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

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

6 June 2012

The Directors
Xiezhong International Holdings Limited

Guotai Junan Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Xiezhong International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2009, 2010 and 2011, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 6 June 2012 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 20 January 2012 (the "Reorganisation") as detailed in the section headed "History and Development" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 32 of

Section C. The financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") or the relevant accounting rules and regulations applicable to entities in the People's Republic of China (the "PRC").

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2009, 2010 and 2011.

A. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 30 September 2011. To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("SEHK"), the Company underwent the Reorganisation as detailed in the section headed "History and Development" in the Prospectus. The Group is principally engaged in the development, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components.

Upon completion of the group reorganisation on 20 January 2012, the Company became the holding company of Xiezhong Holdings Limited ("Xiezhong BVI"), and the companies now comprising the Group are owned by the same equity shareholders, i.e. CITIC Capital China Limited ("CITIC Capital China"), Fang Brothers (China) Limited ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto") and Sunrise International Investment Management Inc. ("Sunrise International"), both before and after the group reorganisation mentioned above. As the Company was formed for the sole purpose of the Reorganisation and had no operations prior to the acquisition of Xiezhong BVI, no business combination has occurred and there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, Business combinations ("IFRS 3"). The combined financial statements of the Company are considered as a continuation of the consolidated financial statements of Xiezhong BVI with the assets and liabilities of Xiezhong BVI and its subsidiaries recognised and measured at their historical carrying amounts prior to the Reorganisation.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Details of the principal subsidiaries, in which the Company has direct and indirect interests as at the date of this report, are set out in note 32 of Section C of this report.

B. COMBINED FINANCIAL INFORMATION

1. Combined income statements

	Section C	Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	4	346,539	545,502	619,904
Cost of sales		(249,614)	(394,516)	(447,727)
Gross profit		96,925	150,986	172,177
Other revenue and net income	5	3,169	5,444	6,835
Distribution costs		(18,521)	(28,785)	(24,730)
Administrative expenses		(21,948)	(26,856)	(37,767)
Other operating expenses		(37)	(71)	(186)
Profit from operations		59,588	100,718	116,329
Finance costs	6(a)	(1,529)	(1,930)	(7,554)
Share of losses of jointly controlled entities	16	—	(1,939)	(235)
Profit before taxation		58,059	96,849	108,540
Income tax	7(a)	(9,031)	(16,144)	(21,531)
Profit for the year		49,028	80,705	87,009
Attributable to:				
Equity shareholders of the Company		33,821	79,441	86,066
Non-controlling interests		15,207	1,264	943
Profit for the year		49,028	80,705	87,009
Earnings per share *(RMB)*				
Basic	11	0.056	0.132	0.143

2. Combined statements of comprehensive income

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	49,028	80,705	87,009
Other comprehensive income for the year			
Exchange differences on translation of financial statements of entities outside mainland China, net of nil tax	185	5,957	8,756
Total comprehensive income for the year	49,213	86,662	95,765
Attributable to:			
Equity shareholders of the Company	34,006	85,398	94,822
Non-controlling interests	15,207	1,264	943
Total comprehensive income for the year	49,213	86,662	95,765

3. Combined balance sheets

	Section C	At 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	12	81,321	134,438	197,201
Lease prepayments	13	26,674	35,309	56,050
Intangible assets	14	54,206	47,789	44,383
Goodwill	15	46,832	46,832	46,832
Interests in jointly controlled entities	16	—	27,111	4,659
Non-current prepayments	17	8,238	16,114	33,038
Deferred tax assets	25(b)	—	1,654	5,012
		217,271	309,247	387,175
Current assets				
Inventories	18	78,600	119,648	127,991
Trade and other receivables	19	211,514	331,083	390,745
Amounts due from related parties	31(c)	600	31,035	3,607
Deposits with banks	20	—	—	50,961
Cash	21(a)	39,148	4,969	28,063
		329,862	486,735	601,367
Current liabilities				
Trade and other payables	22	127,407	216,438	198,291
Amounts due to related parties	31(c)	217,128	218,970	24,903
Interest-bearing borrowings	23	21,057	73,852	154,618
Income tax payables	25(a)	4,479	8,729	11,361
Provision	26	1,658	4,971	3,799
		371,729	522,960	392,972
Net current (liabilities)/assets		(41,867)	(36,225)	208,395
Total assets less current liabilities		175,404	273,022	595,570

	Section C	At 31 December 2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Deferred income	27	—	5,020	21,695
Deferred tax liabilities	25(b)	19,525	21,322	25,918
		19,525	26,342	47,613
Net assets		155,879	246,680	547,957
Capital and reserves				
Share capital	28(a)	—	7	7
Reserves		62,187	241,932	520,049
Total equity attributable to equity shareholders of the Company		62,187	241,939	520,056
Non-controlling interests		93,692	4,741	27,901
Total equity		155,879	246,680	547,957

4. Combined statements of changes in equity
(Expressed in RMB'000)

	Attributable to equity shareholders of the Company								
	Share capital *(Note 28(a))*	PRC statutory reserves *(Note 28(b))*	Capital reserve *(Note 28(c))*	Other reserve *(Note 28(d))*	Exchange reserve *(Note 28(e))*	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2009	—	7,772	27,420	—	2,206	(13,614)	23,784	75,400	99,184
Changes in equity for 2009:									
Capital injections	—	—	—	—	—	—	—	1,200	1,200
Equity settled share-based transactions *(note 6(b)(ii))*	—	—	4,397	—	—	—	4,397	1,885	6,282
Total comprehensive income for the year	—	—	—	—	185	33,821	34,006	15,207	49,213
Appropriation to reserves	—	6,677	—	—	—	(6,677)	—	—	—
At 31 December 2009	—	14,449	31,817	—	2,391	13,530	62,187	93,692	155,879
At 1 January 2010	—	14,449	31,817	—	2,391	13,530	62,187	93,692	155,879
Changes in equity for 2010:									
Capital injections	6	—	75,094	—	—	—	75,100	2,800	77,900
Equity settled share-based transactions *(note 6(b)(ii))*	—	—	1,334	—	—	—	1,334	—	1,334
Exercise of options *(note 24(a))*	1	—	—	—	—	—	1	—	1
Acquisition of non-controlling interests *(note 33(a))*	—	—	—	17,919	—	—	17,919	(93,015)	(75,096)
Total comprehensive income for the year	—	—	—	—	5,957	79,441	85,398	1,264	86,662
Appropriation to reserves	—	9,445	—	—	—	(9,445)	—	—	—
At 31 December 2010	7	23,894	108,245	17,919	8,348	83,526	241,939	4,741	246,680
At 1 January 2011	7	23,894	108,245	17,919	8,348	83,526	241,939	4,741	246,680
Changes in equity for 2011:									
Deemed acquisition of a subsidiary *(note 33(b))*	—	—	—	—	—	—	—	22,217	22,217
Capital injection	—	—	183,295	—	—	—	183,295	—	183,295
Total comprehensive income for the year	—	—	—	—	8,756	86,066	94,822	943	95,765
At 31 December 2011	7	23,894	291,540	17,919	17,104	169,592	520,056	27,901	547,957

5. Combined cash flow statements

	Section C	Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Cash generated from operating activities	21(b)	83,123	37,397	49,758
Finance costs paid		(1,529)	(1,930)	(7,554)
Income tax paid	25(a)	(8,245)	(11,751)	(19,308)
Net cash generated from operating activities		73,349	23,716	22,896
Investing activities				
Acquisition of property, plant and equipment and lease prepayments		(28,305)	(64,068)	(95,548)
Payment for the investment in jointly controlled entities		—	(29,050)	—
Additions through deemed acquisition of a subsidiary	33(b)	—	—	33,465
Proceeds from disposal of property, plant and equipment		—	215	—
Increase in unrestricted bank deposits	20	—	—	(30,463)
Interest received		350	203	1,608
Net cash used in investing activities		(27,955)	(92,700)	(90,938)
Financing activities				
Proceeds from bank loans		8,000	40,000	149,159
Repayment of bank loans		(25,000)	(8,000)	(58,041)
Capital contributions from non-controlling equity holder		1,200	2,800	—
Capital contribution from equity holders		—	75,101	—
Acquisition of non-controlling interests		—	(75,096)	—

	Section C	Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Net cash (used in)/generated from financing activities		(15,800)	34,805	91,118
Net increase/(decrease) in cash		29,594	(34,179)	23,076
Cash at the beginning of the year	21(a)	9,554	39,148	4,969
Effect of foreign exchange rate changes		—	—	18
Cash at the end of the year	21(a)	39,148	4,969	28,063

C. NOTES TO COMBINED FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2011 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on SEHK.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and the Group's interest in jointly controlled entities and has been prepared based on the consolidated financial statements of Xiezhong BVI and its subsidiaries, as further explained in Section A.

