Yang	—	—	—	—	—
	—	1,200	—	112	1,312

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six-month period ended June 30, 2010.

No emoluments were paid to the non-executive directors of the Company during the Relevant Periods and the six-month period ended June 30, 2010.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included four directors for the six-month period ended 30 June 2011 (2008: three; 2009: two; 2010: three; the six-month period ended 30 June 2010: four), details of whose remuneration are detailed in Note 9 above. Details of the remuneration of the remaining non-director, highest paid employees for each of the Relevant Periods and the six-month period ended June 30, 2010 are as follows:

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, bonuses, allowances and benefits in kind	688	1,504	848	200	210
Pension scheme contributions	11	23	48	18	21
	699	1,527	896	218	231

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

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
Nil to HK$1,000,000	2	3	2	1	1

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The combined profit attributable to owners of the parent for the year ended December 31, 2010 and the six-month period ended June 30, 2011 were all generated by the subsidiaries now comprising the Group and Shanghai Kailong (Note 2.1).

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 2.1 above.

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 January 1, 2008	260,130	16,225	16,552	13,794	32,037	—	338,738
Additions	1,333	74	852	2,505	18,465	35,752	58,981
Disposals	(7,947)	—	—	—	(4,750)	—	(12,697)
At December 31, 2008	253,516	16,299	17,404	16,299	45,752	35,752	385,022
Accumulated depreciation:							
At January 1, 2008	58,508	6,246	7,538	5,818	7,281	—	85,391
Depreciation provided during the year	13,550	1,074	2,111	2,515	8,620	—	27,870
Disposals	(7,550)	—	—	—	(1,671)	—	(9,221)
At December 31, 2008	64,508	7,320	9,649	8,333	14,230	—	104,040
Net book value:							
At December 31, 2008	189,008	8,979	7,755	7,966	31,522	35,752	280,982
Cost:							
At January 1, 2009	253,516	16,299	17,404	16,299	45,752	35,752	385,022
Additions	115,953	799	7,127	5,881	33,464	16,928	180,152
Transfers	14,255	14,376	140	—	—	(28,771)	—
Disposals	—	—	—	(32)	(23,500)	—	(23,532)
At December 31, 2009	383,724	31,474	24,671	22,148	55,716	23,909	541,642
Accumulated depreciation:							
At January 1, 2009	64,508	7,320	9,649	8,333	14,230	—	104,040
Depreciation provided during the year	16,443	2,275	2,455	3,091	7,935	—	32,199
Disposals	—	—	—	(30)	(3,841)	—	(3,871)
At December 31, 2009	80,951	9,595	12,104	11,394	18,324	—	132,368
Net book value:							
At December 31, 2009	302,773	21,879	12,567	10,754	37,392	23,909	409,274

	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 January 1, 2010	383,724	31,474	24,671	22,148	55,716	23,909	541,642
Additions	47,518	3,087	16,680	5,312	37,527	59,432	169,556
Transfers	28,725	600	2,033	—	—	(31,358)	—
Disposals	—	—	(118)	(1,708)	(19,695)	—	(21,521)
At December 31, 2010	459,967	35,161	43,266	25,752	73,548	51,983	689,677
Accumulated depreciation:							
At January 1, 2010	80,951	9,595	12,104	11,394	18,324	—	132,368
Depreciation provided during the year	21,922	2,316	3,706	3,637	11,073	—	42,654
Disposals	—	—	(112)	(1,612)	(4,328)	—	(6,052)
At December 31, 2010	102,873	11,911	15,698	13,419	25,069	—	168,970
Net book value:							
At December 31, 2010	357,094	23,250	27,568	12,333	48,479	51,983	520,707
Cost:							
At January 1, 2011	459,967	35,161	43,266	25,752	73,548	51,983	689,677
Additions	58,984	33,801	1,470	2,826	17,360	66,764	181,205
Transfers	47,666	1,057	8,998	4,229	13,885	(75,835)	—
Disposals	—	(864)	—	(238)	(12,740)	—	(13,842)
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	—	—	(250)	(250)
At June 30, 2011	566,617	69,155	53,734	32,569	92,053	42,662	856,790
Accumulated depreciation:							
At January 1, 2011	102,873	11,911	15,698	13,419	25,069	—	168,970
Depreciation during the period	15,408	3,360	2,810	2,444	5,940	—	29,962
Disposals	—	(864)	—	(226)	(5,052)	—	(6,142)
At June 30, 2011	118,281	14,407	18,508	15,637	25,957	—	192,790
Net book value:							
At June 30, 2011	448,336	54,748	35,226	16,932	66,096	42,662	664,000

As at June 30, 2011, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB423,456,000 was still in progress.

