

**KOLAO HOLDINGS AND ITS SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED**  
**DECEMBER 31, 2011 AND 2010,**  
**AND INDEPENDENT AUDITORS' REPORT**

## **Independent Auditors' Report**

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of  
KOLAO Holdings:

We have audited the accompanying consolidated statements of financial position of KOLAO Holdings (the "Company") and its subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2011 and 2010, and the results of its operations, changes in its equity and its cash flows for the years then ended in conformity with International Financial Reporting Standards.



March 20, 2012

### **Notice to Readers**

This report is effective as of March 20, 2012, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

**KOLAO HOLDINGS AND ITS SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED**  
**DECEMBER 31, 2011 AND 2010**

The accompanying consolidated financial statements including all footnote disclosures were prepared by and are the responsibility of the Company.

Oh, Se Young  
Chief Executive Officer  
KOLAO Holdings

KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2011 AND 2010

	USD	
	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalent (Notes 6, 7, 31, 32 and 33)	4,129,266	16,642,561
Short-term financial instruments (Notes 6 and 31)	6,000,000	4,500,000
Trade receivables, net (Notes 6, 8 and 32)	14,307,572	17,327,413
Other receivables (Notes 6, 9, 31 and 32)	203,731	959,745
Other current assets (Notes 10 and 16)	7,650,602	4,817,455
Income tax receivable (Notes 20 and 32)	231,518	-
Inventories (Note 11)	53,457,692	17,109,962
TOTAL CURRENT ASSETS	85,980,381	61,357,136
NON-CURRENT ASSETS:		
Long-term trade receivables, net (Notes 6, 8 and 32)	896,277	548,575
Other receivables (Notes 6, 9 and 31)	263,975	156,334
Property, plant and equipment, net (Notes 5, 13 and 31)	8,831,995	8,223,099
Investment property, net (Notes 14 and 31)	851,403	-
TOTAL NON-CURRENT ASSETS	10,843,650	8,928,008
TOTAL ASSETS	96,824,031	70,285,144
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Trade payables (Notes 6 and 31)	10,318,238	2,080,032
Provisions (Note 16)	1,000,913	461,276
Other financial liabilities (Notes 6, 17 and 32)	1,281,005	1,020,478
Other current liabilities (Notes 15, 18, 31 and 32)	1,407,678	676,843
Income tax payable (Notes 20 and 32)	-	22,880
TOTAL CURRENT LIABILITIES	14,007,834	4,261,509
NON-CURRENT LIABILITIES:		
Provisions (Note 16)	238,085	53,144
TOTAL NON-CURRENT LIABILITIES	238,085	53,144
TOTAL LIABILITIES	14,245,919	4,314,653

(Continued)

KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
AS OF DECEMBER 31, 2011 AND 2010

	USD	
	2011	2010
<u>EQUITY:</u>		
Share capital (Note 21)	9,600,000	9,600,000
Other issued capital (Note 21)	21,281,621	21,281,621
Retained earnings (Note 22)	51,696,491	35,088,870
Non-controlling interests	-	-
TOTAL EQUITY	82,578,112	65,970,491
TOTAL LIABILITIES AND EQUITY	96,824,031	70,285,144

(Concluded)

See accompanying notes to consolidated financial statements.

KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	USD	
	2011	2010
SALES (Notes 5 and 23)	167,575,429	104,219,287
COST OF SALES (Notes 24 and 31)	(133,066,193)	(82,690,555)
GROSS PROFIT	34,509,236	21,528,732
Selling, general and administrative expenses (Notes 8, 14, 16, 25 and 31)	(14,818,394)	(7,939,538)
Other income (Notes 8, 12, 14, 19, 26 and 31)	640,033	2,115,789
Other expenses (Note 26)	(484,652)	(163,727)
OPERATING PROFIT	19,846,223	15,541,256
Financial income (Notes 27 and 31)	656,975	260,586
Financial expenses (Notes 27 and 31)	(300,514)	(229,563)
PROFIT BEFORE INCOME TAX EXPENSE	20,202,684	15,572,279
Income tax expense (Note 20)	(395,063)	(212,183)
PROFIT FOR THE YEAR	19,807,621	15,360,096
Other comprehensive income:		
Gain on valuation of available-for-sale financial assets (Note 12)	-	105,288
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	19,807,621	15,465,384
PROFIT ATTRIBUTABLE TO:		
Owners of the parent	19,807,621	15,360,096
Non-controlling interests	-	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	19,807,621	15,465,384
Non-controlling interests	-	-
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT:		
Basic and diluted earnings per share (Note 28)	0.52	0.46

See accompanying notes to consolidated financial statements.

KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	USD					
	Share capital	Other issued capital	Other capital items	Retained earnings	Non- controlling interests	Total equity
As of January 1, 2010	2,000,000	6,455,092	(105,288)	19,728,774	-	28,078,578
Total comprehensive income	-	-	105,288	15,360,096	-	15,465,384
Bonus issue of shares	6,133,410	(6,133,410)	-	-	-	-
Paid-in capital increase	<u>1,466,590</u>	<u>20,959,939</u>	-	-	-	<u>22,426,529</u>
As of December 31, 2010	<u>9,600,000</u>	<u>21,281,621</u>	-	<u>35,088,870</u>	-	<u>65,970,491</u>
As of January 1, 2011	9,600,000	21,281,621	-	35,088,870	-	65,970,491
Payment of dividends	-	-	-	(3,200,000)	-	(3,200,000)
Total comprehensive income	-	-	-	<u>19,807,621</u>	-	<u>19,807,621</u>
As of December 31, 2011	<u>9,600,000</u>	<u>21,281,621</u>	-	<u>51,696,491</u>	-	<u>82,578,112</u>

See accompanying notes to consolidated financial statements.

KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	USD	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash flows generated from operations:		
Profit for the year	19,807,621	15,360,096
Adjustments to reconcile profit to net cash provided by (used in) operating activities:		
Depreciation	852,904	683,888
Depreciation in investment property	37,018	-
Increase of provisions for product warranties	334,705	183,268
Increase of provisions for return products	812,063	319,634
Income tax expense	395,063	212,183
Interest expenses	300,514	222,909
Loss (gain) on foreign currency translation, net	204,986	(497,592)
Gain on transaction of derivative instruments	-	(253,685)
Interest income	(656,975)	(260,586)
Reversal of allowance for doubtful accounts	(307,217)	(88,290)
Gain on disposal of available-for-sale financial assets	-	(728,319)
	1,973,061	(206,590)
Movements in working capital:		
Decrease (increase) in trade and other receivables	3,612,342	(7,791,133)
Increase in other current assets	(2,833,306)	(3,772,457)
Increase in inventories	(36,655,600)	(2,456,670)
Increase in trade payables and other financial liabilities	8,526,610	1,369,620
Increase in other current liabilities	729,876	144,202
Decrease in provisions	(422,190)	(596,823)
	(27,042,268)	(13,103,261)
	(5,261,586)	2,050,245
Interest received	540,410	255,517
Interest paid	(300,514)	(222,909)
Income tax paid	(649,527)	(330,318)
Net cash generated by operating activities	(5,671,217)	1,752,535
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in short-term financial instruments, net	(1,497,805)	(4,500,000)
Collection (payment) of short-term loans, net	(78,863)	855
Proceeds from disposal of available-for-sale financial assets	-	1,050,000
Acquisition of property, plant and equipment	(2,042,351)	(2,940,034)
Net cash used in investing activities	(3,619,019)	(6,389,179)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment to borrowings, net	-	(2,921,798)
Payment of dividends	(3,200,000)	-
Proceeds from paid-in capital increase	-	22,426,529
Net cash provided by (used in) financing activities	(3,200,000)	19,504,731

(Continued)



KOLAO HOLDINGS AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	USD	
	2011	2010
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(23,059)	42,548
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,513,295)	14,910,635
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	16,642,561	1,731,926
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4,129,266	16,642,561

(Concluded)

See accompanying notes to consolidated financial statements.