(c) Basis of measurement

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

Items included in the Financial Information of each of the Group's entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except per share data.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

(f) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the combined financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(g) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the combined income statement, whereas the Group's share of the post-acquisition, post tax items of the investees' other comprehensive income is recognised in the combined statement of comprehensive income.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	15–20 years
— Machinery and equipment	3–10 years
— Furniture, fixtures and office equipment	5 years
— Motor vehicles	5 years
— Leasehold improvement	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful life are amortised from the date they are available for use and their estimated useful lives are as follows:

Core technology	10 years
Customer relationships	5–10 years
Software and patent	5–10 years

The estimated useful life of the Group's core technology to manufacture automotive HVAC systems is determined after taking into account the product life cycles for automotive products and anticipated technological and other changes.

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

(i) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 1(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries and jointly controlled entities (including those recognised using the equity method (see note 1(f))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash

Cash comprises cash at bank and on hand and demand deposits with banks and other financial institutions.

(q) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as staff costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

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

(s) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(s)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(s)(ii).

(ii) Other provisions and contingent liabilities

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

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

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign operations

The balance sheet items of foreign operations are translated to RMB at the exchange rates at the end of the reporting period. The results of foreign operations are translated to RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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).

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

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the Financial Information are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(c) Impairment of trade and other receivables

Management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade and other receivables at the end of reporting period.

(d) Warranty provision

As explained in note 26, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(e) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3. SEGMENT REPORTING

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of automotive air-conditioners.

(a) Information about geographical area

All of the Group's revenue is derived from the sale of automotive HVAC systems and a range of automotive HVAC components in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the Relevant Period.

(b) Information about major customers

The Group's customer base is diversified and included only 3–4 customers with whom transactions have exceeded 10% of the Group's annual revenue during the Relevant Period. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 29(a).

Revenues of a customer which amounted to 10 percent or more of the Group's revenue for the year is set out below:

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	154,846	111,380	180,910
Customer B	44,419	76,561	73,776
Customer C	*	60,626	63,603
Customer D	*	60,838	*
Customer E	47,422	*	*

* Less than 10 percent of the Group's revenue for the corresponding year.

4. TURNOVER

The principal activities of the Group are manufacturing and sale of automotive HVAC systems and a range of automotive HVAC components.

Turnover represents the sales value of goods supplied to customers.

5. OTHER REVENUE AND NET INCOME

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Other revenue			
Government grants	1,807	3,987	2,677
Interest income	350	203	1,608
Others	1,012	1,187	2,550
	3,169	5,377	6,835
Other net income			
Gains on disposal of property, plant and equipment	—	67	—
	3,169	5,444	6,835

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans	953	465	4,116
Interest on discounted bills	576	1,465	3,438
	1,529	1,930	7,554

(b) Staff costs

		Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, wages, and other benefits		25,970	39,751	49,103
Equity settled share-based payment expenses	(ii)	6,282	1,334	—
Contributions to defined contribution retirement plan	(i)	1,520	1,620	1,643
		33,772	42,705	50,746

Note:

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "scheme") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 18% to 20% of the eligible employees' salaries.

The government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

(ii) The Group recognised an expense of RMB6,282,000 and RMB1,334,000 for the year ended 31 December 2009 and 2010 respectively, in relation to share option granted to certain directors and employees of Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing") pursuant to a share incentive plan (see note 24(b)).

(c) Other items

		Years ended 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Amortisation				
— lease prepayments	13	618	618	1,213
— intangible assets	14	6,409	6,417	7,265
Depreciation of property, plant and equipment	12	10,530	12,631	18,578
Impairment losses on trade debtors	19(b)	414	2,310	164
Auditors' remuneration				
— audit services		672	1,398	1,109
— other services		173	263	717
Research and development costs ("R&D")		4,077	6,559	9,886
Increase in provision for product warranties	26	2,346	4,870	2,395
Cost of inventories	18(b), (i)	249,614	394,516	447,727

Note:

(i) Cost of inventories includes RMB25,458,000, RMB33,341,000 and RMB45,902,000 relating to staff costs, depreciation and amortisation for the years ended 31 December 2009, 2010 and 2011 respectively, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7. INCOME TAX

(a) Income tax in the combined income statements represents:

	Years ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
Under/(over)-provision in respect of prior year	67	(69)	(139)
Provision for current year	8,987	16,070	17,318
	9,054	16,001	17,179
Deferred tax			
Origination and reversal of temporary differences	(23)	143	4,352
	9,031	16,144	21,531

(b) Reconciliation between income tax and profit before taxation at applicable tax rate:

		Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation		58,059	96,849	108,540
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	14,516	24,214	28,450
Effect of tax concessions	(ii)	(8,987)	(14,170)	(10,855)
Under/(over)-provision in respect of prior year		67	(69)	(139)
Effect of non-deductible expenses		1,703	1,404	927
R&D bonus deduction	(iii)	—	(820)	(1,236)
Effect of unused tax losses not recognised		—	—	75
Effects of change in tax rate	(ii)	(775)	—	—
Tax rate differential on deferred tax balances		851	1,511	(903)
Effect of PRC dividend withholding tax	(iv)	1,656	4,074	5,212
Actual income tax		9,031	16,144	21,531

(i) Under the Corporate Income Tax Law of the PRC (the "new CIT Law") which was passed by the Fifth Plenary Session of the Tenth National People's Congress, effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profit Tax during the Relevant Period.

(ii) Xiezhong Nanjing was entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective ("2 + 3 tax holiday") based on the then effective tax regulations prior to 1 January 2008. Xiezhong Nanjing started its tax holiday in 2006.

The 2 + 3 tax holiday is grandfathered under the new CIT Law and its relevant regulations. Further, Xiezhong Nanjing is recognised as a High and New Technology Enterprise under the new CIT Law and is subject to income tax at a reduced rate of 15% for a period of 3 years from 2009 to 2011. According to the grandfathering regulations, Xiezhong Nanjing cannot enjoy multiple preferential policies during the grandfathering period. As such, Xiezhong Nanjing has chosen to complete the 2 + 3 tax holiday until its expiry in 2010. Accordingly, Xiezhong Nanjing is subject to income tax at 12.5% for 2009 and 2010, at 15% for 2011, and at 25% from 2012 onwards.

(iii) Under the new CIT Law and its relevant regulations, qualified R&D expenses are subject to income tax deductions at 150% on the amount actually incurred.

(iv) Under the new CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the tax arrangement between the mainland China and Hong Kong Special Administration Region, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%. The Group has recognised deferred tax liabilities on PRC dividend withholding tax at 5%.

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2009						
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Share-based payments** *(note 24(b))*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors							
Mr. Chen Cunyou	—	76	30	3	109	2,148	2,257
Mr. Ge Hongbing	—	75	32	3	110	1,256	1,366
Non-executive Directors							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheumg Man Sang	—	—	—	—	—	—	—
	—	151	62	6	219	3,404	3,623

	Year ended 31 December 2010						
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Share-based payments** *(note 24(b))*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors							
Mr. Chen Cunyou	—	103	300	3	406	457	863
Mr. Ge Hongbing	—	96	380	3	479	267	746
Non-executive Directors							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
Independent non-executive Directors							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheumg Man Sang	—	—	—	—	—	—	—
	—	199	680	6	885	724	1,609

	Year ended 31 December 2011						
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors							
Mr. Chen Cunyou	—	126	320	12	458	—	458
Mr. Ge Hongbing	—	119	400	12	531	—	531
Non-executive Directors							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
Independent non-executive Directors							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheumg Man Sang	—	—	—	—	—	—	—
	—	245	720	24	989	—	989

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors of the Company for the Relevant Period whose remunerations are disclosed in note 8 above. The aggregate of the emoluments in respect of the other three individuals are as follows:

		Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Salaries and other emoluments		186	260	275
Discretionary bonuses		66	690	750
Retirement scheme contributions		8	10	36
Equity settled share-based payment expenses	24(b)	1,194	214	—
		1,454	1,174	1,061

The emoluments of these three individuals with the highest emoluments are within the band Nil to HKD1 million for the Relevant Period.

10. DIVIDENDS

No dividend was declared or paid by the Company during the Relevant Period to its equity shareholders.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Relevant Period and on the 600,000,000 shares of the Company in issue or issuable, comprising 100,000 ordinary shares in issue as at the date of the Prospectus, 599,900,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the section headed "History and Development" in the Prospectus, as if the shares were outstanding throughout the Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period, and therefore, diluted earnings per share are not presented.