Certain of the Group's buildings with aggregate net book values of approximately Nil, RMB24,337,000, RMB22,845,000 and RMB22,099,000 as at December 31, 2008, December 31, 2009 and December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bank borrowings (Note 24(a)).

14. LAND USE RIGHTS

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of each year/period	81,438	81,526	81,526	338,924
Additions	88	—	257,398	116,479
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	(276,358)
At the end of each year/period	81,526	81,526	338,924	179,045
Accumulated amortisation:				
At the beginning of each year/period	5,574	7,230	8,888	10,986
Charge for the year/period	1,656	1,658	2,098	4,726
Deemed distribution to equity holders of the Company *(Note 31)*	—	—	—	(11,830)
At the end of each year/period	7,230	8,888	10,986	3,882
Net book value:				
At the end of each year/period	74,296	72,638	327,938	175,163

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 36 to 44 years.

Certain of the Group's land use rights with an aggregate net book value of approximately Nil, RMB22,726,000, RMB36,132,000 and RMB82,088,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bank loans and other borrowings (Note 24 (a)).

15. INTANGIBLE ASSETS

	Software
	RMB'000
Cost:	
At January 1, 2011	—
Additions	2,379
At June 30, 2011	2,379
Accumulated amortisation:	
At January 1, 2011	—
Charge for the period	(115)
At June 30, 2011	(115)
Net book value:	
At June 30, 2011	2,264

16. PREPAYMENTS

	At December 31, 2008	At December 31, 2009	At December 31, 2010	At June 30, 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid lease for buildings	2,110	2,171	7,554	12,125

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	At December 31, 2008	At December 31, 2009	At December 31, 2010	At June 30, 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	—	4,967	7,874	10,149

瀋陽信寶行汽車銷售服務有限公司(Shenyang Xinbaohang Automobile Sales & Services Co., Ltd. "Shenyang Xinbaohang") is a jointly-controlled entity of the Group and is considered to be a related party of the Group.

(a) Particulars of a jointly-controlled entity

Jointly-controlled entity	Place and date of incorporation/ registered	Authorised registration/paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenyang Xinbaohang	Shenyang, the PRC, 2009	RMB10,000,000	50%	50%	50%	Sale and service of motor vehicles

(b) The following table illustrates the summarised financial information of the Group's jointly-controlled entity shared by the Group:

	At December 31, 2008	At December 31, 2009	At December 31, 2010	At June 30, 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities:				
Non-current assets	—	14,078	22,128	21,716
Current assets	—	21,829	87,846	103,019
Current liabilities	—	(30,940)	(102,100)	(114,586)
Net assets	—	4,967	7,874	10,149

	Year ended December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Share of the jointly-controlled entity's results:					
Revenue	—	—	259,103	150,697	157,664
Expenses	—	(33)	(256,196)	(150,579)	(154,631)
Tax	—	—	—	—	(758)
(Loss)/profit for the year/period	—	(33)	2,907	118	2,275

18. INVENTORIES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Motor vehicles	321,400	370,868	678,858	1,429,471
Spare parts and accessories	38,494	49,297	59,095	85,731
	359,894	420,165	737,953	1,515,202

Certain of the Group's inventories with a carrying amount of RMB101,434,000, RMB139,462,000, RMB225,620,000 and RMB382,587,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, 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 RMB191,040,000, RMB209,154,000, RMB398,929,000 and RMB798,201,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, were pledged as security for the Group's bills payable.