**KOLAO HOLDINGS AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**1. THE COMPANY:**

Kolao Holdings (the “Company”) is a limited and tax-exempt entity, which was established on June 16, 2009, in Cayman Islands to control Kolao Developing Co., Ltd. (the “subsidiary”), under the Companies Law of Cayman Islands. The Company was transferred shares of the subsidiary from Oh, Se Young who owned 100% of the subsidiary in exchange for investment in-kind on December 24, 2009, in order to reorganize the controlling structure. The Company is registered at P.O. Box 309, Uglan House, Grand Cayman KY1-1104, Cayman Islands, and the subsidiary was established in Laos on April 1, 1997, and engages in import, manufacture and sales of automobile and motorcycle.

On November 30, 2010, the Company’s shares were listed on the Korea Exchange. As of December 31, 2011, the Company has issued 38,400 thousand shares and the Company’s share capital amounts to U.S. dollars (USD) 9,600,000, as a result of the several issuances of new shares from USD 1 at the establishment of the Company.

The shareholders of the Company as of December 31, 2011, are as follows:

<u>Shareholders</u>	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
Oh, Se Young	26,667,280	69.4
Others	11,732,720	30.6
	<u>38,400,000</u>	<u>100.0</u>

**2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In accordance with IFRS 1, *First-time Adoption of IFRSs*, the date of transition to IFRS is January 1, 2007.

Upon the transition date, the significant accounting policies followed by the Company and its subsidiary (the “Group”) in the preparation of consolidated financial statements are summarized below. The consistent accounting policies are applied to the consolidated financial statements for this period and the comparative periods.

The accompanying consolidated financial statements were approved by the board of directors on March 12, 2012.

(1) Basis of Preparing Consolidated Financial Statements

1) Basis of Measurement

The accompanying consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Group’s presentation currency for the consolidated financial statements is USD.

### 3) Basis of Consolidation

The Group's consolidated financial statements include financial statements of a parent company and its subsidiary. Reporting period of the subsidiary is the same as that of the parent company, and the subsidiary's financial statements are prepared with the same accounting policies as those adopted by the parent company.

Reorganization of the controlling structure under the common control is accounted for by the pooling of interest method. The Group's consolidated financial statements were prepared with the assumption that the current controlling structure has existed in the prior periods.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. The interests of non-controlling shareholders may be initially measured either at fair value or the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition, plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. In addition, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### (2) Applications of New and Revised Standards and Interpretations

Currently, enactments and amendments of the IFRSs are in progress, and the financial information presented in the consolidated financial statements may change accordingly in the future. The Group has not applied the following new and revised IFRSs that have been issued, but are not yet effective:

##### *IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets*

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred, but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. IFRS 7 is effective for annual periods beginning on or after July 1, 2011.

##### *Amendments to International Accounting Standards (“IAS”) 12 Deferred Tax – Recovery of Underlying Assets*

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow the manner in which the entity expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in IAS 16 *Property, Plant and Equipment* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012.

##### *IAS 19 (as revised in 2011) Employee Benefits*

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and fair value of plan assets when they occur and, hence, eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013, and require retrospective application with certain exceptions.

### IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Group does not anticipate that the amendments referred above will have a significant effect on the Group's consolidated financial statements and disclosures.

Major accounting policies used for the preparation of the consolidated financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the consolidated financial statements for the current period and the accompanying comparative period.

#### (3) Cash and Cash Equivalents

Cash and cash equivalents include cash, savings and checking accounts and highly liquid short-term investment (maturities of three months or less from acquisition). Bank overdrafts are considered short-term borrowings in the consolidated statement of financial position.

#### (4) Revenue Recognition

The Group's revenue categories consist of goods sold, services rendered and other income.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of turnover tax and trade discounts. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue associated with the transaction involving the rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Dividend income from investments is recognized when the right to receive payment has been established. Interest income is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

The Group's policy for recognition of revenue from operating leases is described in Note 2 (13) below.

#### (5) Financial Assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL") that are initially measured at fair value.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### 1) Financial Assets at FVTPL

Financial assets at FVTPL include a financial asset held for trading and a financial asset designated as at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term. Every financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedge instrument or not a financial guarantee contract.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Upon initial recognition, transaction costs are recognized in profit or loss when incurred.

### 2) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

### 3) AFS Financial Assets

Non-derivatives financial assets that are not classified as at held-to-maturity, held-for-trading, designated as at FVTPL or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as sale on initial recognition. Financial assets AFS are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss.

Where the investment is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

#### 4) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### 5) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in that period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

#### 6) Derecognition of Financial Assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

#### (6) Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into, and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

#### (7) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, being valued by the weighted-average method, excluding goods in transit (specific identification method). Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period, less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, are recognized as expense during the period.

#### (8) Property, Plant, and Equipment and Depreciation

Property, plant, and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditure arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation is recognized so as to write off the cost, less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

Assets	Estimated useful lives (years)
Buildings	20
Vehicles	5
Tools and equipment	5
Office equipment	5
Other tangible assets	5

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### (9) Investment Property

Investment properties are properties held to earn rentals or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use, and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

While land is not depreciated, all other investment property is depreciated, based on the respective asset's estimated useful lives 20 years, using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

#### (10) Impairment of Non-financial Assets other than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.



Recoverable amount is the higher of fair value, less costs to sell, or 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

#### (11) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### (12) Financial Liabilities and Equity Instruments

##### 1) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

##### 2) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized as the proceeds are received, net of direct issue costs.

##### 3) Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

##### 4) Financial Guarantee Contract Liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized, less cumulative amortization recognized in accordance with the IAS 18 *Revenue*

##### 5) Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

#### 6) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### 7) Derecognition of Financial Liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged or canceled or they expire.

#### (13) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### 1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

##### 2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see Note 2 (11)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (14) Income Tax Expense

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### (15) Employee Benefits

##### 1) Short-term Employee Benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during a reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

##### 2) Post-employment Benefits and Termination Benefits

Under the Laos Law, employees who have been with the Group are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Group due to involuntary termination. Therefore, according to the historical experiences that involuntary termination was recommended for the Group's employees, a present legal and constructive payment obligation arising from past events is not created, and the amount of the obligation cannot be measured with sufficient reliability. For these reasons, no amounts are recognized as liabilities in respect of post-employment benefits. Due to such involuntary termination, the Group adopted a policy that recognizes a payment obligation that is created by the Laos Law in loss as termination benefits.

#### (16) Provisions and Contingent Liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(17) Foreign Currency Transactions and Translation of Foreign Assets and Liabilities

The consolidated financial statements are presented in USD, which is the functional currency and presentation currency. In preparing the consolidated financial statements, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income (loss) and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change in accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### **3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimates.

The estimates and underlying assumptions are continuously reviewed. The changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period or in the period of the change and future periods if the change affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### (1) Allowance for Trade and Other Receivables

An allowance for doubtful accounts is recognized based on assessment of recoverability of trade and other receivables. Whether any impairment from trade and other receivables will exist is assessed based on the management's judgments and estimations. The management's judgments and estimates consider the Group's past experience of collecting payments and an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. Total value of trade and other receivables and an allowance for doubtful accounts are disclosed in Note 8.