12. PROPERTY, PLANT AND EQUIPMENT — THE GROUP

	Plant and buildings *RMB'000*	Machinery and equipment *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvement *RMB'000*	Construction in progress "CIP" *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2009	13,212	69,464	2,121	4,513	—	14,515	103,825
Additions	—	6,971	1,646	199	—	13,076	21,892
Transfer from CIP	17,984	6,188	—	—	—	(24,172)	—
At 31 December 2009	31,196	82,623	3,767	4,712	—	3,419	125,717
At 1 January 2010	31,196	82,623	3,767	4,712	—	3,419	125,717
Additions	—	44,095	2,209	1,931	222	17,439	65,896
Transfer from CIP	992	5,935	—	—	—	(6,927)	—
Disposals	—	—	—	(553)	—	—	(553)
At 31 December 2010	32,188	132,653	5,976	6,090	222	13,931	191,060
At 1 January 2011	32,188	132,653	5,976	6,090	222	13,931	191,060
Additions through deemed acquisition of a subsidiary *(note 33(b))*	—	686	85	208	—	—	979
Additions	—	35,165	3,375	1,277	—	40,545	80,362
Transfer from CIP	11,669	4,648	—	—	—	(16,317)	—
At 31 December 2011	43,857	173,152	9,436	7,575	222	38,159	272,401
Accumulated depreciation:							
At 1 January 2009	(2,010)	(27,104)	(1,567)	(3,185)	—	—	(33,866)
Charge for the year	(632)	(9,129)	(257)	(512)	—	—	(10,530)
At 31 December 2009	(2,642)	(36,233)	(1,824)	(3,697)	—	—	(44,396)
At 1 January 2010	(2,642)	(36,233)	(1,824)	(3,697)	—	—	(44,396)
Charge for the year	(1,468)	(10,356)	(271)	(492)	(44)	—	(12,631)
Written back on disposals	—	—	—	405	—	—	405
At 31 December 2010	(4,110)	(46,589)	(2,095)	(3,784)	(44)	—	(56,622)
At 1 January 2011	(4,110)	(46,589)	(2,095)	(3,784)	(44)	—	(56,622)
Charge for the year	(1,582)	(15,623)	(601)	(594)	(178)	—	(18,578)
At 31 December 2011	(5,692)	(62,212)	(2,696)	(4,378)	(222)	—	(75,200)

	Plant and buildings *RMB'000*	Machinery and equipment *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvement *RMB'000*	Construction in progress "CIP" *RMB'000*	Total *RMB'000*
Net book value:							
At 31 December 2011	38,165	110,940	6,740	3,197	—	38,159	197,201
At 31 December 2010	28,078	86,064	3,881	2,306	178	13,931	134,438
At 31 December 2009	28,554	46,390	1,943	1,015	—	3,419	81,321

Property, plant and equipment with carrying amounts of RMB10,054,000, RMB9,457,000 and RMB8,861,000 were pledged as collateral for the Group's bank loans as at 31 December 2009, 2010 and 2011, respectively (see note 23).

13. LEASE PREPAYMENTS

	The Group
	RMB'000
Cost:	
At 1 January 2009	27,884
Additions	—
At 31 December 2009	27,884
At 1 January 2010	27,884
Additions	9,253
At 31 December 2010	37,137
At 1 January 2011	37,137
Additions	30
Additions through deemed acquisition of a subsidiary *(note 33(b))*	21,924
At 31 December 2011	59,091
Accumulated amortisation:	
At 1 January 2009	(592)
Charge for the year	(618)
At 31 December 2009	(1,210)
At 1 January 2010	(1,210)
Charge for the year	(618)
At 31 December 2010	(1,828)
At 1 January 2011	(1,828)
Charge for the year	(1,213)
At 31 December 2011	(3,041)
Carrying amount:	
At 31 December 2011	56,050
At 31 December 2010	35,309
At 31 December 2009	26,674

Lease prepayments represented cost of land use rights in respect of land located in the PRC, on which the Group's plant and building were built. The Group was granted land use rights for a period of 50 years.

Land use right with a carrying amount of RMB26,674,000, RMB26,056,000 and RMB25,438,000 was pledged as collateral for the Group's bank loans as at 31 December 2009, 2010 and 2011 (see note 23).

14. INTANGIBLE ASSETS

	The Group			
	Customer relationships	Core technology	Software & patent	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2009	49,597	13,835	303	63,735
Additions	—	—	125	125
At 31 December 2009	49,597	13,835	428	63,860
At 1 January 2010	49,597	13,835	428	63,860
Additions	—	—	—	—
At 31 December 2010	49,597	13,835	428	63,860
At 1 January 2011	49,597	13,835	428	63,860
Additions through deemed acquisition of a subsidiary *(note 33(b))*	3,759	—	—	3,759
Additions	—	—	100	100
At 31 December 2011	53,356	13,835	528	67,719
Accumulated amortisation:				
At 1 January 2009	(2,480)	(692)	(73)	(3,245)
Charge for the year	(4,960)	(1,383)	(66)	(6,409)
At 31 December 2009	(7,440)	(2,075)	(139)	(9,654)
At 1 January 2010	(7,440)	(2,075)	(139)	(9,654)
Charge for the year	(4,960)	(1,383)	(74)	(6,417)
At 31 December 2010	(12,400)	(3,458)	(213)	(16,071)
At 1 January 2011	(12,400)	(3,458)	(213)	(16,071)
Charge for the year	(5,803)	(1,384)	(78)	(7,265)
At 31 December 2011	(18,203)	(4,842)	(291)	(23,336)
Net book value:				
At 31 December 2011	35,153	8,993	237	44,383
At 31 December 2010	37,197	10,377	215	47,789
At 31 December 2009	42,157	11,760	289	54,206

The amortisation charge for the year is included in "distribution costs" and "cost of sales" in the combined income statements.

15. GOODWILL

	The Group
	RMB'000
Cost:	
At 31 December 2009, 2010 and 2011	46,832
Accumulated impairment losses:	
At 31 December 2009, 2010 and 2011	—
Carrying amount:	
At 31 December 2011	46,832
At 31 December 2010	46,832
At 31 December 2009	46,832

Pursuant to the equity share transfer agreements dated 30 May 2008 entered into among Xiezhong Auto-Airconditioner (Hong Kong) Limited ("Xiezhong Hong Kong"), Mr. Chen Cunyou and two other then equity holders of Xiezhong Nanjing, Xiezhong Hong Kong acquired 70% equity interests in Xiezhong Nanjing on 12 June 2008 and Mr. Chen Cunyou owned the remaining 30% equity interests in Xiezhong Nanjing after the acquisition. Goodwill was recognised as a result of the above acquisition.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and reportable segment as follows:

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Xiezhong Nanjing	46,832	46,832	46,832

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections are 17.5%, 17.5%, and 18% as at 31 December 2009, 2010 and 2011. The discount rates used are pre-tax and are determined based on the weighted average cost of capital for comparable companies, adjusted for specific risks relating to the relevant segment.

16. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	—	27,111	4,659

The following contains the particulars for the jointly controlled entities during the Relevant Period, which are unlisted corporate entities:

Name of joint venture	*Notes*	Form of business structure	Place of establishment and operation	Registered capital	Group's effective interest	Principal activities
Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (from 2 March 2010 to 25 January 2011)	(i)	Acquired	PRC	RMB43,000,000	50%	Sale of automotive air-conditioners
Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei")	(ii)	Established	PRC	RMB10,000,000	51%	Sale of automotive air-conditioners

Summary financial information on jointly controlled entities:

	The Group's effective interest At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	—	14,999	115
Current assets	—	38,208	5,057
Non-current liabilities	—	(7,369)	—
Current liabilities	—	(18,727)	(513)
Net assets	—	27,111	4,659

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Income	—	32,600	7,156
Expenses	—	(34,539)	(7,391)
Loss for the year	—	(1,939)	(235)

(i) The Group acquired 50% equity interests in Xiezhong Beijing from third parties on 2 March 2010. Prior to 26 January 2011, the Group exercised joint control over the financial and operating policies of Xiezhong Beijing with the joint venture partner in accordance with Xiezhong Beijing's articles of association. As a result, the Group's equity interests in Xiezhong Beijing were accounted for in the Financial Information under the equity method up to 25 January 2011.

On 26 January 2011, the Group obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the equity holders of Xiezhong Beijing authorised its board of directors their power to govern the financial and operating policies of Xiezhong Beijing. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011.