19. TRADE RECEIVABLES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	28,849	41,736	42,847	58,432
Impairment	—	—	—	(4,179)
	28,849	41,736	42,847	54,253

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, net of impairment) is as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	27,466	38,610	38,349	50,004
More than 3 months but less than 1 year	690	2,124	2,585	3,369
Over 1 year	693	1,002	1,913	880
	28,849	41,736	42,847	54,253

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

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	28,156	40,734	40,934	53,373
Over one year past due	693	1,002	1,913	880
	28,849	41,736	42,847	54,253

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.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in provision for impairment of trade receivables are as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of each year/period	—	—	—	—
Impairment losses recognised	—	—	—	4,179
At the end of each year/period	—	—	—	4,179

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	111,681	285,666	621,251	699,163
Prepayments for purchase of items of plant, property and equipment	8,556	7,970	4,422	13,165
Deposit paid for potential acquisition of land use rights	8,200	22,171	18,698	—
Rebate receivables	60,809	131,219	180,853	239,705
VAT recoverable (i)	5,969	7,497	20,881	60,388
Staff loans	8,829	13,279	30,776	32,279
Others	10,552	11,103	20,845	33,413
	214,596	478,905	897,726	1,078,113

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 the net difference between output and deductible input VAT. 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 December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits pledged with banks as collateral against credit facilities of bills payable granted by the banks	111,971	163,623	276,149	496,818

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

22. CASH IN TRANSIT

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in transit	7,550	17,423	14,022	33,660

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 December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	86,194	212,793	379,206	414,099
Short term deposits	—	—	5,270	—
Cash and cash equivalents	86,194	212,793	384,476	414,099

At the end of the reporting period, cash and bank balances and short term deposits are all denominated in RMB. Cash at banks earns interest at floating rates based on daily bank deposit rates. Term deposits are made for varying periods ranging from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and term deposits 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.

24. BANK LOANS AND OTHER BORROWINGS

	At December 31,						At June 30,	
	2008		2009		2010		2011	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current bank loans	5.8–9.0	212,093	5.3–6.1	444,181	5.7–6.8	756,442	5.8–7.9	1,031,351
Other borrowings	7.5–8.2	50,066	5.6–7.8	103,807	6.4–8.1	50,897	6.7–8.1	151,105
		262,159		547,988		807,339		1,182,456
Current bank loans and other borrowings representing:								
— secured (a)		86,320		154,259		262,772		390,554
— guaranteed (b)		31,000		113,000		129,040		206,711
— unsecured		144,839		280,729		415,527		585,191
		262,159		547,988		807,339		1,182,456

The maturity of bank loans and other borrowings at each reporting date were less than one year.

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately Nil, RMB22,726,000, RMB36,132,000 and RMB82,088,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately Nil, RMB24,337,000, RMB22,845,000 and RMB22,099,000 as at December 31, 2008, December 31, 2009 and December 31, 2010 and June 30, 2011, respectively; and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB101,434,000, RMB139,462,000, RMB225,620,000 and RMB382,587,000 at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

(b) Certain of the Group's bank loans which amounted to RMB31,000,000, RMB113,000,000, RMB129,040,000 and RMB206,711,000 were guaranteed by the Controlling Shareholder as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

25. TRADE AND BILLS PAYABLES

	At December 31,			At June 30,
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade payables	33,658	20,271	14,325	22,966
Bills payable	264,178	307,322	575,320	1,199,545
Trade and bills payables	297,836	327,593	589,645	1,222,511

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

	At December 31,			At June 30,
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within 3 months	265,612	307,768	570,884	1,163,462
3 to 6 months	28,408	11,996	16,410	57,501
6 to 12 months	2,423	1,784	2,129	437
Over 12 months	1,393	6,045	222	1,111
	297,836	327,593	589,645	1,222,511

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

26. OTHER PAYABLES AND ACCRUALS

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for purchase of items of property, plant and equipment	22,212	19,500	5,544	3,275
Payables for purchase of land use rights	—	—	—	82,300
Advances from customers	80,054	116,817	108,115	147,476
Taxes payable (other than income tax)	8,974	14,865	29,783	26,351
Lease payables	7,174	7,036	8,738	7,576
Staff payroll and welfare payables	4,022	4,348	5,554	6,221
Others	7,750	7,758	6,641	8,365
	130,186	170,324	164,375	281,564