#### (2) Depreciation

Depreciation of production facilities used in processes of manufacturing automobiles and motorcycles is recognized by using the straight-line method over their useful lives. The Group's management estimates useful lives for production facilities at less than five years. Technology development and changes in the assets' expected capacity of physical output may affect economic useful lives of production facilities. Useful lives of production facilities as of the end of the Group's reporting period are disclosed in Note 2.

#### (3) Impairment of Non-financial Assets other than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Other non-financial assets, except for assets that have an indefinite useful life, are tested for impairment whenever there is an indication that the carrying amount will not be recoverable. In the calculation of an asset's value in use, the Group's management reflects an estimate of the future cash flows the entity expects to derive from the assets or the cash-generating unit, and applies the appropriate discount rate to those future cash flows.

### **4. SUBSIDIARY:**

(1) The details of consolidated subsidiary as of December 31, 2011, are as follows:

<u>Subsidiary</u>	<u>Country and date established</u>	<u>Capital stock</u>	<u>% of ownership</u>	<u>Main business</u>
Kolao Developing Co., Ltd.	Laos April 1, 1997	USD 31,305,519	100%	Manufacture and sales of automobile and motorcycle

As of December 24, 2009, the Company owns 100% of the subsidiary in exchange for investment in-kind from Oh, Se Young, who was the only shareholder of the subsidiary.

(2) A summary of financial information of subsidiary as of and for the year ended December 31, 2011, is as follows (Unit: USD):

<u>Subsidiary</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Total comprehensive income</u>
Kolao Developing Co., Ltd.	96,567,821	14,211,452	167,575,429	20,120,603

## 5. SEGMENT INFORMATION:

(1) Details of products and services from which segments derive their revenues

The Group has five operating segments depending on management objectives and key information with which the Group's chief operating decision maker assesses segment performance. A summary of each of the segments is as follows:

<u>Segment</u>	<u>Description</u>
New automobile	Engaging in the dealer business by distributing imported automobiles from Hyundai Motor Company Co., Ltd., Kia Motors Co., Ltd. and Chery Automobile Co., Ltd.
Used automobile	Selling used automobiles under the name of 'KOLAO', after assembling and processing automobiles imported mostly from Korea
Motorcycle	Designing its own model and selling products under the name of 'KOLAO' after making orders, processing and assembling of major parts
Wholesale	Selling accessories and other supplies designed for automobiles and motorcycles
AS	Providing after- service and repair service for automobiles and motorcycles

(2) Revenues and results by segments

	USD			
	<u>Sales by segment</u>		<u>Gross profit by segment</u>	
	<u>Year ended December 31,</u>	<u>Year ended December 31,</u>	<u>Year ended December 31,</u>	<u>Year ended December 31,</u>
	2011	2010	2011	2010
New automobile	86,729,902	41,749,338	17,730,351	8,994,357
Used automobile	45,214,756	36,996,242	6,656,830	6,069,653
Motorcycle	23,552,923	17,391,929	7,970,899	5,298,806
Wholesale	9,444,888	6,579,988	2,039,181	619,273
AS	2,632,960	1,501,790	111,975	546,643
	<u>167,575,429</u>	<u>104,219,287</u>	<u>34,509,236</u>	<u>21,528,732</u>
Unallocated income and expenses			(14,306,552)	(5,956,453)
Profit before income tax expense			20,202,684	15,572,279
Income tax expense			(395,063)	(212,183)
Profit for the period			<u>19,807,621</u>	<u>15,360,096</u>

All the revenues and results reported above are the amounts after eliminating all intra-group transaction, which are disclosed in Note 30, in full on consolidation.

The gross profit by segment is reported to the Group's chief operating decision maker for evaluating performance and allocating resources.

(3) Assets and liabilities by segments

	USD			
	Assets		Liabilities	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
New automobile	27,727,120	11,661,312	8,170,930	1,183,682
Used automobile	31,161,224	15,914,758	95,060	245,275
Motorcycle	11,614,490	11,041,440	629,155	651,075
Wholesale	5,798,283	3,613,064	1,112,860	-
AS	1,192,419	978,475	310,233	-
	<u>77,493,536</u>	<u>43,209,049</u>	<u>10,318,238</u>	<u>2,080,032</u>
Unallocated assets and liabilities	19,330,495	27,076,095	3,927,681	2,234,621
Total assets and liabilities	<u>96,824,031</u>	<u>70,285,144</u>	<u>14,245,919</u>	<u>4,314,653</u>

All the assets and liabilities reported above are the amounts after eliminating all intra-group transactions, which are disclosed in Note 30, in full on consolidation.

The chief operating decision maker manages each of segment's trade receivables, inventories, property, plant and equipment, and trade payables for the purposes of resource allocation and assessment of segment performance. Other assets and liabilities are not allocated.

(4) Other segment information

	USD			
	Depreciation		Acquisition of non-current assets	
	Year ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
New automobile	311,752	168,591	1,259,732	1,048,351
Used automobile	307,627	281,172	1,762,794	1,329,378
Motorcycle	171,758	188,567	201,969	443,830
Wholesale	9,383	6,064	22,457	37,711
AS	52,384	39,494	114,848	213,589
	<u>852,904</u>	<u>683,888</u>	<u>3,361,800</u>	<u>3,072,859</u>

(5) Geographical information

As the Group operates and generates revenues only in Laos, there is no additional geographical information.

(6) Information about major customers

The Group's revenues are generated from dealers and transactions with individuals and there are no major customers who contribute to generating more than 10% of total revenues.

**6. CATEGORIES OF FINANCIAL INSTRUMENTS:**

(1) Details of financial instruments that are classified as financial assets as of December 31, 2011 and 2010, are as follows (Unit: USD):

<2011>

Accounts	Loans and receivables	AFS financial assets	Total
Cash and cash equivalents	4,129,266	-	4,129,266
Short-term financial instruments	6,000,000	-	6,000,000
Trade receivables (*1)	15,203,849	-	15,203,849
Other receivable (*1)	467,706	-	467,706
	25,800,821	-	25,800,821

(\*1) The amount includes current assets and non-current assets.

<2010>

Accounts	Loans and receivables	AFS financial assets	Total
Cash and cash equivalents	16,642,561	-	16,642,561
Short-term financial instruments	4,500,000	-	4,500,000
Trade receivables (*2)	17,875,988	-	17,875,988
Other receivable (*2)	1,116,079	-	1,116,079
	40,134,628	-	40,134,628

(\*2) The amount includes current assets and non-current assets.

(2) Details of financial instruments that are classified as financial liabilities as of December 31, 2011 and 2010, are as follows (Unit: USD):

<2011>

Accounts	Financial liabilities at FVTPL	Other financial liabilities	Total
Trade payables	-	10,318,238	10,318,238
Other financial liabilities	-	1,281,005	1,281,005
	-	11,599,243	11,599,243

<2010>

Accounts	Financial liabilities at FVTPL	Other financial liabilities	Total
Trade payables	-	2,080,032	2,080,032
Other financial liabilities	-	1,020,478	1,020,478
	-	3,100,510	3,100,510



**7. CASH AND CASH EQUIVALENTS:**

The Group's cash and cash equivalents in the consolidated statements of financial position are the same as the cash and cash equivalents in the consolidated statements of cash flows. Details of cash and cash equivalents as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Cash	1,178,855	378,749
Financial instruments	<u>2,950,411</u>	<u>16,263,812</u>
	<u>4,129,266</u>	<u>16,642,561</u>

**8. TRADE RECEIVABLES:**

The payback period of trade receivables is determined based on each customer's credit rating. The Group strictly controls the balance not collected and the management reviews regularly the balance of trade receivables that are past due. Also, the Group holds deposits in respect of some customers.