(ii) Pursuant to the articles of association of Xiezhong Hubei, all decisions (including participation in the financial and operating policy decisions) need to be unanimously passed by either all the equity holders or the equity holders representing two-thirds of equity interests in Xiezhong Hubei. The Group holds 51% equity interests in Xiezhong Hubei, and therefore, is unable to control Xiezhong Hubei.

17. NON-CURRENT PREPAYMENTS

As at 31 December 2009, 2010 and 2011, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

18. INVENTORIES

(a) Inventories in the combined balance sheets comprised:

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	19,920	36,785	34,821
Work in progress	7,204	14,351	20,305
Finished goods	51,476	68,512	72,865
	78,600	119,648	127,991

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group		
	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	249,533	393,148	446,425
Write down of inventories	81	1,368	1,302
	249,614	394,516	447,727

19. TRADE AND OTHER RECEIVABLES

	The Group At 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Trade debtors	139,204	185,676	252,450
Less: allowance for doubtful debts	(1,172)	(3,482)	(3,646)
	138,032	182,194	248,804
Bills receivable	72,644	124,364	132,140
	210,676	306,558	380,944
Other receivables, deposits and prepayments	838	24,525	9,801
	211,514	331,083	390,745

All of the trade and other receivables are expected to be recovered or recognised as expense within one year, or for certain expenses incurred for the proposed listing exercise, to be offset against the share premium account upon listing.

Bills receivable with carrying amounts of RMB4,979,000, RMB15,100,000 and RMB2,759,000 were pledged as collateral for the Group's bills payable as at 31 December 2009, 2010 and 2011, respectively (see note 22(b)).

Bills receivable with carrying amounts of RMB37,133,000 were pledged as collateral for the Group's bank loans as at 31 December 2011 (see note 23).

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2009, 2010 and 2011.

	The Group At 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Current	183,530	255,125	323,413
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	22,424
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	825	2,135	69
Amounts past due	27,146	51,433	57,531
Total	210,676	306,558	380,944

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	The Group At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	758	1,172	3,482
Impairment loss recognised	414	2,310	164
At end of the year	1,172	3,482	3,646

At 31 December 2009, 2010 and 2011, the Group's trade debtors of RMB1,484,000, RMB3,482,000 and RMB4,100,000 were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,172,000, RMB3,482,000 and RMB3,646,000 were recognised at 31 December 2009, 2010 and 2011. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	183,530	255,125	323,413
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	21,970
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	513	2,135	69
	26,834	51,433	57,077
Total	210,364	306,558	380,490

Receivables that were neither past due nor impaired relate to a wide range of 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, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20. DEPOSITS WITH BANKS

		The Group		
		At 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Unrestricted deposits		—	—	30,463
Restricted deposits		—	—	7,498
Pledged deposits	(i)	—	—	13,000
		—	—	50,961

(i) The Group's certain bank deposits were pledged as securities in respect of:

		The Group		
		At 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	23(i)	—	—	6,200
Bills payable	22(b)	—	—	6,800
		—	—	13,000

The pledged deposits are to be released upon settlement of the relevant bank loans and bank acceptance bills.

21. CASH

(a) Cash comprise:

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Cash on hand	1,152	737	798
Cash at bank	37,996	4,232	27,265
	39,148	4,969	28,063

Cash include cash at bank and on hand of RMB39,144,000, RMB4,961,000 and RMB27,676,000 held in mainland China as at 31 December 2009, 2010 and 2011, respectively. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

		The Group		
		Years ended 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation		58,059	96,849	108,540
Adjustments for:				
Impairment losses on trade debtors	19(b)	414	2,310	164
Impairment loss on inventories	18(b)	81	1,368	1,302
Depreciation of property, plant and equipment	12	10,530	12,631	18,578
Amortisation of lease prepayments	13	618	618	1,213
Amortisation of intangible assets	14	6,409	6,417	7,265
Interest income	5	(350)	(203)	(1,608)
Share of losses of jointly controlled entities	16	—	1,939	235
Gains on disposal of property, plant and equipment	5	—	(67)	—
Finance costs	6(a)	1,529	1,930	7,554
Equity settled share-based payment expenses	6(b)(ii)	6,282	1,334	—
Changes in working capital:				
Increase in inventories		(25,794)	(42,416)	(9,645)
Increase in trade and other receivables		(39,883)	(121,879)	(23,306)
(Increase)/decrease in amounts due from related parties		(600)	(30,435)	27,428
Increase in pledged/restricted deposits with banks		—	—	(20,498)
Increase/(decrease) in trade and other payables		44,511	75,095	(53,906)
Increase/(decrease) in amounts due to related parties		12,029	7,798	(2,034)
Increase/(decrease) in discounted bank acceptance bills		9,228	20,795	(10,352)
Increase/(decrease) in provision		60	3,313	(1,172)
Cash generated from operating activities		83,123	37,397	49,758

22. TRADE AND OTHER PAYABLES

		The Group	At 31 December	
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables		110,952	169,837	155,201
Bills payable	(b)	4,979	15,100	9,559
		115,931	184,937	164,760
Other payables		5,772	26,107	24,349
Other tax payable		5,704	5,394	9,182
		127,407	216,438	198,291

(a) An ageing analysis of trade and bills payable of the Group is as follows:

	The Group	At 31 December	
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	102,617	166,152	148,624
Over 3 months but less than 6 months	10,298	17,012	13,363
Over 6 months but less than 12 months	2,487	1,223	1,944
Over 12 months	529	550	829
	115,931	184,937	164,760

(b) As at 31 December 2009, 2010 and 2011, bills payable of RMB4,979,000, RMB15,100,000 and RMB9,559,000 were secured by the following assets:

		The Group	At 31 December	
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Pledged deposits	20	—	—	6,800
Bills receivable	19	4,979	15,100	2,759
		4,979	15,100	9,559

23. INTEREST-BEARING BORROWINGS

		The Group		
		At 31 December		
		2009	2010	2011
		RMB'000	*RMB'000*	*RMB'000*
Bank loans				
— Secured	(i)	8,000	40,000	81,118
— Unsecured		—	—	50,000
Bank advances under discounted bills	(ii)	13,057	33,852	23,500
		21,057	73,852	154,618

(i) As at 31 December 2009, 2010 and 2011, secured bank loans of RMB8,000,000, RMB40,000,000 and RMB81,118,000 were secured by the following assets:

	The Group		
	At 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	10,054	9,457	8,861
Lease prepayments	26,674	26,056	25,438
Pledged deposits	—	—	6,200
Bills receivable	—	—	37,133
	36,728	35,513	77,632

(ii) The Group's discounted bank acceptance bills have been accounted for as collateralised bank advance, and the corresponding discounted bills receivable are included in "bills receivable" (see note 19).

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Equity shares of Xiezhong BVI issued to Sunrise International

Pursuant to the supplemental agreements dated 15 September 2008 to the equity share transfer agreements dated 30 May 2008 entered into among Xiezhong Hong Kong, Mr. Chen Cunyou and two other then equity holders of Xiezhong Nanjing, an option was granted to Mr. Chen Cunyou on 15 September 2008 for Mr. Chen Cunyou, or an entity authorised by him, to subscribe for 100 shares of Xiezhong BVI by cash of USD100 on the condition that the net profit of Xiezhong Nanjing for the year ended 31 December 2008 achieved a targeted amount (the "Option").

Given that the net profit of Xiezhong Nanjing for the year ended 31 December 2008 achieved the targeted amount, Mr. Chen Cunyou authorised Sunrise International to exercise the Option. The fair value of the Option, which amounted to RMB22,600,000 at 15 September 2008 (grant date), was recognised as an expense during the year ended 31 December 2008 with a corresponding increase in the capital reserve (see note 28(c)). On 1 February 2010, Sunrise International subscribed for 100 shares of Xiezhong BVI by cash of USD100.

(b) Share incentive plan

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, a share incentive plan was adopted by Xiezhong Nanjing. In accordance with the share incentive plan, the board of directors of Xiezhong Nanjing is authorised to invite its employees of Xiezhong Nanjing to take up options at nil consideration to acquire the shares of the Company from existing equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto, Sunrise International, as incentives or rewards if certain conditions are met.

The total number of shares to be acquired upon the exercise of all options granted under the share incentive plan is 30,000,000.

Since the Group does not have an obligation to settle the transaction with these employees, this arrangement has been accounted for by the Group as an equity-settled award.