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 10% to 22% (2010: 10% to 22%; 2009: 10% to 22%; 2008: 10% to 22%) 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 7% to 10% (2010: 7% to 10%; 2009: 7% to 10%; 2008: 7% to 10%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Center. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, 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 combined statements of financial position and the movements during the years/period are as follows:

	Losses available for offset against future taxable profits	Accrued payroll	Deferred rental expenses	Other accrual	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008	2,019	333	788	—	3,140
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	2,636	377	218	—	3,231
At December 31, 2008	4,655	710	1,006	—	6,371
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	(1,188)	518	81	—	(589)
At December 31, 2009	3,467	1,228	1,087	—	5,782
Deferred tax recognised in the combined income statement during the year *(Note 8(a))*	(140)	605	302	—	767
At December 31, 2010	3,327	1,833	1,389	—	6,549
Deferred tax recognised in the combined income statement during the period *(Note 8(a))*	1,078	(278)	1,391	1,045	3,236
Deemed distribution to equity holders of the Company *(Note 31)*	(614)	—	—	—	(614)
At June 30, 2011	3,791	1,555	2,780	1,045	9,171

Deferred tax liabilities:

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 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. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. On February 22, 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at December 31, 2007 are exempted from the withholding tax.

The Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding company, Kailong Investments Management Limited, a Hong Kong tax resident.

The Group has not provided for income taxes on accumulated earnings generated by its PRC entities during the Relevant Periods amounting to RMB51,600,000, RMB190,418,000, RMB458,536,000 and RMB227,627,000 as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively, because it is probable that such accumulated earnings will not 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 September 6, 2010 with an initial authorised share capital of US$50,000 divided into 500,000 shares of a par value of US$0.1 each. On the date of incorporation, 1 ordinary share of US$0.1 was allotted and issued by the Company to its then shareholders. On September 28, 2010, 499,999 ordinary shares of US$49,999.9 was allotted and issued to its then shareholders.

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 combined from the earliest date presented or since the date when the subsidiaries and/or businesses 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. EFFECT ON DEEMED DISTRIBUTION TO EQUITY HOLDERS OF THE COMPANY ON JUNE 30, 2011

As mentioned in Note 1, Shanghai Kailong transferred its entire business of sale and service of motor vehicles together with certain operating assets and liabilities to Minhang Automobiles on June 30, 2011. As mentioned in Note 2.1, the accounts of Shanghai Kailong have been included in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles.

On June 30, 2011, except those operating assets and liabilities which have been transferred to Minhang Automobiles, other assets and liabilities of Shanghai Kailong summarised as below were accounted for as distribution to equity holders of the Company. An analysis of the assets and liabilities and the cash outflow of the distribution is as follows:

	June 30, 2011
	RMB'000
NON-CURRENT ASSETS	
Property, plant and equipment	250
Land use rights	264,528
Deferred tax assets	614
Total non-current assets	265,392
CURRENT ASSETS	
Trade receivables	350
Deposits and other receivables	21,092
Amounts due from the Controlling Shareholder	6,313
Cash in transit	308
Cash and cash equivalents	10,891
Total current assets	38,954
CURRENT LIABILITIES	
Trade and bills payables	193
Other payables and accruals	2,860
Amounts due to the Controlling Shareholder	143,303
Income tax payable	196
Total current liabilities	146,552
NON-CURRENT LIABILITIES	
Bank loans and other borrowings	150,000
Total non-current liabilities	150,000
NET ASSETS	7,794

32. 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 December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	28,849	41,736	42,847	54,253
Financial assets included in prepayments, deposits and other receivables	80,190	155,601	232,474	305,397
Amounts due from a related party	—	1,000	33,900	37,835
Pledged bank deposits	111,971	163,623	276,149	496,818
Cash in transit	7,550	17,423	14,022	33,660
Cash and cash equivalents	86,194	212,793	384,476	414,099
	314,754	592,176	983,868	1,342,062

Financial liabilities

	Financial liabilities at amortised cost			
	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	297,836	327,593	589,645	1,222,511
Financial liabilities included in other payables and accruals	37,136	34,294	20,923	101,516
Amounts due to related parties	17,879	148,814	5,385	1,143,991
Bank loans and other borrowings	262,159	547,988	807,339	1,182,456
	615,010	1,058,689	1,423,292	3,650,474

33. CONTINGENT LIABILITIES

As at December 31, 2008, 2009 and 2010, and June 30, 2011, neither the Group nor the Company had any significant contingent liabilities.