(1) Details of trade receivables as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Trade receivables in current assets	14,348,974	17,676,550
Less: Allowances for doubtful accounts	<u>(41,402)</u>	<u>(349,137)</u>
Sub total	<u>14,307,572</u>	<u>17,327,413</u>
Trade receivables in non-current assets	899,320	560,424
Less: Allowances for doubtful accounts	<u>(3,043)</u>	<u>(11,849)</u>
Sub total	<u>896,277</u>	<u>548,575</u>
	<u>15,203,849</u>	<u>17,875,988</u>

The trade receivables, excluding interest-bearing receivables, obtained from installment sales are classified as current assets because they reach maturity within one year from the end of the reporting period. The fair value approximates the book value because the effect of discount is not material. The interest-bearing receivables obtained from the installment sales, which reach maturity after one year, are classified as non-current assets. The amortized cost of interest-bearing receivables is the same as the book value because the effective interest rate is the same as the interest rate of interest-bearing receivables.

(2) The aging analysis of the trade receivables as of December 31, 2011 and 2010, is as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Within 3 months	9,478,511	12,594,658
Between 3 and 6 months	2,872,444	2,753,498
Between 6 and 9 months	1,345,591	1,391,688
Between 9 and 12 months	717,439	892,730
Beyond 12 months	<u>834,308</u>	<u>604,400</u>
	<u>15,248,293</u>	<u>18,236,974</u>

If the trade receivables become overdue, the Group renegotiates the payment terms, such as an extension of due by each individual receivable. In that case, the Group collects trade receivables and determines whether receivables are overdue according to the new terms.

By the individual analysis, the Group recognizes impairment loss on overdue receivables that are not collected because the initial or new conditions are not satisfied.

(3) Changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010, are as follows (Units: USD):

	<u>2011</u>	<u>2010</u>
Beginning balance	360,986	561,784
Offsetting of allowance	(9,324)	(112,508)
Reversal of allowance	<u>(307,217)</u>	<u>(88,290)</u>
Ending balance	<u><u>44,445</u></u>	<u><u>360,986</u></u>

Bad debt expenses and reversal of allowance for doubtful accounts are included as selling, general and administrative expenses and other income, respectively, in the consolidated statements of comprehensive income. The offsetting of allowance for doubtful accounts generally occurs in relation to write-off of trade receivables that are no longer recoverable. In addition, the Group's management evaluates that the differences between trade receivables' book value and fair value are not material.

#### **9. OTHER RECEIVABLES:**

The Group's other receivables as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Short-term loans (*1)	82,098	9,677
Other accounts receivables	-	945,000
Accrued income	121,633	5,068
Business guarantee deposits	205,000	100,000
Guarantee deposits	<u>58,975</u>	<u>56,334</u>
	<u><u>467,706</u></u>	<u><u>1,116,079</u></u>

(\*1) The total amount represents interest-free loans for employees and is deducted from employees' salaries every month. Those loans are mostly repaid within 12 months so that there are no differences between the fair value and book value of loans.

(2) The short-term loans are classified as current assets because they reach maturity within one year from the end of the reporting period. The business guarantee deposits provided for Chery Automobile Co., Ltd., are classified as non-current assets because they do not have fixed maturity dates and their expected maturity exceeds one year. In addition, the fair value of business guarantee deposits and guarantee deposits approximates the book value because the effect of discount is not material.

#### **10. OTHER CURRENT ASSETS:**

The Group's other current assets as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Advance payments	1,292,257	521,145
Prepaid expenses	6,001,471	4,249,892
Other accounts receivables (*1)	<u>356,874</u>	<u>46,418</u>
	<u><u>7,650,602</u></u>	<u><u>4,817,455</u></u>

(\*1) Some of the expenditure required to settle a provision is expected to be reimbursed by another party, as disclosed in Note 16, and it is virtually certain that reimbursement will be received if the entity settles the obligation. Therefore, the reimbursement is treated as a separate asset and accounted for as other accounts receivables.

### 11. INVENTORIES:

Details of inventories as of December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Raw materials	1,839,856	2,121,771
Merchandise	17,222,203	5,016,498
Work in process	15,256,535	3,802,365
Finished goods	8,371,558	2,910,931
Goods in transit	10,767,540	3,258,397
	<u>53,457,692</u>	<u>17,109,962</u>

### 12. AFS FINANCIAL ASSETS:

The change in AFS financial assets for the year ended December 31, 2010, is as follows (Unit: USD):

	2010
Beginning balance	216,393
Disposal	<u>(216,393)</u>
Ending balance	<u>-</u>

All AFS financial assets were disposed for the year ended December 31, 2010, and the Group recognized USD 728,319 as gain on disposal of AFS financial assets.

### 13. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2011 and 2010, are as follows (Unit: USD):

Assets	2011			2010		
	Acquisition costs	Accumulated depreciation	Net balance	Acquisition costs	Accumulated depreciation	Net balance
Buildings	10,342,400	(3,102,847)	7,239,553	8,283,296	(2,640,574)	5,642,722
Vehicles	1,184,680	(514,727)	669,953	827,901	(318,345)	509,556
Tools and equipment	1,521,421	(1,330,795)	190,626	1,421,296	(1,248,489)	172,807
Office equipment	544,549	(115,186)	429,363	218,757	(30,743)	188,014
Other tangible assets	330,000	(27,500)	302,500	-	-	-
Construction in progress	-	-	-	1,710,000	-	1,710,000
	<u>13,923,050</u>	<u>(5,091,055)</u>	<u>8,831,995</u>	<u>12,461,250</u>	<u>(4,238,151)</u>	<u>8,223,099</u>

(2) Changes in the Group's property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

<2011>

Assets	Beginning balance	Acquisition	Transfer	Disposal	Depreciation	Ending balance
Buildings	5,642,722	1,047,525	1,011,579	-	(462,273)	7,239,553
Vehicles	509,556	48,909	307,870	-	(196,382)	669,953
Tools and equipment	172,807	100,125	-	-	(82,306)	190,626
Office equipment	188,014	325,792	-	-	(84,443)	429,363
Other tangible assets	-	330,000	-	-	(27,500)	302,500
Construction in progress	1,710,000	190,000	(1,900,000)	-	-	-
	<u>8,223,099</u>	<u>2,042,351</u>	<u>(580,551)</u>	<u>-</u>	<u>(852,904)</u>	<u>8,831,995</u>

<2010>

Assets	Beginning balance	Acquisition	Transfer	Disposal	Depreciation	Ending balance
Buildings	5,127,080	820,515	98,135	-	(403,008)	5,642,722
Vehicles	448,487	164,842	34,690	-	(138,463)	509,556
Tools and equipment	237,693	56,182	-	-	(121,068)	172,807
Office equipment	20,868	188,495	-	-	(21,349)	188,014
Construction in progress	98,135	1,710,000	(98,135)	-	-	1,710,000
	<u>5,932,263</u>	<u>2,940,034</u>	<u>34,690</u>	<u>-</u>	<u>(683,888)</u>	<u>8,223,099</u>

(3) Depreciation costs for the years ended December 31, 2011 and 2010, are allocated and recorded as follows (Unit: USD):

	2011	2010
Selling, general and administrative expenses	597,534	420,856
Cost of goods manufactured	255,370	263,032
	<u>852,904</u>	<u>683,888</u>

#### 14. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2011, is as follows (Unit: USD):

	2011
Acquisition costs	888,421
Accumulated depreciation	(37,018)
Net balance	<u>851,403</u>

(2) Changes in the Group's investment property for the year ended December 31, 2011, are as follows (Unit: USD):

Assets	Beginning balance	Transfer (*1)	Depreciation	Ending balance
Buildings	<u>-</u>	<u>888,421</u>	<u>(37,018)</u>	<u>851,403</u>

(\*1) The amount is transferred from construction in progress.