(i) The terms and conditions of the share options granted are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors- on 29 October 2008	16,260,000	40%, 40% and 20% of share options granted to directors subject to Xiezhong Nanjing's net profit for the years ended 31 December 2008, 2009 and 2010 achieving targeted amounts, respectively	10 years
Options granted to employees- on 29 October 2008	13,740,000	40%, 40% and 20% of share options granted to employees subject to Xiezhong Nanjing's net profit for the years ended 31 December 2008, 2009 and 2010 achieving targeted amounts, respectively	10 years
Total	30,000,000		

(ii) As at 31 December 2009, 2010 and 2011, the number of options which were exercisable was 24,000,000, 30,000,000 and 30,000,000, respectively. No options were exercised during the Relevant Period.

(iii) Inputs for measurement of grant-date fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

• Fair value of share options at grant date	RMB14.5 million
• Fair value per share at grant date	RMB0.48
• Expected volatility	49.0%
• Option life	10 years
• Expected dividends	—
• Risk-free interest rate	5.14%

The expected volatility is based on the historical volatility of the stock return of certain comparative listed companies, adjusted for any expected changes to future volatility due to publicly available information. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimation. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a performance condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(c) The Group recorded total equity settled share-based payment expenses of RMB6,282,000 and RMB1,334,000 for the year ended 31 December 2009 and 2010, respectively (see note 6 (b)(ii)).

25. INCOME TAX IN THE COMBINED BALANCE SHEETS — THE GROUP

(a) Current tax in the combined balance sheets represents:

	The Group At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	3,670	4,479	8,729
Under/(over)-provision in respect of prior year	67	(69)	(139)
Provision for PRC income tax *(note 7(a))*	8,987	16,070	17,318
Addition through deemed acquisition of a subsidiary *(note 33(b))*	—	—	4,761
PRC income tax paid	(8,245)	(11,751)	(19,308)
At end of the year	4,479	8,729	11,361

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Property, Plant and equipment *RMB'000*	Inventories *RMB'000*	Lease prepayments *RMB'000*	Allowance for bad debt *RMB'000*	Accruals *RMB'000*	Intangible assets *RMB'000*	Provision for product warranties *RMB'000*	Deferred income *RMB'000*	Unrealised profit from intra-group transaction *RMB'000*	PRC dividend withholding tax *RMB'000*	Total *RMB'000*
Deferred tax arising from:											
At 1 January 2009	(1,725)	70	(4,696)	95	876	(13,479)	200	—	—	(889)	(19,548)
Charged/(credited) to profit or loss	304	10	98	52	(197)	1,427	(15)	—	—	(1,656)	23
At 31 December 2009	(1,421)	80	(4,598)	147	679	(12,052)	185	—	—	(2,545)	(19,525)
At 1 January 2010	(1,421)	80	(4,598)	147	679	(12,052)	185	—	—	(2,545)	(19,525)
Charged/(credited) to profit or loss	184	221	55	376	469	793	179	1,255	399	(4,074)	(143)
At 31 December 2010	(1,237)	301	(4,543)	523	1,148	(11,259)	364	1,255	399	(6,619)	(19,668)
At 1 January 2011	(1,237)	301	(4,543)	523	1,148	(11,259)	364	1,255	399	(6,619)	(19,668)
Addition through deemed acquisition of a subsidiary *(note 33(b))*	—	370	—	—	—	(940)	—	3,684	—	—	3,114
(Credited)/charged to profit or loss	(19)	152	65	389	(948)	1,162	25	(15)	49	(5,212)	(4,352)
At 31 December 2011	(1,256)	823	(4,478)	912	200	(11,037)	389	4,924	448	(11,831)	(20,906)

(ii) Reconciliation to combined balance sheets:

	The Group At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the combined balance sheets	—	1,654	5,012
Net deferred tax liabilities recognised in the combined balance sheets	(19,525)	(21,322)	(25,918)
	(19,525)	(19,668)	(20,906)

26. PROVISION

Provision for product warranties

	The Group
	RMB'000
At 1 January 2009	1,598
Additional provision made	2,346
Provision utilised	(2,286)
At 31 December 2009	1,658
Additional provision made	4,870
Provision utilised	(1,557)
At 31 December 2010	4,971
Additional provision made	2,395
Provision utilised	(3,567)
At 31 December 2011	3,799

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising mainly within two years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two years prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

27. DEFERRED INCOME

Government grants

	The Group At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	—	—	5,020
Additions	—	5,020	16,737
Released to the income statement	—	—	(62)
At end of the year	—	5,020	21,695

During the years ended 31 December 2010 and 2011, cash amounts of RMB5,020,000 and RMB16,737,000 were respectively received from the government for the construction of the Group's plants. The government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

28. CAPITAL, RESERVES AND DIVIDENDS

(a) Authorised and issued share capital of the Company

The Company was incorporated on 30 September 2011 with an authorised share capital of HKD390,000 comprising 39,000,000 shares of HKD0.01 each. On 30 September 2011, one share was allotted and issued as nil paid to the initial subscriber. Such nil paid share was transferred to China United Air System Limited ("CUAS"), which is owned by CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, on 23 November 2011. On the same date, 4 and 5 shares were allotted and issued to Sunrise International and CUAS, respectively, as nil paid.

Pursuant to a share swap agreement dated 16 January 2012 among CUAS, Sunrise International and the Company, CUAS and Sunrise International transferred all their respective interests in Xiezhong BVI to the Company in consideration of the Company (a) allotting and issuing 59,994 and 39,996 shares to CUAS and Sunrise International respectively credited as fully paid; (b) crediting the previously issued 6 nil paid shares held by CUAS as fully paid; and (c) crediting the previously issued 4 nil paid shares held by Sunrise International as fully paid on 20 January 2012. On the same date, CUAS made a distribution in specie by transferring 30,858, 6,000, 7,458, 15,684 shares of the Company (60,000 shares in total) to CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, respectively.

Since the Reorganisation was not completed until 20 January 2012, the capital in the combined balance sheets as at 31 December 2009, 2010 and 2011 represented the amount of capital of Xiezhong BVI which was the then holding company of the companies now comprising the Group.

(b) PRC statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity holders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(c) Capital reserve

The capital reserve comprises the following:

— the recognition of the Option granted to Mr. Chen Cunyou to subscribe for 100 shares in Xiezhong BVI by cash of USD100 during the year ended 31 December 2008 amounting to RMB22,600,000 (see note 24(a));

— the portion of the grant date fair value of unexercised share options granted to employees and director of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(iii) (see note 24(b));

— the contribution by Sunrise International when it subscribed for additional 300 shares in Xiezhong BVI by cash of USD11,000,000 (equivalent to RMB75,096,000) during the year ended 31 December 2010 amounting to RMB75,094,000; and

— the capitalisation of the Group's other payables due to CUAS of USD28,997,000 (equivalent to RMB183,295,000) as fully paid-up capital and capital reserve of Xiezhong BVI during the year ended 31 December 2011 amounting to RMB183,295,000.

(d) Other reserve

The other reserve represents the gain on acquisition of 30% equity interests in Xiezhong Nanjing from non-controlling interests (see note 33(a)).

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China which are dealt with in accordance with the according policies set out in note 1(u)(ii).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the debt-to-capital ratio. Net debt is calculated as interest-bearing borrowings and bills payable less cash and deposits with banks. Capital represents total equity attributable to equity shareholders of the Company.

During the Relevant Period, the Group's strategy was to maintain the debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders or raise new debt financing.

The net debt-to-capital ratio at 31 December 2009, 2010 and 2011 was as follows:

		The Group		
		At 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	23	21,057	73,852	154,618
Bills payable	22	4,979	15,100	9,559
Total debt		26,036	88,952	164,177
Less: Cash	21	(39,148)	(4,969)	(28,063)
Deposits with banks	20	—	—	(50,961)
Net debt		(13,112)	83,983	85,153
Capital		62,187	241,939	520,056
Debt-to-capital ratio		(21%)	35%	16%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, deposits with banks and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry in which the customers operate also influences its credit risks. The amounts due from the Group's largest customer and the five largest customers are as follows:

	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Largest customer	36,516	1,238	63,033
Five largest customers	85,349	116,139	151,424

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. The Group does not provide any guarantees, which would expose the Group to credit risk.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, the Group does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2009

	Carrying amount	**Total contractual undiscounted cash flow**	**Within 6 months or on demand**	**More than 6 months but less than 12 months**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	8,000	8,024	8,024	—
Bank advances under discounted bills	13,057	13,057	13,057	—
Trade and other payables	127,407	127,407	127,407	—
Amounts due to related parties	217,128	217,128	217,128	—
	365,592	365,616	365,616	—

At 31 December 2010

	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 6 months or on demand *RMB'000*	More than 6 months but less than 12 months *RMB'000*
Secured bank loans	40,000	41,292	862	40,430
Bank advances under discounted bills	33,852	33,852	33,852	—
Trade and other payables	216,438	216,438	216,438	—
Amounts due to related parties	218,970	218,970	218,970	—
	509,260	510,552	470,122	40,430

At 31 December 2011

	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 6 months or on demand *RMB'000*	More than 6 months but less than 12 months *RMB'000*
Secured bank loans	81,118	84,671	32,374	52,297
Unsecured bank loans	50,000	52,676	1,640	51,036
Bank advances under discounted bills	23,500	23,500	23,500	—
Trade and other payables	198,291	198,291	198,291	—
Amounts due to related parties	24,903	24,903	24,903	—
	377,812	384,041	280,708	103,333

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, deposits with banks and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

Cash at bank is with variable interest rates ranging from 0.01%～0.36%, 0.01%～0.36% and 0.01%～0.50% per annum as at 31 December 2009, 2010 and 2011, respectively. Deposits with banks are with interest rates ranging from 0.01%～3.05% per annum as at 31 December 2011.