34. 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 December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for land use rights and buildings	2,040	5,420	3,010	45,976
Authorised, but not contracted for land use rights and buildings	3,040	233,561	25,124	36,986
	5,080	238,981	28,134	82,962

(b) Operating lease commitments

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

	December 31,						June 30,	
	2008		2009		2010		2011	
	Properties	Land	Properties	Land	Properties	Land	Properties	Land
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,204	11,846	1,293	13,700	6,861	9,650	10,481	26,034
After 1 year but within 5 years	4,755	34,596	3,906	37,547	18,990	34,531	34,303	103,672
After 5 years	14,057	55,179	13,693	92,027	24,574	79,676	71,323	161,412
	20,016	101,621	18,892	143,274	50,425	123,857	116,107	291,118

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.

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in Note 13, Note 14, Note 18 and Note 21 to the Financial Information.

36. RELATED PARTY TRANSACTIONS AND BALANCES

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

Shanghai Bentai Investment Management Co., Ltd. ("Bentai Investment"), Shanghai Chiheng Investment Management Co., Ltd. ("Chiheng Investment"), Shanghai Hengjun Investment Management Co., Ltd. ("Hengjun Investment"), Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund are the then equity holders of the Group and are also considered to be related parties of the Group.

(a) Transactions with related parties

(i) The Group's bank loans which amounted to RMB31,000,000, RMB113,000,000, RMB129,040,000 and RMB206,711,000 were guaranteed by the Controlling Shareholder as at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, respectively.

(ii) On June 28, 2011, Suzhou Baoxin Automobile Sales & Services Co., Ltd. ("Suzhou Baoxin") entered into an equity transfer agreement with Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund, pursuant to which Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund agreed to sell and Suzhou Baoxin agreed to purchase the 3% of the equity interest in Shanghai Baoxin Automobile Sales & Services Co., Ltd. for a consideration of RMB550,000,000 provided that any one of the following three conditions is fulfilled: (i) the Global Offering has been completed; (ii) the shareholders (apart from the Tsinghua Industry Investment Fund I, L.P., Tsinghua Industry Investment Fund II, L.P. and Innovation Capital, L.P.) of the Company have disposed of an aggregate of 40% or more of their shares in the Company; or (iii) Mr. Yang Aihua has ceased to be a controlling shareholder.

Pursuant to above terms of the equity transfer agreement, the 3% non-controlling interests were derecognised as if they were acquired on June 28, 2011. The consideration of RMB550,000,000 was then recorded as amounts due to Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund by RMB330,000,000 and RMB220,000,000, respectively.

(b) Balances with related parties

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

(i) Due from a related party:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related:				
A jointly-controlled entity				
— Shenyang Xinbaohang	—	1,000	33,900	37,835

(ii) Due to related parties:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related:				
The Controlling Shareholder				
— Mr. Yang Aihua	17,879	148,814	5,385	481,045
The then equity holders				
— Huakong (Tianjin) Innovation Fund	—	—	—	370,338
— Huakong (Tianjin) Industry Investment Fund	—	—	—	246,893
— Bentai Investment	—	—	—	23,166
— Hengjun Investment	—	—	—	16,989
— Chiheng Investment	—	—	—	5,560
	17,879	148,814	5,385	1,143,991

Except for the amounts due to Huakong (Tianjin) Innovation Fund and Huakong (Tianjin) Industry Investment Fund by RMB330,000,000 and RMB220,000,000, respectively, which would be settled upon completion of the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, 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 December 31,			Six-month period ended June 30,	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefits	1,104	1,983	1,696	800	930
Post-employee benefits	50	55	62	31	64
Total compensation paid to key management personnel	1,154	2,038	1,758	831	994

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

37. FAIR VALUE

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

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 and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate 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) and cash and cash equivalents (Note 23).

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 a floating interest rate.

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 included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at December 31, 2008, December 31, 2009, December 31, 2010 and June 30, 2011, 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 December 31, 2008					
	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	—	142,127	124,188	—	—	266,315
Trade and bills payables	32,224	265,612	—	—	—	297,836
Other payables and accruals	37,136	—	—	—	—	37,136
Amounts due to related parties	17,879	—	—	—	—	17,879
	87,239	407,739	124,188	—	—	619,166

	As at December 31, 2009					
	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	—	314,566	241,293	—	—	555,859
Trade and bills payables	19,825	307,768	—	—	—	327,593
Other payables and accruals	34,294	—	—	—	—	34,294
Amounts due to related parties	148,814	—	—	—	—	148,814
	202,933	622,334	241,293	—	—	1,066,560

	As at December 31, 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	—	468,032	351,741	—	—	819,773
Trade and bills payables	18,761	570,884	—	—	—	589,645
Other payables and accruals	20,923	—	—	—	—	20,923
Amounts due to related parties	5,385	—	—	—	—	5,385
	45,069	1,038,916	351,741	—	—	1,435,726

	As at June 30, 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	—	418,825	784,759	—	—	1,203,584
Trade and bills payables	59,049	1,163,462	—	—	—	1,222,511
Other payables and accruals	101,516	—	—	—	—	101,516
Amounts due to related parties	1,143,991	—	—	—	—	1,143,991
	1,304,556	1,582,287	784,759	—	—	3,671,602

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 December 31, 2008, December 31, 2009, December 31, 2010 and the six months period ended June 30, 2011.

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, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents. The gearing ratios as at each of the statement of financial position dates were as follows:

	At December 31,			At June 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans and other borrowings	262,159	547,988	807,339	1,182,456
Trade and bills payables	297,836	327,593	589,645	1,222,511
Other payables and accruals	130,186	170,324	164,375	281,564
Amounts due to related parties	17,879	148,814	5,385	1,143,991
Less: Cash and cash equivalents	(86,194)	(212,793)	(384,476)	(414,099)
Net debt	621,866	981,926	1,182,268	3,416,423
Equity attributable to owners of the parent	443,926	562,234	1,465,573	463,804
Gearing ratio	58.3%	63.6%	44.7%	88.0%