(3) The Group recognized the rental income amounting to USD 36,000 as other income in the consolidated statements of comprehensive income for the year ended December 31, 2011.

(4) The fair value of investment property cannot be determined reliably on the grounds that comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

(5) The investment property is property held by the Group.

**15. OPERATING LEASE ARRANGEMENTS:**

(1) The Group as lessee

The Group has seventeen lease contracts as of December 31, 2011, which are accounted for as operating leases. Details of the lease contracts that the Group has executed are as follows (Unit: USD):

Leased assets	Lease term	Gross lease payments
Vientiane Showroom	2009-07-01 ~ 2029-07-01	420,000
Vientiane Showroom	2009-09-01 ~ 2024-09-01	250,000
Vientiane Showroom	2002-01-01 ~ 2012-01-01	130,000
Vientiane Showroom	2009-07-01 ~ 2019-07-01	29,438
Tongphong Factory	2006-09-15 ~ 2021-09-14	300,470
Savannakhet Factory	2002-07-01 ~ 2031-06-30	425,000
Vientiane Showroom	2009-06-11 ~ 2030-01-01	138,600
Vientiane Showroom	2005-02-09 ~ 2015-02-09	45,300
Vientiane Showroom	2010-01-01 ~ 2015-12-31	120,000
Tongphong Factory	2010-10-08 ~ 2025-10-07	283,725
Pakse Showroom	2010-10-16 ~ 2025-10-15	182,400
Office NB (3F and 4F)	2010-11-01 ~ 2015-10-31	1,994,916
Office NB (5F and 8F)	2011-01-01 ~ 2015-12-31	1,493,100
Alounmai Showroom	2011-01-04 ~ 2021-03-31	5,082,934
Tongphong Factory	2011-09-01 ~ 2041-08-31	662,925
Vientiane Distribution Center	2011-09-01 ~ 2025-10-15	1,278,375
Vientiane Showroom	2012-01-01 ~ 2017-12-31	211,680
		13,048,863

When lease contract terminates, it can be renewed with both parties' consent. Both parties can also change the amount of lease payments considering financial condition at the time of renewing the lease contract. However, the Group does not have an option to purchase the leased land at the expiry of the lease periods.

According to the lease contract, the Group recognized USD 1,245,894 and USD 177,547 as lease expenses for the years ended December 31, 2011 and 2010, respectively.

Minimum lease payments that the Group will make subsequently as of December 31, 2011, are as follows (Unit: USD):

Year ending December 31,	Minimum lease payments
2012	1,540,710
2013 ~ 2016	4,850,421
2017 and thereafter	5,146,019
	11,537,150

The prepaid minimum lease payments amount to USD 5,933,381 under the above operating leases.

(2) The Group as lessor

The Group provides the investment property to a lessee under operating lease and the lease term is seven years. The lessee has the option to continue to lease the asset for thirty years and does not have the purchase option at the expiration of the lease term.

Minimum lease payments that the Group will make subsequently as of December 31, 2011, are as follows (Unit: USD):

<u>Year ending December 31,</u>	<u>Minimum lease payments</u>
2012	43,200
2013 ~ 2016	172,800
2017 and thereafter	50,400
	<u>266,400</u>

The Group recognized the advance received for minimum lease payments amounting to USD 266,400 as other current liabilities in the consolidated statements of financial position as of December 31, 2011.

**16. PROVISIONS:**

(1) As the Group provides repair service, free of charge, for a certain period to customers who purchased its products, estimated costs of future repair service are accounted for as provisions for product warranties. In addition, the Group records the gross profit from estimated return on product sales as a provision for return products.

(2) Changes in the Group's provisions for product warranties for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Beginning balance	194,786	167,159
Increase in provisions (*1)	687,360	229,686
Use of provisions	<u>(410,110)</u>	<u>(202,059)</u>
Ending balance	<u>472,036</u>	<u>194,786</u>

(\*1) Some of the expenditure required to settle a provision is expected to be reimbursed by another party, and it is virtually certain that reimbursement will be received if the entity settles the obligation. Therefore, the reimbursement is treated as a separate asset and accounted for as other accounts receivables. The expense relating to the provision is presented, net of the amount of USD 352,655 and USD 46,418 that was recognized as the separate asset, as part of selling, general and administrative expenses in the consolidated statements of comprehensive income (see Note 10).

(3) Changes in the Group's provisions for return products for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Beginning balance	319,634	394,764
Increase in provisions	812,063	319,634
Use of provisions	<u>(364,735)</u>	<u>(394,764)</u>
Ending balance	<u>766,962</u>	<u>319,634</u>

(4) Details of liquidity of the Group's provision as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Provisions for product warranties:		
Current liabilities	233,951	141,642
Non-current liabilities	238,085	53,144
Sub total	<u>472,036</u>	<u>194,786</u>
Provisions for return products:		
Current liabilities	766,962	319,634
Sub total	<u>766,962</u>	<u>319,634</u>
	<u><u>1,238,998</u></u>	<u><u>514,420</u></u>

#### **17. OTHER FINANCIAL LIABILITIES:**

(1) Details of the Group's other financial liabilities as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Other account payables	-	187,532
Accrued expenses	1,281,005	802,946
Deposits received	-	30,000
	<u>1,281,005</u>	<u>1,020,478</u>

(2) As other account payables and accrued expenses become due within one year from the end of the reporting period, they are classified as current liabilities. Deposits received from some of dealers who signed dealership contracts with the Group in order to enhance their credits do not have fixed maturity dates, and the Group does not have the unconditional right that allows delaying deposits' repayment for at least more than 12 months. Therefore, they are classified as non-current liabilities. As the effect of discount is not material, amortized costs of deposits received approximate the book value.

#### **18. OTHER CURRENT LIABILITIES:**

Other current liabilities of the Group as of December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Withholdings	16,657	12,868
Advances received	465,431	348,038
Rental income received in advance	266,400	-
Consume tax	440,837	17,141
Turnover tax	218,353	298,796
	<u>1,407,678</u>	<u>676,843</u>

**19. DERIVATIVE FINANCIAL INSTRUMENTS:**

The details of changes in derivatives for the year ended December 31, 2010, are as follows (Unit: USD):

	2010
Beginning balance	253,685
Cancellation (*1)	(253,685)
Ending balance	-

(\*1) As of June 24, 2010, under agreements among shareholders, the put-back option and all of payment guarantee associated with Kolao Energy Co., Ltd., were voided, which canceled the Group's duty to fulfill its obligation. In the consolidated statements of comprehensive income, the loss from cancellation was recognized as gain on transaction of derivative instruments for the year ended December 31, 2010 (see Note 26).

**20. INCOME TAX EXPENSES:**

(1) The Company was established in Cayman Islands and is 100% corporate tax exempt. On the other hand, Kolao Developing Co., Ltd., is a subsidiary and recognized as a foreign-invested entity under the Laos Law. As a result, corporate tax is 20% of taxable profits. The amount of a subsidiary's taxable income is determined by taxation authorities at the end of tax years. When determining the amount of taxable income, differences between accounting income and taxable income of the current year do not carry over to deduct from or add to the future taxable income.

(2) The comparison between income and income tax expenses for the years ended December 31, 2011 and 2010, is as follows (Unit: USD):

	2011	2010
Profit before income tax expenses	20,202,684	15,572,279
Income tax expenses	395,063	212,183
Effective tax rate	1.96%	1.36%

(3) The Group recognized USD 231,518 and USD 22,880 as income tax refundable and income tax payable as of December 31, 2011 and 2010, respectively.

**21. CAPITAL AND OTHER ISSUED CAPITAL:**

(1) Details associated with the Company's capital as of December 31, 2011 and 2010, are as follows:

	2011	2010
Number of shares authorized (*1)	160,000,000 shares	160,000,000 shares
Par value	USD 0.25	USD 0.25
Number of shares issued	38,400,000 shares	38,400,000 shares
Share capital	USD 9,600,000	USD 9,600,000

(\*1) 40,000,000 preferred shares are included in the number of shares authorized as of December 31, 2011 and 2010.



(2) Changes in the Group's issued capital for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011		2010	
	Number of shares issued	Share capital	Number of shares issued	Share capital
Beginning of the year	38,400,000 shares	9,600,000	2,000,000 shares	2,000,000
Share split (*2)	-	-	6,000,000 shares	-
Bonus issue of shares (*3)	-	-	24,533,640 shares	6,133,410
Paid-in capital increase (*4)	-	-	5,866,360 shares	1,466,590
End of the year	<u>38,400,000 shares</u>	<u>9,600,000</u>	<u>38,400,000 shares</u>	<u>9,600,000</u>

(\*2) The Company divide one share with a par value USD 1 into four shares with a par value USD 0.25, as approved by the board of directors and at the general meeting of shareholders, on May 20, 2010.

(\*3) The Company issued 24,533,640 shares from the share premium, as approved by the board of directors, on May 26, 2010.

(\*4) On November 23, 2010, the payment on the Company's 5,866,360 shares at Korean won ("KRW") 4,800 per share as part of its initial public offering was made, and the Company's shares including existing issued shares were listed on the Korea Exchange, on November 30, 2010.

(3) The total amount of Company's other issued capital is the share premium, which was decreased by USD 6,133,410 through bonus issue of shares and increased by USD 20,959,939 through paid-in capital increase.

## **22. RETAINED EARNINGS AND DIVIDENDS:**

(1) Changes in retained earnings of the Company for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Beginning balance	35,088,870	19,728,774
Payment of dividends	(3,200,000)	-
Profit for the year	19,807,621	15,360,096
Ending balance	<u>51,696,491</u>	<u>35,088,870</u>

(2) Details of the paid dividends for the year ended December 31, 2011, are as follows:

	2011
Number of issued shares	38,400,000 shares
Number of shares entitled to dividends	38,400,000 shares
Dividends per share (*1)	USD 0.11 (USD 0.07 to major shareholder)
Amount of dividends	USD 3,200,000

(\*1) Differential dividends

(3) The dividends were proposed before the date of approving consolidated financial statements, but they are subject to approval at the general meeting of shareholders and have not been recorded as a liability. Details of the proposed dividends are as follows:

	2011
Number of issued shares	38,400,000 shares
Number of shares entitled to dividends	38,400,000 shares
Dividends per share (*2)	USD 0.08 (except for major shareholder)
Amount of dividends	USD 900,000

(\*2) Differential dividends

**23. REVENUES:**

Revenues generated from the Group's product sales and service rendered for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
New automobile sales	86,729,902	41,749,338
Used automobile sales	45,214,756	36,996,242
Motorcycle sales	23,552,923	17,391,929
Wholesales	9,444,888	6,579,988
AS charges	2,632,960	1,501,790
	<u>167,575,429</u>	<u>104,219,287</u>

**24. EXPENSES CLASSIFICATION ACCORDING TO NATURE:**

Details of expenses classified according to nature for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

<2011>

	Cost of sales	Selling, general and administrative expenses	Total
Changes in finished goods	(5,460,628)	-	(5,460,628)
Changes in work in progress	(11,454,170)	-	(11,454,170)
Changes in merchandise	59,685,163	-	59,685,163
Use of raw materials	42,210,733	-	42,210,733
Salaries	2,484,194	4,543,493	7,027,687
Depreciation	255,370	597,534	852,904
Taxes and dues	33,073,299	1,111,064	34,184,363
Transportation costs	8,564,103	57,490	8,621,593
Supplies	2,360,183	347,562	2,707,745
Others	1,347,946	8,161,251	9,509,197
	<u>133,066,193</u>	<u>14,818,394</u>	<u>147,884,587</u>

<2010>

	Cost of sales	Selling, general and administrative expenses	Total
Changes in finished goods	(1,843,768)	-	(1,843,768)
Changes in work in progress	(41,771)	-	(41,771)
Changes in merchandise	29,443,100	-	29,443,100
Use of raw materials	25,110,161	-	25,110,161
Salaries	1,667,904	2,409,315	4,077,219
Depreciation	263,032	420,856	683,888
Taxes and dues	16,695,617	645,185	17,340,802
Transportation costs	4,108,276	2,190	4,110,466
Supplies	5,014,470	288,364	5,302,834
Others	2,273,534	4,173,628	6,447,162
	<u>82,690,555</u>	<u>7,939,538</u>	<u>90,630,093</u>

**25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:**

The Group's selling, general and administrative expenses for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Salaries	4,543,493	2,409,315
Entertainment	598,417	390,577
Advertisement	451,418	312,136
Sales commission	247,608	458,269
Increase in provisions for product warranties	334,705	183,268
Lease	1,487,341	300,076
Depreciation	597,534	420,856
Taxes and dues	1,111,064	645,185
Supplies	347,562	288,364
Fees and charges	685,409	577,236
Other	4,413,843	1,954,256
	<u>14,818,394</u>	<u>7,939,538</u>

**26. OTHER INCOME AND EXPENSES:**

The Group's other income and expenses for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Gain on foreign currency exchange transactions and translation	106,455	827,218
Gain on transaction of derivative instruments	-	253,685
Gain on disposal of AFS financial assets	-	728,319
Reversal of allowance for doubtful accounts	307,217	88,290
Rental income	36,000	-
Miscellaneous income	190,361	218,277
Loss on foreign currency exchange transactions and translation	(387,925)	(113,036)
Depreciation in investment property	(37,018)	-
Donation	(59,709)	(50,691)
	<u>155,381</u>	<u>1,952,062</u>

**27. FINANCIAL INCOME AND EXPENSES:**

(1) The Group's finance income for the years ended December 31, 2011 and 2010, are interest income earned on the following (Unit: USD):

	<u>2011</u>	<u>2010</u>
Cash and cash equivalent	35,349	49,681
Short-term financial instruments	412,133	5,068
Trade receivables	209,493	205,837
	<u>656,975</u>	<u>260,586</u>

(2) The Group's finance expenses for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	<u>2011</u>	<u>2010</u>
Interest expenses	300,514	222,908
Loss on foreign currency exchange transactions and translation	-	6,655
	<u>300,514</u>	<u>229,563</u>

(3) Details of interest expenses for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Bank overdraft	-	29,572
Other borrowings	300,514	193,336
	<u>300,514</u>	<u>222,908</u>

## 28. EARNINGS PER SHARE:

The Group's earnings per share for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
Total comprehensive income (USD)	19,807,621	15,360,096
Weighted-average number of shares (shares)	38,400,000	33,160,457
Basic and diluted earnings per share (USD)	<u>0.52</u>	<u>0.46</u>

The Group does not have dilutive potential ordinary shares; therefore, diluted earnings per share are the same as basic earnings per share.

## 29. PAYMENT GUARANTEES AND COMMITMENTS:

(1) Details of the Group's major contractual commitments for purchase as of December 31, 2011, are as follows:

Contract counterparty	Contract term	Commitments for minimum purchase	Other
Hyundai Motor	2011.1.1 ~ 2012.12.31	2011.1.1~2011.12.31: 800 cars 2012.1.1~2012.12.31: 1,000 cars	Decision on whether to renew before the expiry of the contract period
Kia Motors	2011.12.1 ~ 2014.11.30	2011.12.1~2012.11.30: 1,800 cars 2012.12.1~2013.11.30: 1,900 cars 2013.12.1~2014.11.30: 2,000 cars	Decision on extending or renewing the contract by mutual consent four months before the expiration date
Chery Automobile	2012.1.1~ 2011.12.31	2012.1.20~2012.12.31: 400 cars	-

(2) The details of the Group's major commitments with financial institutions as of December 31, 2011 are as follows:

Financial institution	Agreement amounts		Used amounts		Description
ANZ BANK	USD	12,000,000	USD	3,405,495	USANCE L/C
Indochina Bank Co., Ltd.	USD	15,000,000	USD	5,062,435	USANCE L/C
	USD	<u>27,000,000</u>	USD	<u>8,467,930</u>	

**30. TRANSACTION WITH SUBSIDIARY:**

(1) Details of transactions between the Company and subsidiary for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

<u>Subsidiary</u>	<u>Account</u>	<u>2011</u>	<u>2010</u>
KOLAO Developing Co., Ltd.	Management fee	811,720	1,035,198

(2) The outstanding balances between the Company and subsidiary as of December 31, 2011 and 2010 are as follows (Unit: USD)

<u>Subsidiary</u>	<u>Account</u>	<u>2011</u>	<u>2010</u>
KOLAO Developing Co., Ltd.	Other receivables	-	262,863

**31. RELATED-PARTY TRANSACTIONS:**

(1) The Group's related parties as of December 31, 2011, are as follows:

<u>Other related party</u>	<u>Location</u>	<u>Corporate name</u>
	Korea	Kolao Energy Co., Ltd.
"	Laos	Kolao Farm Co., Ltd.
"	Laos	KLD Computer Co., Ltd. (K-plaza)
"	Thailand	GLOVIA Co., Ltd.
"	Laos	GLOVIA Lao Co., Ltd.
"	Laos	Kolao I-Tech Construction Co., Ltd.
"	Laos	Indochina Bank Co., Ltd.

(2) Details of transactions with related parties for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

<u>Related party</u>	<u>Account</u>	<u>2011</u>	<u>2010</u>
GLOVIA Co., Ltd.	Cost of sales	25,895	184,125
"	Selling, general and administrative expenses	-	2,190
GLOVIA Lao Co., Ltd.	Cost of sales	-	1,696,716
Kolao I-Tech Construction	Cost of sales	-	17,932
"	Selling, general and administrative expenses	-	2,264
"	Acquisition of property, plant and equipment	1,431,158	2,530,515
"	Acquisition of investment property	88,842	-
Indochina Bank Co., Ltd.	Cost of sales	153,035	69,945
"	Selling, general and administrative expenses	377,052	16,426
"	Other income	36,000	-
"	Financial income	294,633	-
"	Financial expenses	135,632	187,565

(3) The outstanding balances with related parties as of December 31, 2011 and 2010, are as follows (Unit: USD):

<u>Related party</u>	<u>Account</u>	<u>2011</u>	<u>2010</u>
Indochina Bank Co., Ltd.	Cash and cash equivalents	2,020,729	15,637,897
"	Short-term financial instruments	6,000,000	4,500,000
"	Other receivables	121,633	11,925
"	Other current liabilities	266,400	-

(4) Compensation of key management personnel

Compensations of directors and other members of key management personnel for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Salaries	<u>656,881</u>	<u>584,660</u>

**32. FINANCIAL RISK MANAGEMENT:**

(1) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. In order to maintain such optimization of the debt and equity balance, the Group may adjust dividend payments, issue of shares and reduction of capital. The Group applied the same capital risk management strategy that was applied in the prior period.

The Group manages its capital based on the debt-to-equity ratio. This ratio is calculated by dividing total liabilities by capital in the consolidated statements of financial position. Debt-to-equity ratios for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Liabilities	<u>14,245,919</u>	<u>4,314,653</u>
Equity	<u>82,578,112</u>	<u>65,970,491</u>
Debt-to-equity ratio	<u>17.25%</u>	<u>6.54%</u>

(2) Financial risk management

The Group is exposed to diverse financial risks, including market risk (foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk as a result of its operating activities. The purpose of risk management of the Group is to identify the potential risks to financial performance and minimize those risks to a degree acceptable to the Group. The board of directors approved the Group's financial risk management policy to be managed by the treasury department of the Group, which collaborates with other sales departments to identify, assess and evade those financial risks. The Group applied the same financial risk management strategy that was applied in the prior period.

1) Market risk

(a) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's foreign exchange risk occurs when forecast transactions and recognized assets and liabilities are not presented in USD that is a functional currency.

Except sales of the Group's motorcycle segment that are presented in BAHT, most of sales and operating costs are presented in USD. The Group's management believes that foreign exchange risk relating to motorcycle sales in USD is limited because the management maintains flexible prices for motorcycles in BAHT considering exchange rate changes.

The Group does not have any hedging instrument to avoid foreign exchange risk, and in order to avoid transaction risk, it uses a method that allows amount received from and paid to each of currency to be the same. The Group's foreign assets and liabilities as of December 31, 2011 and 2010, are as follows:

<2011>

	BAHT	(Book value) USD	KIP	(Book value) USD	KRW	(Book value) USD
Foreign assets:						
Cash and cash equivalent	17,783,440	562,233	11,014,504,676	1,372,726	216,198,934	187,461
Trade receivables	164,799,556	5,210,229	-	-	-	-
Other receivables	2,524,000	79,798	-	-	68,016,000	58,975
Income tax refundable	-	-	1,857,658,117	231,518	-	-
	<u>185,106,996</u>	<u>5,852,260</u>	<u>12,872,162,793</u>	<u>1,604,244</u>	<u>284,214,934</u>	<u>246,436</u>
Foreign liabilities:						
Other financial liabilities	8,334,581	263,502	3,334,137,558	415,530	34,254,880	29,702
Other current liabilities	<u>352,210</u>	<u>11,135</u>	<u>5,485,781,127</u>	<u>683,687</u>	<u>5,497,740</u>	<u>4,767</u>
	<u>8,686,791</u>	<u>274,637</u>	<u>8,819,918,685</u>	<u>1,099,217</u>	<u>39,752,620</u>	<u>34,469</u>

<2010>

	BAHT	(Book value) USD	KIP	(Book value) USD	KRW	(Book value) USD
Foreign assets:						
Cash and cash equivalent	5,241,805	174,262	1,580,899,680	196,186	11,039,014	9,693
Trade receivables	160,327,802	5,330,047	-	-	-	-
Other receivables	<u>50,000</u>	<u>1,662</u>	-	-	70,516,000	58,529
	<u>165,619,607</u>	<u>5,505,971</u>	<u>1,580,899,680</u>	<u>196,186</u>	<u>81,555,014</u>	<u>68,222</u>
Foreign liabilities:						
Other financial liabilities	5,641,973	187,566	134,500,000	16,691	10,234,860	8,987
Other current liabilities	38,800	1,290	2,545,869,955	315,937	1,215,140	1,067
Income tax payable	-	-	184,373,090	22,881	-	-
	<u>5,680,773</u>	<u>188,856</u>	<u>2,864,743,045</u>	<u>355,509</u>	<u>11,450,000</u>	<u>10,054</u>

The Group measures foreign exchange risk caused by exchange rate fluctuation on a regular basis. In terms of functional currency as of December 31, 2011 and 2010, effects of a 10% change in exchange rate of each of foreign currencies on profit or loss are as follows (Unit: USD):

<2011>

	Profit (loss) before income tax	
	Increased by 10%	Decreased by 10%
BAHT (BAHT/USD)	(557,762)	557,762
KIP (KIP/USD)	(50,503)	50,503
KRW (KRW/USD)	(21,197)	21,197
	<u>(629,462)</u>	<u>629,462</u>

<2010>

	Profit (loss) before income tax	
	Increased by 10%	Decreased by 10%
BAHT (BAHT/USD)	(531,712)	531,712
KIP (KIP/USD)	15,932	(15,932)
KRW (KRW/USD)	(5,817)	5,817
	<u>(521,597)</u>	<u>521,597</u>

The above sensitivity analysis was applied to monetary assets and liabilities denominated in foreign currencies other than the functional currency at the end of the reporting period.

(b) Price risk

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. The Group was exposed to price risk of its equity securities that were classified as AFS financial assets in the consolidated statement of financial position of the prior period. The Group has invested in non-marketable equity securities by exercising the management's judgments, and the Group does not have any separate investment strategy for equity securities. As of the end of the reporting period, the Group does not have any AFS financial assets.

(c) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has financial liabilities, such as borrowings, as of the end of the reporting period, and therefore, it is exposed to interest rate risk. The Group's management has established diverse strategies to manage interest rate risk derived from refinancing and renewal of borrowings. As of the end of the reporting period, the Group does not have any liabilities that are exposed to interest rate risk.

2) Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group has adopted a policy of only dealing with reputable counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers' credit is evaluated upon their financial status, sales history and other factors. Based on this information, the Group limits the aggregate amount and receives security or certain amount of deposit from customers. The Group regularly monitors customers' credit ratings, checks on the counterparties' credit limit and readjusts deposit or aggregate amount of transactions. The Group concluded that credit risk exposure to any single counterparty is not material.

3) Liquidity risk

Liquidity risk refers to risk caused by being unable to raise enough funds to fulfill all the terms of financial contracts by its maturity date. The Group creates short-term and long-term fund management plans and analyzes and reviews actual cash outflow and its budget to correspond the maturity of financial liabilities and assets in order to manage liquidity. Management of the Group believes that financial liability may be redeemed by cash inflow arising from operating activities and financial assets.



The Group's financial liabilities by residual contractual maturity as of December 31, 2011 and 2010, are classified as follows (Unit: USD):

<2011>

	Less than 1 year	1~2 years	More than 2 years	Total
Trade payable	10,318,238	-	-	10,318,238
Other financial liabilities	1,281,005	-	-	1,281,005
	<u>11,599,243</u>	<u>-</u>	<u>-</u>	<u>11,599,243</u>

<2010>

	Less than 1 year	1~2 years	More than 2 years	Total
Trade payable	2,080,032	-	-	2,080,032
Other financial liabilities	1,020,478	-	-	1,020,478
	<u>3,100,510</u>	<u>-</u>	<u>-</u>	<u>3,100,510</u>

These amounts are the contractual undiscounted cash flows and are classified based on the earliest contractual maturity date.

The Group's financial assets by residual contractual maturity as of December 31, 2011 and 2010, are classified as follows (Unit: USD):

<2011>

	Less than 1 year	1~2 years	More than 2 years	Total
Cash and cash equivalents	4,129,266	-	-	4,129,266
Short-term financial instruments	6,000,000	-	-	6,000,000
Trade receivables (*1)	14,348,974	681,765	217,555	15,248,294
Other receivable (*1)	203,731	263,975	-	467,706
	<u>24,681,971</u>	<u>945,740</u>	<u>217,555</u>	<u>25,845,266</u>

<2010>

	Less than 1 year	1~2 years	More than 2 years	Total
Cash and cash equivalents	16,642,561	-	-	16,642,561
Short-term financial instruments	4,500,000	-	-	4,500,000
Trade receivables (*1)	17,676,550	515,909	44,515	18,236,974
Other receivable (*1)	959,745	156,334	-	1,116,079
	<u>39,778,856</u>	<u>672,243</u>	<u>44,515</u>	<u>40,495,614</u>

(\*1) The amount includes current assets and non-current assets.

These amounts are the contractual undiscounted cash flows. These information are required to understand the Group's financial risk management because the liquidity risk is managed by net assets and net liabilities.

The unused amounts of USANCE L/C commitments amount to USD 18,532,070 (see Note 29 (2)). Management of the Group believes that these amounts may be redeemed by cash inflow arising from operating activities and financial assets.

(3) Fair value estimation

The fair values of financial instruments (i.e., financial assets held for trading and financial assets AFS) traded on active markets are determined with reference to quoted market prices. The Group uses the current bid price as the quoted market price for its financial assets.

The fair values of financial instruments not traded in active markets (i.e., non-marketable AFS financial assets) are determined using a valuation technique. The Group uses various valuation techniques and makes assumptions based on current market conditions at the end of the reporting period. The Group receives information about fair values from external evaluation agencies that are trustworthy in Korea in order to use it for the Group's non-marketable AFS financial assets, payment guarantee liabilities and derivative financial instruments. The fair values of long-term liabilities are determined using market prices or dealer quotes for similar instruments. Where such prices are not available, a discounted cash flow analysis or other valuation technique is performed to measure their fair values.

The fair values of trade receivable and other receivables are approximated as their carrying value, less impairment loss. The Group estimates the fair values of financial liabilities as the present value of future contractual cash flows discounted based on current market rates applied to similar financial instruments. Meanwhile, since the carrying amount that expires within 12 months is not materially affected by the discount effect, repayment at maturity is considered to approximate its fair value.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2010, is as follows (Unit: USD):

	Beginning balance	Gain (loss)			Issue (settlement)	Transfer	Ending balance	Total gain (loss) in other comprehensive income
		Profit (loss)	Other comprehensive income (loss)	Purchase (sale)				
<2010>								
AFS financial assets	216,393	-	-	-	(216,393)	-	-	-
Derivative liability	(253,685)	-	-	-	253,685	-	-	-

**33. NON-CASH TRANSACTIONS:**

Major non-cash transactions that were not included in the consolidated statements of cash flows for the years ended December 31, 2011 and 2010, are as follows (Unit: USD):

	2011	2010
Write-off of trade receivables	9,324	112,508
Transfer to vehicles from inventories	307,870	34,690
Gain on valuation of AFS financial assets	-	105,288
Transfer to buildings from construction in progress	1,011,579	98,135
Transfer to investment property from construction in progress	888,421	-