The Group's interest-bearing borrowings and interest rates as at 31 December 2009, 2010 and 2011 are set out as follows:

	At 31 December					
	2009		2010		2011	
	Interest rate %	*RMB'000*	*Interest rate %*	*RMB'000*	*Interest rate %*	*RMB'000*
Fixed rate borrowings						
Bank loans	—	—	4.78–5.00	40,000	4.16–6.56	61,309
Bank advances under discounted bills	2.64	13,057	4.82–5.94	33,852	9.00–9.36	23,500
		13,057		73,852		84,809
Net variable rate borrowings						
Bank loans	5.84	8,000		—	7.22–7.32	69,809
		8,000		—		69,809
Total net borrowings		21,057		73,852		154,618
Net fixed rate borrowings as a percentage of total net borrowings		62%		100%		55%

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table demonstrates the sensitivity to cash flow interest rate risk arising from variable rate borrowings held by the Group at the respective balance sheet dates in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expenses or income of such a change in interest rates. The analysis is performed on the same basis during the Relevant Period.

	Increase/ (decrease) in basis points	Increase/ (decrease) profit after tax and retained profits for the year
		RMB'000
At 31 December 2009		
Basis points	100	(70)
Basis points	(100)	70
At 31 December 2010		
Basis points	100	—
Basis points	(100)	—
At 31 December 2011		
Basis points	100	(593)
Basis points	(100)	593

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China, that are determined largely by supply and demand.

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividend in foreign currencies to its equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2009, 2010 and 2011 due to the short maturities of those instruments.

30. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2009, 2010 and 2011 not provided for in the Financial Information were as follows:

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	1,172	47,600	28,172

(b) Lease commitments

At 31 December 2009, 2010 and 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		
	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	—	246	1,005
After 1 year but within 5 years	—	87	35
	—	333	1,040

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the Relevant Period, transactions with the following parties are considered as related party transactions:

Name of related party	*Note*	Relationship
CUAS		The ultimate holding company of the Group before the completion of the Reorganisation on 20 January 2012
Xiezhong Beijing	16	Jointly controlled enterprise of the Group before 26 January 2011
Xiezhong Hubei	16	Jointly controlled enterprise of the Group
Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing")		Owned by the same ultimate equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto
Chen Cunyou		Executive director of the Company, Director and the General Manager of Xiezhong Nanjing
Ge Hongbing		Executive director of the Company and director of Xiezhong Nanjing
Nanjing Xiezhong Automobile Co., Ltd. ("Xiezhong Auto")		Controlled by Chen Hao, son of Chen Cunyou and controlling shareholder of Sunrise International
Xiezhong Youxu Automobile Co., Ltd. ("Xiezhong Youxu")		Controlled by Chen Cunyou
Beijing Automobile Co., Ltd. ("Beijing Auto")		Fellow subsidiary of Beijing Hainachuan Automobile Parts Co., Ltd. ("Beijing Hainachuan"), the non-controlling equity holder of Xiezhong Beijing since 26 January 2011

(b) Transactions with related parties

Transactions with related parties during the Relevant Period are as follows:

		The Group		
		Years ended 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Recurring transactions:				
Sales of goods				
— Beijing Auto		—	—	7,349
— Xiezhong Beijing		—	60,838	—
— Xiezhong Hubei		—	192	703
		—	61,030	8,052
Purchase of goods				
— Aotecar Nanjing		31,869	38,579	33,871
— Xiezhong Hubei		—	—	1,272
		31,869	38,579	35,143
Non-recurring transactions:				
Purchase of property, plant and equipment				
— Xiezhong Youxu		—	360	—
— Xiezhong Auto		—	358	—
		—	718	—
Loans to related party				
— Aotecar Nanjing	(i)	37,000	15,179	—
Repayment of loans to related party				
— Aotecar Nanjing	(i)	37,000	15,179	—
Advances to related parties				
— Chen Cunyou	(ii)	600	—	770
— Ge Hongbing	(ii)	—	200	130
		600	200	900
Repayment of advances to related parties				
— Chen Cunyou	(ii)	—	200	1,170
— Ge Hongbing	(ii)	—	—	330
		—	200	1,500

		The Group		
		Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Advances from related parties				
— Xiezhong Beijing	(ii)	—	125	—
— Xiezhong Hubei		—	4,080	—
		—	4,205	—
Repayment of advances from related party				
— Xiezhong Youxu	(ii)	1,800	—	—
Interest income received from related party				
— Aotecar Nanjing	(i)	263	110	—

(i) The loans lent to Aotecar Nanjing during the Relevant Period were at an annual interest rate of 6.1065% for a term varying from 7 days to 2 months.

(ii) The transactions with these related parties during the Relevant Period were interest-free.

Other than notes (i) and (ii) mentioned above, the directors consider that the above related party transactions during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

(c) Amounts due from/to related parties

At 31 December 2009, 2010 and 2011, the Group had the following balances with related parties:

	The Group		
	At 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Trade debtors from			
— Xiezhong Beijing	—	30,211	—
— Beijing Auto	—	—	3,607
— Xiezhong Hubei	—	224	—
	—	30,435	3,607
Other receivables from			
— Chen Cunyou	600	400	—
— Ge Hongbing	—	200	—
	600	600	—
	600	31,035	3,607

		The Group		
		At 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables due to				
— Xiezhong Hubei		—	4,080	4,511
— Aotecar Nanjing		19,218	22,800	20,392
		19,218	26,880	24,903
Other payables due to				
— CUAS	28(c)	197,910	191,965	—
— Xiezhong Beijing		—	125	—
		197,910	192,090	—
		217,128	218,970	24,903

Amounts due from/to the above related parties are unsecured and interest-free.

(d) Transactions with management

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

		The Group		
		Years ended 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Short-term employee benefits		479	2,150	3,061
Equity settled share-based payment expenses	24(b)	4,598	977	—
Total		5,077	3,127	3,061

The above remuneration is disclosed in "staff costs" (see note 6(b)).

32. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company had direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

Name	Place of incorporation and operation	Date of incorporation/ establishment/ acquisition	Particulars of issued share capital/paid-in capital	Attributable equity interests	Principal activities	Auditor	Year of audit
Xiezhong BVI	British Virgin Islands	14 May 2008	1,005 shares of USD1 each	100%	Investment holding	Messrs.Heng&Tan	2009 2010 2011
Xiezhong Hong Kong	Hong Kong	21 May 2008	2 share of HKD1 each	100%	Investment holding	Messrs.Heng&Tan	2009 2010 2011
Xiezhong Nanjing	P.R. China	Acquired on 12 June 2008	RMB50 million	100%	Production and sale of automotive air-conditioner	南京中元聯合會計師事務所 Nanjing Zhongyuan Certified Public Accountants Co., Ltd.*	2009 2010 2011
Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	P.R. China	29 September 2009	RMB10 million	60%	Production and sale of automotive air-conditioner	遼寧華安會計師事務所有限責任公司 Liaoning Huaan Certified Public Accountants Co., Ltd.*	2010
						江蘇華夏中天會計師事務所 Jiangsu Chinazhongtian Certified Public Accountants Co., Ltd.*	2011
Xiezhong Beijing	P.R. China	Acquired on 26 January 2011	RMB43 million	50%	Sale of automotive air-conditioner	華寅會計師事務所有限責任公司 Huayin Certified Public Accountants Ltd.*	2011

* The English translation of these names is for reference only. The official names of these entities are in Chinese.