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 Held by the Company	Held by a subsidiary	Principal activities
				%	%	
Xiangsong Auto Company Limited	*(iii)*	Tortola, British Virgin Islands 2011	Registered capital of Nil	100%	—	Investment holding
開隆投資管理有限公司 (Kailong Investments Management Limited)	*(i)*	Hong Kong, the PRC 2010	Registered and paid-in capital of HK$1	—	100%	Investment holding
上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2004	Registered and paid-in capital of RMB214,650,000	—	100%	Sale and service of motor vehicles
上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.)	*(i)*	Shanghai, the PRC 1999	Registered and paid-in capital of RMB87,000,000	—	100%	Sale and service of motor vehicles
上海開隆汽車貿易虹橋有限公司 (Shanghai Kailong Automobile Trading Hongqiao Co., Ltd.)	*(i)*	Shanghai, the PRC 2004	Registered and paid-in capital of RMB6,000,000	—	100%	Sale of spare parts and accessories
上海太平洋虹橋汽車貿易有限公司 (Shanghai Taipingyang Hongqiao Automobile Trading Co., Ltd.)	*(i)*	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海開隆汽車服務有限公司 (Shanghai Kailong Automobile Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2000	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海開隆豐田汽車銷售服務有限公司 (Shanghai Kailong Toyota Automobile Sales & Services Co., Ltd.)	*(ii)*	Shanghai, the PRC 2002	Registered and paid-in capital of RMB80,000,000	—	85%	Sale and service of motor vehicles
上海開隆汽車裝潢服務有限公司 (Shanghai Kailong Automobile Decoration Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2003	Registered and paid-in capital of RMB500,000	—	100%	Sale of spare parts and accessories
上海徐匯寶信汽車服務有限公司 (Shanghai Xuhui Baoxin Automobile Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale of spare parts and accessories
蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Suzhou, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
青島信寶行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.)	*(i)*	Qingdao, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Tianjin, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
寧波寶信汽車銷售服務有限公司 (Ningbo Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Ningbo, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	100%	Service of motor motor vehicles
寧海寶信汽車銷售服務有限公司 (Ninghai Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Ninghai, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	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 Held by the Company	Held by a subsidiary	Principal activities
				%	%	
泰州信寶行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.)	*(i)*	Taizhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
北京信寶行置業有限公司 (Beijing Xinbaohang Real Estate Co., Ltd.)	*(i)*	Beijing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	51%	Dormant
上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.)	*(i)*	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Hangzhou, the PRC 2008	Registered and paid-in capital of RMB10,000,000	—	90%	Sale and service of motor vehicles
常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.)	*(i)*	Changshu, the PRC 2006	Registered and paid-in capital of RMB30,000,000	—	100%	Sale and service of motor vehicles
上海太平洋金沙汽車銷售服務有限公司 (Shanghai Taipingyang Jinsha Automobile Sales & Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	90%	Sale and service of motor vehicles
上海太平洋申隆汽車銷售服務有限公司 (Shanghai Taipingyang Shenlong Automobile Sales & Services Co., Ltd.)	*(i)*	Shanghai, the PRC 2005	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
上海徐匯開隆汽車銷售服務有限公司 (Shanghai Xuhui Kailong Automobile Sales & Services Co., Ltd.)	*(ii)*	Shanghai, the PRC 2006	Registered and paid-in capital of RMB12,000,000	—	85%	Sale and service of motor vehicles
上海信隆汽車銷售服務有限公司 (Shanghai Xinlong Automobile Sales & Services Co., Ltd.)	*(ii)*	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
上海亞歐汽車銷售服務有限公司 (Shanghai Ya'ou Automobile Sales & Services Co., Ltd.)	*(ii)*	Shanghai, the PRC 2004	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
上海中創汽車銷售有限公司 (Shanghai Zhongchuang Automobile Sales Co., Ltd.)	*(ii)*	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	—	85%	Sale and service of motor vehicles
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	*(i)*	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles
揚州名凱汽車銷售服務有限公司 (Yangzhou Mingkai Automobile Sales & Services Co., Ltd.)	*(i)*	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
上海閔行開隆汽車裝璜服務有限公司 (Shanghai Minhang Kailong Automobile Decoration Services Co., Ltd.)	*(iv)*	Shanghai, the PRC 2010	Registered and paid-in capital of RMB500,000	—	85%	Sale of spare parts and accessories
上海徐匯開隆二手機動車經營有限公司 (Shanghai Xuhui Kailong Second-hand Motor Vehicle Trading Co., Ltd.)	*(i)*	Shanghai, the PRC 2010	Registered and paid-in capital of RMB100,000	—	100%	Dormant
江蘇滬隆投資實業有限公司 (Jiangsu Hulong Investment Co., Ltd.)	*(i)*	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	—	100%	Dormant
杭州寶信置業有限公司 (Hangzhou Baoxin Real Estate Co., Ltd.)	*(i)*	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	90%	Dormant

Company name	Notes	Place and date of incorporation/ operations	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
				%	%	
蘇州信寶行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd)	*(i)*	Suzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
富陽寶信汽車銷售服務有限公司 (Fuyang Baoxin Automobile Sales & Services Co., Ltd.)	*(iii)*	Fuyang, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	90%	Dormant
青島寶隆汽車銷售服務有限公司 (Qingdao Baolong Automobile Sales & Services Co., Ltd.)	*(iii)*	Qingdao, the PRC 2011	Registered and paid-in capital of RMB5,000,000	—	100%	Dormant
上海真北寶信汽車銷售服務有限公司 (Shanghai Zhenbei Baoxin Automobile Sales & Services Co., Ltd.)	*(iii)*	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
丹東信寶行汽車銷售服務有限公司 (Dandong Xinbaohang Automobile Sales & Services Co., Ltd.)	*(iii)*	Dandong, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
嘉興天華汽車銷售服務有限公司 (Jiaxing Tianhua Automobile Sales & Services Co., Ltd.)	*(iii)*	Jiaxing, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Dormant
無錫天華汽車銷售服務有限公司 (Wuxi Tianhua Automobile Sales & Services Co., Ltd.)	*(iii)*	Wuxi, the PRC 2011	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
寧波天華汽車銷售服務有限公司 (Ningbo Tianhua Automobile Sales & Services Co., Ltd.)	*(iii)*	Ningbo, the PRC 2011	Registered and paid-in capital of RMB15,000,000	—	100%	Sale and service of motor vehicles
上海閔行開隆汽車銷售有限公司 (Shanghai Minhang Automobile Sales Co., Ltd)	*(iii)*	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
寧波寶鼎行汽車銷售服務有限公司 (Ningbo Baodinghang Automobile Sales & Services Co., Ltd.)	*(iii)*	Ningbo, the PRC 2011	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
上海五角場開隆汽車貿易有限公司 (Shanghai Wujiaochang Kailong Automobile Trading Co., Ltd.)	*(iii)*	Shanghai, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	70%	Sale and service of motor vehicles
瀋陽寶信行汽車有限公司 (Shenyang Baoxinhang Automobile Co., Ltd.)	*(iii)*	Shenyang, the PRC 2011	Registered and paid-in capital of RMB3,000,000	—	100%	Sale and service of motor vehicles
天津衛寶行汽車銷售服務有限公司 (Tianjin Weibaohang Automobile Sales & Services Co., Ltd.)	*(iii)*	Tianjin, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	100%	Sale and service of motor vehicles
淄博寶信汽車銷售服務有限公司 (Zibo Baoxin Automobile Sales & Services Co., Ltd.)	*(iii)*	Zibo, the PRC 2011	Registered and paid-in capital of RMB10,000,000	—	75%	Sale and service of motor vehicles

The results of Shanghai Kailong have been included in the Financial Information throughout the Relevant Periods since it was 100% owned by the Controlling Shareholder and that its business throughout the Relevant Periods formed an integral part of the Listing Business. Accordingly, the operating result was reflected in the Financial Information up to the business acquisition date of June 30, 2011, i.e. the effective date when Shanghai Kailong ceased its business of sale and service of motor vehicles. Shanghai Kailong was established in the PRC on November 15, 2001 with paid-up capital of RMB50,000,000 as at June 30, 2011. It was engaged in the sale and service of motor vehicles in Shanghai, the PRC, and no statutory accounts have been prepared for Shanghai Kailong since its incorporation as there is no statutory requirement for it to prepare audited financial statements.

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) No statutory account for the years ended December 31, 2008 has been prepared for these subsidiaries since their incorporation as there is no statutory requirement for these companies to prepare audited financial statements. The statutory accounts for the year ended December 31, 2009 and 2010 were audited by 公信中南會計師事務所 (Gong Xin Zhong Nan Certified Public Accountants) and 上海宏大東亞會計師事務所有限公司 (Shanghai HDDY Certified Public Accountants Co., Ltd) respectively.

(iii) For the year ended December 31, 2010, these subsidiaries have yet to be incorporated.

(iv) The statutory accounts for the year ended December 31, 2010 were audited by 上海宏大東亞會計師事務所有限公司 (Shanghai HDDY Certified Public Accountants Co., Ltd).

40. POST BALANCE SHEET EVENTS

1. On July 12, 2011, the authorized share capital of the Company was increased to US$200,000 divided into 2,000,000 shares with a par value of US$0.1 each. On the same day, 500,000 ordinary shares of US$50,000 were allotted and issued to its then shareholders.

2. On November 22, 2011, the authorized share capital of the Company was increased to the aggregate of US$200,000 and HK$50,000,000 divided into (i) 2,000,000 shares with a par value of US$0.1 each and (ii) 5,000,000,000 ordinary shares with a par value of HK$0.01 each.

3. On November 25, 2011, 100,000,000 ordinary shares of HK$1,000,000 were allotted and issued as fully paid to its then shareholders.

4. On November 25, 2011, the 1,000,000 shares of a par value of US$0.1 each, were repurchased and cancelled by the Company.

5. On November 25, 2011, the authorized share capital of the Company was reduced by the cancellation of all of the 2,000,000 authorized but unissued shares of a par value of US$0.1 each, such that the authorized share capital of the Company was reduced to HK$50,000,000 divided into 5,000,000,000 ordinary shares with a par value of HK$0.01 each.

6. The companies now comprising the Group underwent and completed a Reorganisation on August 4, 2011 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Our History and Reorganisation" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to June 30, 2011.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
Hong Kong