33. ACQUISITION OF NON-CONTROLLING INTERESTS AND BUSINESS COMBINATION

(a) Acquisition of non-controlling interests in Xiezhong Nanjing

On 10 February 2010, the Group acquired additional 30% equity interests in Xiezhong Nanjing from Mr. Chen Cunyou for a cash consideration of USD11,000,000 (equivalent to RMB75,096,000), which increased its equity interests in Xiezhong Nanjing from 70% to 100%. At the acquisition date, the carrying amount of Xiezhong Nanjing's net assets in the Financial Information was RMB310,049,000; and the Group recognised a decrease in non-controlling interests of RMB93,015,000 and an increase in other reserve of RMB17,919,000.

The following table summarises the effect of the Group's share of equity interests in Xiezhong Nanjing during the years ended 31 December 2009 and 2010 respectively:

	Years ended 31 December	
	2009	2010
	RMB'000	*RMB'000*
The Group's share of equity interests at the beginning of the year	175,933	215,814
Effect of increase in the Group's share of equity interests	—	93,015
Share of capital reserve	4,397	1,334
Share of total comprehensive income	35,484	83,527
The Group's share of equity interests at the end of the year	215,814	393,690

(b) Deemed acquisition of Xiezhong Beijing

(i) As mentioned in Note 16(i), the Group acquired 50% equity interests in Xiezhong Beijing from third parties on 2 March 2010 and exercised joint control over the financial and operating policies of Xiezhong Beijing with Beijing Hainachuan, the joint venture partner, in accordance with Xiezhong Beijing's articles of association. Since 2 March 2010, Xiezhong Beijing mainly sells automotive HVAC systems manufactured by Xiezhong Nanjing to certain subsidiaries and associates of Beijing Automotive Group Co., Ltd., the parent company of Beijing Hainachuan.

According to the shareholders' resolution of Xiezhong Beijing dated 26 January 2011, Xiezhong Beijing amended the articles of association and changed the composition of board of directors. As a result, the Group obtained an effective control over the majority of the board of directors of Xiezhong Beijing and power to govern the financial and operating policies of Xiezhong Beijing without the transfer of any consideration. Xiezhong Beijing was then accounted for and combined into the Financial Information of the Group as a subsidiary through deemed acquisition which has been accounted for using the acquisition accounting method under IFRS 3.

	RMB'000
Consideration	
Fair value of previously held equity interests in Xiezhong Beijing at the deemed acquisition date(2)	22,217
Recognised identifiable assets acquired and liabilities assumed	
Property, plant and equipment	979
Lease prepayments	21,924
Intangible assets	3,759
Deferred tax assets	3,114
Trade and other receivables	36,520
Cash	33,465
Income tax payables	(4,761)
Trade and other payables	(35,829)
Other non-current liabilities	(14,737)
Total net identifiable assets(1)	44,434
Non-controlling interests, based on its proportionate equity interests in the net identifiable assets of Xiezhong Beijing	(22,217)
Goodwill(2)	—
	22,217

(1) Xiezhong Beijing is a trading company during the Relevant Period. Management of the Group assessed that there was no difference between the fair values of the identifiable assets and liabilities of Xiezhong Beijing as at the date of deemed acquisition and the corresponding carrying amounts, taking into account the fair value adjustments from the date that joint control commenced, immediately before the deemed acquisition.

(2) Management of the Group assessed that no significant synergies expected to be achieved from the above deemed acquisition and there was no material difference between the fair value and the net carrying amount of the Group's previously held equity interests in

Xiezhong Beijing at the deemed acquisition date. As a result, no goodwill on the deemed acquisition and no gain or loss on the disposal of the Group's previously held equity interests in Xiezhong Beijing was recognised during the year ended 31 December 2011.

Analysis of the net inflow of cash in respect of the deemed acquisition of a subsidiary:

	RMB'000
Cash acquired and cash inflow on the deemed acquisition	33,465

(ii) Supplementary pre-acquisition financial information of Xiezhong Beijing

The following pre-acquisition financial information of Xiezhong Beijing from the beginning of the Relevant Period to the date of acquisition ("Pre-acquisition Periods") presented in accordance with Rule 4.05A of the Listing Rules is disclosed below. The accounting policies adopted in the preparation of the pre-acquisition financial information is consistent with those adopted in the preparation of the Financial Information.

Income statements

		Years ended 31 December		**Period from 1 January 2011 to 25 January**
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	(1)	649	63,958	12,279
Cost of sales		(827)	(63,516)	(11,924)
Gross (loss)/profit		(178)	442	355
Other income		6	1,899	—
Distribution costs		(2)	(67)	(74)
Administrative expenses		(1,420)	(1,339)	(144)
Other operating expenses		(5)	(8)	—
(Loss)/profit before taxation	(2)	(1,599)	927	137
Income tax	(3)	—	(211)	(46)
(Loss)/profit for the year/period		(1,599)	716	91

Balance sheets

		At 31 December		At
		2009	2010	25 January 2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	(4)	950	995	979
Lease prepayments	(5)	—	21,960	21,924
Deferred tax assets	(10)	—	4,054	4,054
		950	27,009	26,957
Current assets				
Inventories	(6)	2,334	—	—
Trade and other receivables	(7)	592	31,327	36,520
Cash	(8)	103	34,004	33,465
		3,029	65,331	69,985
Current liabilities				
Trade and other payables	(9)	4,784	31,277	35,829
Income tax payables	(10)	—	4,802	4,761
		4,784	36,079	40,590
Net current (liabilities)/assets		(1,755)	29,252	29,395
Total assets less current liabilities		(805)	56,261	56,352
Non-current liabilities				
Other non-current liabilities	(11)	—	14,737	14,737
		—	14,737	14,737
Net (liabilities)/assets		(805)	41,524	41,615
Capital and reserves				
Paid-in capital		3,000	43,000	43,000
Reserves		(3,805)	(1,476)	(1,385)
Total equity		(805)	41,524	41,615

Statements of changes in equity

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Total equity *RMB'000*
At 1 January 2009	3,000	—	(2,206)	794
Changes in equity for the year:				
Total comprehensive income for the year	—	—	(1,599)	(1,599)
At 31 December 2009	3,000	—	(3,805)	(805)
At 1 January 2010	3,000	—	(3,805)	(805)
Changes in equity for the year:				
Capital injection	40,000	—	—	40,000
Contribution by equity holder	—	1,613	—	1,613
Total comprehensive income for the year	—	—	716	716
At 31 December 2010	43,000	1,613	(3,089)	41,524
At 1 January 2011	43,000	1,613	(3,089)	41,524
Changes in equity for the period:				
Total comprehensive income for the period	—	—	91	91
At 25 January 2011	43,000	1,613	(2,998)	41,615

Statements of cash flows

	Note	Years ended 31 December 2009 RMB'000	2010 RMB'000	Period from 1 January 2011 to 25 January 2011 RMB'000
Operating activities				
Cash generated from/(used in) operating activities		24	1,275	(452)
Income tax paid	(10)	—	—	(87)
Net cash generated from/(used in) operating activities		24	1,275	(539)
Investing activities				
Acquisition of property, plant and equipment and lease prepayments		—	(7,437)	—
Interest received		1	63	—
Net cash generated from/(used in) investing activities		1	(7,374)	—
Financing activities				
Capital contribution from equity holders		—	40,000	—
Net cash generated from financing activities		—	40,000	—
Net increase/(decrease) in cash		25	33,901	(539)
Cash at the beginning of the year/period	(8)	78	103	34,004
Cash at the end of the year/period	(8)	103	34,004	33,465

Notes to the financial information of Xiezhong Beijing

(1) Turnover

The principal activities of Xiezhong Beijing are sales of automotive HVAC systems.

Turnover represents the sales value of goods supplied to customers.

(2) Loss/(profit) before taxation

Loss/(profit) before taxation is arrived at after charging:

	Years ended 31 December		Period from 1 January 2011 to 25 January
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
— Staff costs			
Salaries, wages, and other benefits	318	447	49
Contributions to defined contribution retirement plan	62	60	2
	380	507	51
— Other items			
Amortisation of lease prepayments *(note 33(b)(ii)(5))*	—	—	36
Depreciation of property, plant and equipment *(note 33(b)(ii)(4))*	172	169	16
Auditors' remuneration	6	6	—
Cost of inventories *(note 33(b)(ii)(6))*	827	63,516	11,924

(3) Income tax

Income tax in the income statements represents:

	Years ended 31 December		Period from 1 January 2011 to 25 January
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
Provision for current year/period *(note 33(b)(ii)(10))*	—	4,265	46
Deferred tax			
Origination and reversal of temporary differences	—	(4,054)	—
	—	211	46

Reconciliation between income tax and (loss)/profit before taxation at applicable tax rate:

	Years ended 31 December 2009 RMB'000	2010 RMB'000	Period from 1 January 2011 to 25 January 2011 RMB'000
(Loss)/profit before taxation	(1,599)	927	137
Tax at the PRC's statutory income tax rate of 25%	(400)	232	34
Effect of non-deductible expenses	9	7	12
Others	391	(28)	—
Actual income tax	—	211	46

(4) Property, plant and equipment

	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2009 and 31 December 2009	1,134	265	—	1,399
At 1 January 2010	1,134	265	—	1,399
Additions	—	—	214	214
At 31 December 2010 and 25 January 2011	1,134	265	214	1,613
Accumulated depreciation:				
At 1 January 2009	(198)	(79)	—	(277)
Charge for the year	(123)	(49)	—	(172)
At 31 December 2009	(321)	(128)	—	(449)
At 1 January 2010	(321)	(128)	—	(449)
Charge for the year	(116)	(49)	(4)	(169)
At 31 December 2010	(437)	(177)	(4)	(618)
At 1 January 2011	(437)	(177)	(4)	(618)
Charge for the period	(10)	(4)	(2)	(16)
At 25 January 2011	(447)	(181)	(6)	(634)
Net book value:				
At 25 January 2011	687	84	208	979
At 31 December 2010	697	88	210	995
At 31 December 2009	813	137	—	950

(5) Lease prepayments

	RMB'000
Cost:	
At 1 January 2009 and 31 December 2009	—
At 1 January 2010	—
Additions	21,960
At 31 December 2010 and 25 January 2011	21,960
Accumulated amortisation:	
At 1 January 2009, 31 December 2009 and 31 December 2010	—
At 1 January 2011	—
Charge for the period	(36)
At 25 January 2011	(36)
Carrying amount:	
At 25 January 2011	21,924
At 31 December 2010	21,960
At 31 December 2009	—

Lease prepayments represented cost of land use rights in respect of land located in the PRC. The amortisation period of land use rights is 50 years.

(6) Inventories

Inventories in the balance sheets comprised:

	At 31 December		At 25 January
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,745	—	—
Finished goods	589	—	—
	2,334	—	—

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Years ended 31 December 2009	2010	Period from 1 January 2011 to 25 January 2011
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	827	62,037	11,924
Write down of inventories	—	1,479	—
	827	63,516	11,924

(7) Trade and other receivables

	At 31 December 2009	2010	At 25 January 2011
	RMB'000	*RMB'000*	*RMB'000*
Trade debtors	—	31,125	36,293
Bills receivable	—	50	50
	—	31,175	36,343
Amounts due from related parties *(note 33(b)(ii)(12))*	128	73	73
Other receivables, deposits and prepayments	228	79	104
Other tax recoverable	236	—	—
	592	31,327	36,520

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2009, 2010 and 25 January 2011.

	At 31 December 2009	2010	At 25 January 2011
	RMB'000	*RMB'000*	*RMB'000*
Current	—	31,175	34,016
Less than 1 month past due	—	—	2,327
Total	—	31,175	36,343

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

As at 31 December 2009, 2010 and 25 January 2011, there were no trade debtors individually determined to be impaired.

(8) Cash

	At 31 December		At 25 January
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Cash on hand	—	10	6
Cash at bank	103	33,994	33,459
	103	34,004	33,465

Reconciliation of (loss)/profit before taxation to cash generated from/(used in) operations:

		Years ended 31 December		Period from 1 January 2011 to 25 January
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
(Loss)/profit before taxation		(1,599)	927	137
Adjustments for:				
Impairment loss on inventories	(6)	—	1,479	—
Depreciation of property, plant and equipment	(4)	172	169	16
Amortisation of lease prepayments	(5)	—	—	36
Interest income		(1)	(63)	—
Changes in working capital:				
(Increase)/decrease in inventories		(141)	855	—
Increase in trade and other receivables		(321)	(30,735)	(5,193)
Increase in trade and other payables		1,914	28,643	4,552
Cash generated from/(used in) operating activities		24	1,275	(452)

(9) Trade and other payables

	At 31 December		At 25 January
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	2	205	140
Amounts due to related parties *(note 33(b)(ii)(12))*	4,746	30,211	34,971
Other payables	36	—	—
Other tax payables	—	861	718
	4,784	31,277	35,829

An ageing analysis of trade payables of Xiezhong Beijing is as follows:

	At 31 December		At 25 January
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	2	—	—
Over 3 months but less than 6 months	—	—	—
Over 6 months but less than 12 months	—	205	140
	2	205	140

(10) Income tax in the balance sheets

Current tax in the balance sheets represents:

	At 31 December		At 25 January
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year/period	—	—	4,802
Provision for PRC income tax *(note 33(b)(ii)(3))*	—	4,265	46
Income tax recognised directly in equity	—	537	—
PRC income tax paid	—	—	(87)
At end of the year/period	—	4,802	4,761

Deferred tax assets recognised:

The components of deferred tax assets recognised in the balance sheets and the movements during the Pre-acquisition Periods are as follows:

	Inventories	**Other non-current payables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009 and 31 December 2009	—	—	—
At 1 January 2010	—	—	—
Charged to profit or loss	370	3,684	4,054
At 31 December 2010 and 25 January 2011	370	3,684	4,054

(11) Other non-current liabilities

At 31 December 2010 and 25 January 2011, other non-current liabilities represented the cash amounts of RMB14,737,000 received from the government for the construction of Xiezhong Beijing's plants.

(12) Material related party transactions

Name and relationship with related parties

During the Pre-acquisition Periods, transactions with the following parties are considered as related party transactions:

Name of related party	**Relationship**
Xiezhong Nanjing	Exercising joint control over Xiezhong Beijing from 2 March 2010 to 25 January 2011; the holding company of Xiezhong Beijing since 26 January 2011
Shanghai Delphi Automobile Air-conditioning System Co., Ltd. ("Shanghai Delphi")	The equity holder of Xiezhong Beijing before 2 March 2010
Beijing Auto	Fellow subsidiary of Beijing Hainachuan, the equity holder of Xiezhong Beijing

Transactions with related parties

Transactions with related parties during the Pre-acquisition Periods are as follows:

	Years ended 31 December 2009	2010	Period from 1 January 2011 to 25 January 2011
	RMB'000	*RMB'000*	*RMB'000*
Recurring transactions:			
Sales of goods			
— Beijing Auto	478	381	—
— Shanghai Delphi	171	853	—
	649	1,234	—
Purchase of goods			
— Xiezhong Nanjing	—	60,838	11,567
— Shanghai Delphi	1,513	71	—
	1,513	60,909	11,567

Amounts due from/to related parties

At 31 December 2009, 2010 and 25 January 2011, Xiezhong Beijing had the following balances with related parties:

	At 31 December 2009	2010	At 25 January 2011
	RMB'000	*RMB'000*	*RMB'000*
Trade debtors from			
— Beijing Auto	128	73	73
Trade payables due to			
— Xiezhong Nanjing	—	30,211	34,971
— Shanghai Delphi	4,746	—	—
	4,746	30,211	34,971

(13) Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by Xiezhong Beijing's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, Xiezhong Beijing has determined that it only has one operating segment which is the sale of automotive HVAC systems.

34. NON-ADJUSTING POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2011:

Group reorganisation

The companies now comprising the Group underwent and completed a group reorganisation on 20 January 2012 in preparation for the listing of the shares of the Company on the SEHK. Further details of the group reorganisation are set out in the section headed "History and Development" in the Prospectus. As a result of the group reorganisation, the Company became the holding company of the companies now comprising the Group.

Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 21 May 2012, the Company has conditionally approved and adopted a share option scheme which was revised on 30 May 2012. The principal terms of the share option scheme are set out in the section headed "E. Share Option Scheme" of Appendix VI "Statutory and General Information" to the Prospectus.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in preparing the Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IFRS 7, Financial instruments: Disclosures — Transfers of financial assets	1 July 2011
Amendments to IAS 12, Income taxes — Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
IAS 28, Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures — Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments (2009)	1 January 2015
IFRS 9, Financial instruments (2010)	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D. FINANCIAL INFORMATION OF THE COMPANY

	Note	At 31 December 2011 RMB'000
Current assets		
Trade and other receivables		4,589
Current liabilities		
Trade and other payables		4,840
Amounts due to subsidiaries	(i)	4,847
		9,687
Net current liabilities		(5,098)
Net liabilities		(5,098)
Capital and reserve		
Share capital		—
Accumulated loss		(5,098)
Total equity		(5,098)

(i) The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong