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Web Proof Information Pack of



CHANGFENG AXLE (CHINA) COMPANY LIMITED

暢豐車橋（中國）有限公司

(Incorporated in the Cayman Islands with limited liability)

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CONTENTS

This Web Proof Information Pack contains the following information relating to Changfeng Axle (China) Company Limited extracted from an amended version of the draft document:

Warning

Contents

Summary

Definitions

Glossary of Technical Terms

Risk Factors

Forward-Looking Statements

Directors

Corporate Information

Industry Overview

PRC Regulatory Overview

History, Reorganization and Group Structure

Business

Relationship with our Controlling Shareholders

Connected Transactions

Directors, Senior Management and Employees

Financial Information

Future Plans

Appendix I Accountants’ Report

Appendix IV Property Valuation

Appendix V Summary of the Constitution of the Company and
Cayman Islands Company Law

Appendix VI Statutory and General Information

YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

SUMMARY

OVERVIEW

We are a leading independent¹ axle component provider for China’s medium duty truck and heavy duty truck aftermarket with the most diversified product offerings among independent axle component providers in China, according to the Frost & Sullivan Report. We market our axle components to our customers in the aftermarket through our sales, marketing and services network, which was the most extensive among all axle component providers in China’s MDT and HDT axle aftermarket in terms of geographic reach and market penetration.² We are also the second largest independent axle assembly provider as measured by revenue in 2009 for China’s MDT and HDT OEM market, according to the Frost & Sullivan Report. In 2009, independent axle assembly providers had approximately a 17% share of China’s MDT and HDT OEM market as measured by sales volume, according to the Frost & Sullivan Report. We believe our strong “暢豐” (Changfeng) brand associated with our high quality products and our extensive sales, marketing and services network differentiates us from our competitors. We also believe that our participation in both the aftermarket and OEM market mutually enhances our market position and branding in both markets.

Our diversified axle component product offerings include seven major categories of axle components with over 680 models. Our products cover all major axle components, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams. We also manufacture an extensive range of front, middle and rear axle assemblies and suspension assemblies in over 400 models. We use proprietary processing techniques in our production process to manufacture quality products that are characterized by their strong durability and competitive prices. Our comprehensive axle component production capabilities, vertically integrated production process and research and development abilities allow us to swiftly respond to changes in market trends and meet customer demands. According to the Frost & Sullivan Report, we had a 43% market share of the PRC MDT and HDT axle housing aftermarket based on sales volume for 2009.

We sell our axle components and a small portion of our axle assemblies in the MDT and HDT axle aftermarket primarily through our extensive sales, marketing and services network, which covers 30 provinces, municipalities and autonomous regions across China, and our revenue from the aftermarket accounted for 62.5% of our total revenue in 2009. As of December 31, 2009, this network consisted of 25 provincial-level distributors, 192 first-tier distributors and 412 second-tier distributors. As of December 31, 2009, we had 33 exclusive distributors, comprised of all 25 of our provincial-level distributors and eight of our first-tier distributors. We have continued to expand our sales, marketing and services network in 2010, including our exclusive distributors. We require our exclusive distributors to sell only our Changfeng-branded products and renovate their stores according to our Changfeng-branded design and layout requirements. This uniform branding and marketing strategy, which we pioneered in the axle aftermarket in China, helps promote brand awareness and strengthen customer confidence in our products, thereby increasing our overall sales. We are in the process of converting our existing non-exclusive first-tier distributors into exclusive first-tier distributors as we increase our production capacity and product supply. We enter into distributorship agreements with all 25 of our provincial-level distributors to

Notes:

- (1) For an explanation of “independent” versus “captive” providers, please refer to the section headed “Industry Overview — Overview of Medium Duty and Heavy Duty Truck Axle Market — Medium duty and heavy duty truck OEM and related market” in this document.
- (2) As of December 31, 2009 according to the Frost & Sullivan Report.

SUMMARY

exclusively sell, market and distribute our axle component products in each major province in which we operate. We also enter into distributorship agreements with our first-tier distributors which purchase axle component products from us or our provincial-level distributors on an exclusive or non-exclusive basis. The first-tier distributors are required to meet minimum purchase targets and to establish and maintain a certain number of second-tier distributors to increase our market penetration in their appointed geographic areas. Our nationwide marketing, management, pricing and after-sales service policy allows us to effectively manage our network, monitor our distributors and expand our sales. Our extensive network also enables us to provide prompt, nationwide after-sales services, including responses to product warranty claims, to our customers throughout China regardless of where our customers and end-users initially purchase our products. Due to the strong market demand for our axle component products, our provincial-level and first-tier distributors are willing to bear most of the marketing and promotion costs related to selling our products, and we believe they have maintained stable and long-standing relationships with us because they share our financial goals and long-term vision for our business growth. In particular, we have had low turnover among our provincial-level distributors since our inception in 2001.

Through our quality products and strong after-sales services, we have achieved the highest brand recognition among independent axle housing suppliers by service stores and truck owners according to the Frost & Sullivan Report. We also have established strong pricing power in certain of our leading products, such as axle housings, which allows us to pass on significant raw material cost increases to our aftermarket customers. We believe our strong reputation in China’s MDT and HDT axle aftermarket, combined with our extensive sales, marketing and services network, enable us to successfully promote our existing and new products and capitalize on the momentum of the vast and growing MDT and HDT axle aftermarket in China.

We primarily sell our axle assemblies directly to OEMs in China on a made-to-order basis to match our customers’ specification requirements. As the second largest independent axle assembly provider for China’s MDT and HDT OEM market, we had a 10% market share as measured by revenue in 2009 of the OEM market that was not already captured by captive axle assembly suppliers, according to the Frost & Sullivan Report. On occasion, we sell a small portion of our axle components to other axle assembly providers. Our OEM customers include OEMs such as Anhui Hualing Automobile Co., Ltd. (安徽華菱汽車股份有限公司), Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), Changsha Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司長沙汽車廠), Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Changde Motor Crane Branch (長沙中聯重工科技發展股份有限公司常德汽車起重機分公司), Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), Chengdu Wangpai Motor Group Co., Ltd. (成都王牌汽車集團股份有限公司) and Hubei Tri-Ring Special Truck Co., Ltd. (湖北三環專用汽車有限公司). We have a dedicated sales team assigned to service each of our OEM customers. These sales teams typically are located near such OEM customers’ facilities and continually market, promote and provide after-sales services for our products on-site. We believe our strong growth in the OEM market is primarily attributable to our rapid product development and customization capabilities, the high quality of our products offered at competitive prices, our excellent after-sales services, and our good relationships with OEM customers. As OEM customers increasingly turn to independent axle assembly providers who have rapid product development and customization capabilities and offer high quality products at competitive prices to supply their axle assemblies, we believe our growth in the OEM market will continue.

SUMMARY

We believe our presence in both the aftermarket and the OEM market enhances our overall growth potential. Among independent axle component providers in China, we believe that our reputation for strong product quality, the most diversified product offerings and the most extensive sales, marketing and services network in the aftermarket have enabled us to secure more business from OEM customers. We believe our position as the second largest independent axle assembly provider in the OEM market has increased the awareness of our products among end-users, which, in turn, has enabled us to widen our customer base and further strengthen our brand image in the axle aftermarket. The mutual recognition of our products by our aftermarket and OEM customers has enabled us to further increase customer awareness of our products and boost sales in both markets. We believe we are well positioned to take advantage of growth opportunities in both markets in the future.

We enjoy significant cost advantages due to our cost savings in sourcing raw materials, our vertically integrated production process and our product development capabilities. We are able to leverage our economies of scale to obtain favorable prices for our raw materials, primarily steel, while still maintaining our high product quality standards. Because of the large volume of steel needed for the production of our products, we are able to negotiate discounts with our suppliers and require them to sell us steel on the basis of weight, which is generally less expensive than cut-to-length steel. In addition, due to our production of a broad range of axle component products that use different sizes of steel in large quantities, we are able to recycle our steel waste generated during the course of production so that such waste can be further used as raw material in our production process, which maximizes our steel utilization rate. Our vertically integrated production process allows us to reduce production time due to our in-house moulding capabilities and our ability to produce axle components directly from basic raw materials as opposed to relying on third parties to provide roughcast goods for production. Our product development capabilities, which include our proprietary production techniques, enable us to improve and innovate product designs to reduce the amount of raw materials needed in production and increase our utilization rate of steel. In addition, because we self-produce over 80% of the axle components used in our axle assemblies as measured by total axle component cost, we are able to better control the quality and cost of our axle assemblies while efficiently meeting our OEM customers’ requirements for timely delivery of products.

Our product development capabilities also enable us to develop new products and improve our existing products to meet market demand. Through a combination of our in-house technical department and our strategic cooperation with various research institutions, we have developed proprietary axle production technologies and processes that have facilitated our production of new and improved axle products. In 2009, our “Economical Forging Technology and Equipment for Automobile Steering Knuckle” (汽車轉向節經濟型鍛造技術與裝備) and “Energy-saving and Material-saving Precise Forging Technology and Equipment for Automobile Front Axle Beam” (汽車前軸節能節材型精密鍛造技術與裝備) were recognized by the China Machinery Industry Federation as internationally advanced “Scientific Technology Achievements.” We believe our product development abilities have allowed us to further diversify our product offerings and meet the demands of our broad customer base.

We have three production facilities, one of which is located in the city of Kaifeng in Henan province, and two of which are located in the city of Longyan in Fujian province. As our production facilities are strategically located near our primary suppliers and OEM customers, we are able to accelerate our procurement process, reduce our product delivery time and transportation costs and improve our logistical efficiency to meet our customers’ demands. As a result of strong demand for our axle component products, there have been occasions when we had to turn down purchase orders due to constraints in our production capacity. Therefore, we are currently expanding our production capacity, especially in relation to products for which we do not have high market penetration, at our existing production facilities and constructing

SUMMARY

another production facility in the city of Nanchong in Sichuan province, which we expect to commence operations by the end of 2010. Upon completion of the Sichuan Changfeng production facility, we believe that our four production centers located in the southern, central and western parts of China will form an even broader strategic production and distribution network for our products and further strengthen our position in both the MDT and HDT aftermarket and OEM market in China. For a more detailed discussion of our production capacity and utilization rates for our production facilities, please refer to the section headed “Business — Production — Production Capacity” in this document.

We have experienced significant growth in sales revenue and profit in recent years. In 2007, 2008 and 2009, our revenue was RMB176.7 million, RMB417.8 million and RMB801.2 million, respectively, representing a CAGR of 112.9%. For the six months ended June 30, 2010, our revenue was RMB694.6 million, representing an increase of 109.7% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, revenue from our aftermarket segment was RMB84.0 million, RMB274.5 million and RMB500.7 million, respectively, representing a CAGR of 144.1%, and revenue from our OEM and related market segment was RMB92.7 million, RMB143.4 million and RMB300.4 million, respectively, representing a CAGR of 80.0%. For the six months ended June 30, 2010, revenue from our aftermarket segment was RMB450.6 million, representing an increase of 156.3% as compared to the corresponding period in 2009, and revenue from our OEM and related market segment was RMB244.0 million, representing an increase of 57.1% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, our net profit was RMB42.3 million, RMB91.6 million and RMB162.8 million, respectively, representing a CAGR of 96.2%. For the six months ended June 30, 2010, our net profit was RMB147.5 million, representing an increase of 147.1% as compared to the corresponding period in 2009.

The following table sets forth the revenue generated from the sales of our axle components and axle assemblies during the Track Record Period:

	Year ended December 31,			Six months ended June 30, 2010
	2007	2008	2009	
	RMB'000			
Axle Components	104,712	223,140	466,328	453,809
Axle Assemblies	71,956	194,690	334,823	240,757
Total	<u>176,668</u>	<u>417,830</u>	<u>801,151</u>	<u>694,566</u>

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

- We operate the most extensive sales, marketing and services network among all axle component providers in China’s MDT and HDT aftermarket;
- We are a leading independent axle component provider in China’s MDT and HDT aftermarket with the most diversified axle component offerings well recognized for high quality by our customers;

SUMMARY

- We are able to respond promptly to changes in market trends and customize our products according to our customers’ specifications;
- We achieve cost competitiveness through our vertically integrated production process, our cost savings on raw materials and our production technology;
- Our leading presence as an independent provider of axle products in both the aftermarket and OEM market enhances our cross-marketing capabilities and maximizes our sales and profit; and
- We have an experienced management team with extensive industry knowledge and operational expertise.

You can find a more detailed discussion of our principal competitive strengths in the section headed “Business — Our Competitive Strengths” in this document.

OUR STRATEGIES

We aim to strengthen our leading position in the axle industry. To that end, we have developed the following business strategies:

- Increase our production capacity and improve our production, distribution and logistics capabilities to meet robust demand for our high quality products;
- Further expand our extensive sales, marketing and services network and our market reach;
- Further expand our product offerings to become a “one-stop shop” provider of axle components for the MDT and HDT aftermarket in China;
- Improve our production efficiency, product development capabilities and quality controls to shorten our product development cycle and enhance our product quality;
- Make selective acquisitions to expand our product offerings and strengthen our product development and production capabilities; and
- Expand our international market presence.

You can find a more detailed discussion of our principal business strategies in the section headed “Business — Our Strategies” in this document.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our consolidated financial information as of and for the years ended December 31, 2007, 2008 and 2009 and our consolidated financial information as of June 30, 2010 and for the six months ended June 30, 2009 and 2010, extracted from the Accountants’ Report set out in Appendix I to this document. The summary consolidated financial information for the six months ended June 30, 2009, as extracted from our consolidated financial information for the six months ended June 30, 2009 that was reviewed by [●] in accordance with HKSRE 2410, has not been audited but reflects all material adjustments that our management believes are necessary for the fair presentation of such information under HKFRS. As these results have not been audited, reliance on such information should be restricted in light of the limited nature of the review procedures applied. Results for interim periods are not indicative of results for the full year.

The results were prepared on the basis of presentation as set out in the Accountants’ Report. The summary consolidated financial information should be read in conjunction with the consolidated financial statements set out in the Accountants’ Report, including the related notes.

Summary Consolidated Statements of Comprehensive Income Data

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000			(unaudited)	
Revenue	176,668	417,830	801,151	331,178	694,566
Cost of sales	(126,551)	(298,595)	(549,373)	(241,582)	(470,445)
Gross profit	50,117	119,235	251,778	89,596	224,121
Other income and other gains and losses	3,744	9,782	5,078	1,207	2,303
Selling and distribution expenses	(2,153)	(7,764)	(17,572)	(6,522)	(10,802)
Research and development expenditure ⁽¹⁾	(526)	(2,995)	(8,540)	–	(5,858)
Administrative expenses	(5,994)	(17,343)	(27,132)	(9,245)	(26,605)
Finance costs	(2,933)	(7,745)	(12,700)	(5,777)	(10,162)
Profit before tax	42,255	93,170	190,912	69,259	172,997
Taxation	–	(1,593)	(28,128)	(9,576)	(25,458)
Profit and total comprehensive income for the year/period . . .	42,255	91,577	162,784	59,683	147,539
Profit and total comprehensive income for the year/period attributable to:					
Owners of the Company	42,250	91,577	162,784	59,683	147,539
Non-controlling interests	5	–	–	–	–
	42,255	91,577	162,784	59,683	147,539

Note:

- (1) Primarily comprises expenses and raw materials costs to develop and produce new makes and models of our products. Please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Description of Certain Items of Statements of Comprehensive Income — Research and development expenditure” for additional information.

SUMMARY

Segment Information

Revenue

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Operating Segments:										
Aftermarket.	83,995	47.5%	274,475	65.7%	500,714	62.5%	175,835	53.1%	450,567	64.9%
OEM and related market	92,673	52.5%	143,355	34.3%	300,437	37.5%	155,343	46.9%	243,999	35.1%
Total	176,668	100.0%	417,830	100.0%	801,151	100.0%	331,178	100.0%	694,566	100.0%

Cost of Sales

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Operating Segments:										
Aftermarket.	60,276	47.6%	194,922	65.3%	332,391	60.5%	126,399	52.3%	290,881	61.8%
OEM and related market	66,275	52.4%	103,673	34.7%	216,982	39.5%	115,183	47.7%	179,564	38.2%
Total	126,551	100.0%	298,595	100.0%	549,373	100.0%	241,582	100.0%	470,445	100.0%

Gross Profit

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Operating Segments:										
Aftermarket.	23,719	28.2%	79,553	29.0%	168,323	33.6%	49,436	28.1%	159,686	35.4%
OEM and related market	26,398	28.5%	39,682	27.7%	83,455	27.8%	40,160	25.9%	64,435	26.4%
Total	50,117	28.4%	119,235	28.5%	251,778	31.4%	89,596	27.1%	224,121	32.3%

SUMMARY

Summary Consolidated Statements of Financial Position Data

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000			
NON-CURRENT ASSETS				
Property, plant and equipment	83,177	177,884	282,402	308,061
Prepayment for machinery	28,636	47,306	6,120	54,550
Prepaid lease payments	4,773	26,245	87,281	89,235
Deposits paid for acquisition of land use right	5,000	1,781	–	–
Available-for-sale investments	–	–	–	1,000
	<u>121,586</u>	<u>253,216</u>	<u>375,803</u>	<u>452,846</u>
CURRENT ASSETS				
Inventories	58,190	143,572	194,718	280,264
Trade and other receivables	89,932	150,260	379,479	466,652
Prepaid lease payments	102	545	1,762	1,858
Amounts due from directors	3,052	–	345	–
Amount due from a related party	19,186	–	–	–
Pledged bank deposits	4,643	10,015	29,867	8,665
Bank balances and cash	4,846	18,325	24,448	52,472
	<u>179,951</u>	<u>322,717</u>	<u>630,619</u>	<u>809,911</u>
CURRENT LIABILITIES				
Trade and other payables	85,146	145,341	194,351	217,534
Amount due to a director	–	232	–	–
Borrowings – due within one year	71,500	136,074	245,444	330,379
Income tax payable	–	1,493	21,073	21,759
	<u>156,646</u>	<u>283,140</u>	<u>460,868</u>	<u>569,672</u>
NET CURRENT ASSETS	<u>23,305</u>	<u>39,577</u>	<u>169,751</u>	<u>240,239</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>144,891</u>	<u>292,793</u>	<u>545,554</u>	<u>693,085</u>
NON-CURRENT LIABILITIES				
Borrowings – due after one year	15,000	10,000	20,000	20,000
Deferred tax	905	905	882	874
	<u>15,905</u>	<u>10,905</u>	<u>20,882</u>	<u>20,874</u>
TOTAL ASSETS LESS TOTAL LIABILITIES	<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>
OWNERS' EQUITY				
Share capital/paid-in capital	86,000	343	343	343
Reserves	42,986	281,545	524,329	671,868
	<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>

SUMMARY

Summary Consolidated Cash Flow Data

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
			RMB'000	(unaudited)	
Net cash (used in)/					
generated from operating					
activities	(42)	31,437	(60,420)	34,283	42,595
Net cash used in investing					
activities	(121,538)	(131,112)	(158,803)	(72,805)	(93,970)
Net cash generated from					
financing activities	117,247	113,154	225,346	62,938	79,399
Cash and cash equivalents					
at end of the year/period .	4,846	18,325	24,448	42,741	52,472

FUTURE PLANS

We aim to continue to grow and expand our Company as a leading independent axle component and assembly provider in China’s MDT and HDT axle industry. To accomplish this goal, we plan to implement several strategies, including expanding our production capacity at our existing three production facilities in Kaifeng, Henan province and Longyan, Fujian province, and constructing a fourth production facility in Nanchong, Sichuan province to increase our overall production capacity. We also plan to selectively acquire companies to expand our product lines and strengthen our product development and production capabilities. For detailed descriptions of these and our other future plans, please refer to the section headed “Business — Our Strategies.”

DIVIDEND POLICY

Subject to the Cayman Companies Law, we, through a general meeting, may declare final dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which may be authorized for this purpose in accordance with the Cayman Companies Law.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit, calculated in accordance with PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

We have not declared any dividends since the incorporation of our Company and we do not intend to declare any dividends for the year ending December 31, 2010. We currently intend to pay dividends of approximately 15% to 25% of our profits available for distribution in respect of the year ending December 31, 2011 and each year thereafter. Our Directors will declare dividends, if any, in Hong Kong dollars with

SUMMARY

respect to Shares on a per Share basis and we will pay such dividends in Hong Kong dollars. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any given year.

RISK FACTORS

There are certain risks and uncertainties relating to our business, the PRC automobile industry, business operations in the PRC and the [●]. These risk factors are described in the section headed “Risk Factors” in this document and are summarized below as follows:

Risks Relating to Our Business

- We may not be able to continue to expand into the OEM market or maintain our cost competitiveness to effectively compete in the OEM market.
- We rely on third-party distributors to sell our axle components and provide after-sales services to our end-users in the aftermarket, and any failure by them to sell, market and service our products may materially and adversely affect our business.
- Failure to market our existing key products, design and introduce new products and adapt to meet our customers’ demands in a timely manner or to maintain the high quality of our products may cause us to lose customers and market share.
- The loss of any one or more of our significant customers could have a material adverse impact on our business, financial condition and results of operations.
- We may not be able to sustain our historically high rate of growth.
- We had negative operating cash flow for the financial years 2007 and 2009 and may not be able to generate sufficient cash from our operations or obtain adequate financing to fund our capital requirements.
- Our profitability may be materially and adversely affected due to increased costs of raw materials, energy and parts and components.
- If our suppliers fail to sell their supplies to us at our desired prices, fail to deliver their supplies to us on a timely basis or fail to meet our product quality standards, our business could be materially and adversely affected.
- We may not be able to accurately forecast customer demand, which could cause us to incur costs associated with carrying excess raw materials or render us unable to fulfill customer orders.
- Our business relies heavily on production techniques and processes that are subject to continuous changes and we cannot assure you that we will be able to continue to develop our own proprietary production techniques and processes or continue to license technologies that would enable us to remain competitive in the axle market.

SUMMARY

- Production processes for some of our products are complex and dangerous.
- We rely on third-party vendors to manage logistics and transportation of our products to our OEM customers and some of our axle assembly provider customers. If our third-party vendors fail to deliver our products on a timely basis or fail to deliver our products in good condition, our business could be materially and adversely affected.
- We may be subject to warranty and recall claims, which may increase our overhead costs and adversely affect our financial condition and liquidity.
- Any failure or delay to implement our production capacity expansion plan or any restraints on our production capacity could have a material adverse impact on our business and could cause us to lose market share.
- Our measures to protect our intellectual property rights against infringement may not be adequate and we may be exposed to infringement claims. Any unauthorized use of our brand or trademark may materially and adversely affect our business.
- Our success depends on the continuing services of our senior management team and other key personnel as well as our ability to retain and recruit additional qualified personnel.
- We may not be able to retain our skilled workers or obtain additional skilled workers to meet our demands.
- Our bank indebtedness is primarily concentrated in loans serviced by two banks and any default or delay to timely repay any of these loans could have a material and adverse effect on our business and financial condition and may adversely affect our ability to obtain additional funds or financing.
- We may be required to repay a loan in advance under relevant PRC regulations.
- Our trade and notes receivables balance is impacted by our sales practices and any delay or failure by our customers to timely pay us or any extension of credit terms may result in our inability to generate sufficient cash to meet our cash flow requirements.
- The customary practice of not carrying product liability insurance in the PRC automobile parts industry may subject us to potential product liability claims.
- Our business, financial condition and results of operations may be materially and adversely affected if we fail to comply with present or future applicable environmental laws and regulations.
- We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.
- We do not possess valid title to certain properties that we occupy.
- Business interruptions due to force majeure and other causes such as work stoppages could materially and adversely affect our operations.
- We may not be able to successfully identify or acquire suitable acquisition targets or businesses.

SUMMARY

- We may not be able to successfully implement our future overseas expansion plans and strategies.
- The interests of our Controlling Shareholders may not align with those of our other Shareholders.
- We rely principally on dividends paid by our subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.
- We cannot assure you that we will declare dividends in the future.

Risks Relating to the PRC Automobile Industry

- Our results of operations tend to fluctuate with the performance of the PRC industrial sector and overall economic development in China.
- Any change in the conditions of the MDT and HDT markets in the PRC or in the PRC Government’s enforcement and enactment of regulations regulating the MDT and HDT industry may adversely affect our revenue, results of operations and demand for our products.
- We operate in a highly competitive industry and if we cannot compete successfully against our competitors, our market share and profitability may decline.
- Continuous investment in the PRC automobile components manufacturing industry may result in over-capacity, which could materially and adversely affect our sales and overall business prospects.
- Longer product life of parts may reduce demand for some of our products.
- Any recurrence of the global financial crisis and economic downturn of 2008 and 2009 could materially and adversely affect our business, financial condition, results of operation and prospects.

Risks Relating to Business Operations in the PRC

- PRC economic, political and social conditions as well as government policies could affect our business.
- Uncertainties with respect to the PRC legal system could adversely affect us.
- Restrictions on currency exchange may limit our ability to utilize our revenue and funds effectively.
- We are subject to risks presented by fluctuations in foreign currencies.
- The discontinuation of any preferential tax treatment currently available to us and the increase in the PRC enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.
- We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.

SUMMARY

- Dividends payable by us to our foreign investors and gains on the sale of our Shares by our foreign investors may become subject to withholding taxes under PRC tax laws.
- PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries.
- The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations.
- You may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.
- Any future natural disasters, acts of God, outbreak of any severe communicable disease in China or any other epidemic may adversely affect our operational results.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“affiliate(s)”	any person(s) or entity(ies) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, another person(s) or entity(ies)
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on June 28, 2010 and to become effective upon the [●] and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed thereto under the [●]
“Beijing Changfeng”	Beijing Changfeng Axle Research Institution Co., Ltd. (北京市暢豐車橋技術研究所有限公司), a limited liability company established in China on July 6, 2009 and wholly-owned by Fujian Changfeng
“Bliss Fortune”	Bliss Fortune Holdings Limited (祺福控股有限公司), a limited liability company incorporated in the BVI on November 19, 2009 and wholly-owned by Mr. Liu Man Chun
“Board of Directors” or “Board”	the board of Directors of our Company
“Business Day”	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Changfeng BVI”	Changfeng Axle Holdings Ltd., a BVI business company incorporated in BVI on May 13, 2008 and will be owned as to 50% by Ms. Wu Ching, and 50% by Mr. Wong Kwai Mo on the [●]
“Changfeng Hong Kong”	Chang Feng Holding (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on February 14, 2008 and wholly-owned by our Company
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” or “our Company”	Changfeng Axle (China) Company Limited, an exempted company incorporated in the Cayman Islands on May 21, 2008 with limited liability
“connected person(s)”	has the meaning ascribed to it under the [●]
“Controlling Shareholder(s)”	has the meaning ascribed to it under the [●] and, in the context of this document, means the controlling shareholders of our Company, being Ms. Wu Ching, Mr. Wong Kwai Mo and Changfeng BVI
“Covenantors”	Mr. Wong Kwai Mo, Ms. Wu Ching and Changfeng BVI
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Non-Competition”	a deed of non-competition dated June 28, 2010 given by our Controlling Shareholders in favor of our Company
“Director(s)”	the director(s) of our Company
“EIT”	PRC Enterprise Income Tax (中華人民共和國企業所得稅)
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) enacted on March 16, 2007 and effective on January 1, 2008
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (弗若斯特沙利文(北京)諮詢有限公司上海分公司), a global market research and consulting company
“Frost & Sullivan Report”	a detailed analysis of the PRC MDT and HDT axle components aftermarket and axle assembly OEM market prepared by Frost & Sullivan, which was commissioned by the Group
“Fujian Changfeng”	Fujian Changfeng Axle Manufacturing Co., Ltd. (福建暢豐車橋製造有限公司), formerly known as Longyan Changfeng Mechanical Factory Co., Ltd. (龍岩暢豐機械製造有限公司), a limited liability company established in China on March 5, 2001 and wholly-owned by Changfeng Hong Kong
“GDP”	gross domestic product

DEFINITIONS

“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
“HKSRE 2410”	Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollar”, “HK dollar” or “HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Third Party(ies)”	a person(s) or company(ies) who or which is or are independent of, and not connected with, any Director, chief executive or substantial shareholder of our Company or any of our subsidiaries or any of their respective associates
“Kaifeng Changfeng”	Kaifeng Changfeng Axle Co., Ltd. (開封暢豐車橋有限公司), a limited liability company established in China on April 19, 2006 and wholly-owned by Fujian Changfeng
“Latest Practicable Date”	August 27, 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
“Longyan Shengfeng”	Longyan Shengfeng Machinery Manufacturing Co., Ltd. (龍岩盛豐機械製造有限公司), a limited liability company established in China on March 29, 2006 and wholly-owned by Fujian Changfeng
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company conditionally adopted on June 28, 2010 and to become effective upon the [●] and as amended, supplemented or otherwise modified from time to time
“Ministry of Environmental Protection”	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“PBOC”	People’s Bank of China (中國人民銀行)
“PRC” or “China”	People’s Republic of China and, except where the context requires and only for the purposes of this document, references in this document to the PRC or China do not include Taiwan, Hong Kong or the Macau Special Administrative Region of the People’s Republic of China
“PRC GAAP”	accounting rules and regulations in China
“PRC Government” or “State”	central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“Reorganization”	the reorganization arrangements undertaken by our Group in preparation for the [●] which are described in more detail in the section headed “History, Reorganization and Group Structure” in this document
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of China (中華人民共和國國家外匯管理局)
“Securities and Futures Commission” or “SFC”	Securities and Futures Commission of Hong Kong
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares of US\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	share option scheme conditionally adopted by the Company on June 28, 2010, the principal terms of which are summarized in the paragraph headed “Statutory and General Information — Other Information — Share Option Scheme” in Appendix VI to this document
“Sichuan Changfeng”	Sichuan Changfeng Axle Co., Ltd. (四川暢豐車橋有限公司), a limited liability company established in China on July 16, 2009 and wholly-owned by Fujian Changfeng

DEFINITIONS

“Special Vehicle”	Longyan Changfeng Special Purpose Vehicle Co., Ltd. (龍岩暢豐專用汽車有限公司), a limited liability company established in China on June 25, 2002
“sq.m.”	square meter(s)
“Starr International”	Starr International Company Inc., the indirect parent company of Starr Investments
“Starr Investments”	Starr Investments Cayman II, Inc., a company incorporated in the Cayman Islands on June 11, 2007 and one of our Shareholders
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in the [●]
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the Securities and Futures Commission
“Track Record Period”	the period comprising the three years ended December 31, 2009 and the six months ended June 30, 2010
“United States” or “U.S.”	the United States of America, including the District of Columbia, its territories and possessions
“US\$”, “USD” or “U.S. dollar”	United States dollar, the lawful currency of the United States
“Yongding Changfeng”	Yongding Changfeng Machinery Manufacturing Factory (永定縣長豐機械製造廠), a collectively owned enterprise established on April 27, 1993

In this document, the English names of the PRC government authorities or PRC entities are translations of their Chinese names and included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

In this document, all English translations of the PRC laws and regulations are unofficial translations and provided for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“aftermarket”	the market for the sale and replacement of MDT and HDT axle components and axle assemblies after the sale of an automobile by an OEM
“axle assembly”	a system of axle components located on the chassis, which connects the frame and wheels, and on which the wheels revolve
“axle component”	a part that is required to produce an axle assembly, including but not limited to axle housing, brake drum, axle shaft, axle differential and reductor, steering knuckle and front axle beam
“axle differential and reductor”	a transmission device on the axle assembly, which is installed in the mid-section of the axle assembly to aid in the reduction of speed in an automobile
“axle housing”	the shell of the axle assembly, which determines the load of an automobile and upon which other axle components are installed
“axle shaft”	a rod which transmits power to the wheels
“bearing”	a device that is normally used in rotating parts, to support, guide and reduce friction of motion between fixed and moving parts
“brake”	a device for slowing or stopping an automobile through friction, which is controlled by the pedal in the cabin
“brake assembly”	the whole brake system; for air brakes, this includes the device which generates force to brake the automobile using high-pressure air; for oil brakes, this term includes the device which generates force to brake the automobile using hydraulic oil
“brake chamber”	a device which converts air pressure to mechanical force to activate the braking process of an automobile
“brake chamber bracket”	a component that connects the brake chamber to the rest of the brake assembly, allowing an automobile to slow or stop
“brake drum”	a hollow metal cylinder device that works with the brake to stop the automobile, which is connected to the wheels

GLOSSARY OF TECHNICAL TERMS

“casting”	a manufacturing process whereby liquid iron is poured into a mould that contains a hollow cavity of desired shape; the process is completed once the liquid iron cools and forms the desired shape and is then broken out of the mould
“cast steel”	steel containing varying amounts of carbon, manganese, phosphorus, silicon, and sulphur that is cast into a shape
“cast steel axle housing”	an axle housing that is made from cast steel through the casting process
“chassis”	a system of devices located at the bottom part of an automobile, which includes various key automobile parts such as the frame, axle assemblies, engine and wheels
“cold-stamping composite moulding technology”	a process where iron is stamped with weight in order to shape it into the desired shape while maintaining its natural temperature
“crown gear”	a gear whose cogs project at right angles to the plane of the wheel
“driving axle”	a part generally fixed at the middle and/or rear of an automobile to carry its weight; the power generated from the engine is passed through this axle onto the wheel to propel an automobile
“forging”	a process whereby iron is stamped with weight in order to bend the iron into a desired shape
“frame”	a chassis component on which various automobile parts such as axle assemblies are fixed
“front axle assembly”	an axle assembly located at the front of an automobile that is fixed to the frame and connects the front wheels to help steer an automobile
“front axle beam”	a device that bears the weight of the front half of an automobile to which the steering device and brake are fixed
“gear”	a part composed of protrusion and recess cogs, where the two cogs function together to change the speed or direction of transmitted motion
“HDT”	heavy duty trucks that are classified as trucks with a gross vehicle weight of over 14 tons
“MDT”	medium duty trucks that are classified as trucks with a gross vehicle weight between six and 14 tons

GLOSSARY OF TECHNICAL TERMS

“middle axle assembly”	an axle assembly located in the middle of an automobile which is fixed to the frame and connects the middle wheels, mainly to bear the weight of the middle part of the automobile and to propel the automobile
“moulding”	a process whereby metal is melted and cast into moulds, which then adopts the shape of the mould and forms a metal object with regular shape, size and performance
“non-driving axle”	a load-bearing axle that carries the weight of an automobile to which no gear is installed
“OEM”	original equipment manufacturers that produce entire MDTs and HDTs for sale
“pig iron”	a type of iron that is melted in a high-temperature furnace that is hard, brittle, poorer in quality and cheaper than steel
“precision machining”	the process whereby products are manufactured more precisely and have been refined
“preliminary machining”	a process whereby products are manufactured with less precision and have not been refined
“prototyping”	a process involving the design and manufacture of a preliminary unit of a product which is tested and changed, if necessary, before being manufactured commercially
“punched steel axle housing”	an axle housing that has undergone the stamping process and has been welded together
“rear axle assembly”	an axle assembly located at the rear of an automobile which is fixed to the frame and connects the rear wheels, mainly to bear the weight of the rear end of the automobile and to propel the automobile
“roughcast axle housing”	an axle housing that is made by casting molten iron and cooling it so that it forms a roughcast, which is then processed by machining
“rounded steel”	a type of steel with a round shape
“scrap steel”	steel waste created during the production of steel
“shot blasting”	a process applied to the surface of a metal to refine the product’s appearance and to make it firmer

GLOSSARY OF TECHNICAL TERMS

“stamping”	a process whereby raw material is pressed into a desired shape with great force
“steel sheet”	a type of steel that is made of iron and formed into thin and flat pieces
“steering axle”	an axle usually located at the front of an automobile, through which the vehicle can turn left or right
“steering knuckle”	a component on the steering axle, through which a wheel can pivot and an automobile can be steered
“suspension”	a component on the suspension assembly which connects the middle axle assembly and the rear axle assembly
“suspension assembly”	a system of components which is fixed to the frame through which the middle and rear parts of an automobile is stabilized when moving and contributes to an automobile’s handling and braking
“thermal treatment”	a process whereby a product is heated in a high-temperature furnace and subsequently cooled so that its features can be changed
“tire bolt”	a screw that fastens wheels onto an automobile
“trailing axle”	an axle that does not deliver power
“‘V-process’ moulding technology”	a method used in the moulding process whereby vacuum-sealed and air-tight sand moulds are used to form the shape of the finished product
“welding”	a process whereby two pieces of iron are combined into one
“welding stick”	a material used for welding
“wheel hub”	a component on the axle assembly connecting the wheels of an automobile and the axle housing

RISK FACTORS

You should carefully consider all of the information in this document, including, but not limited to, each of the risk factors described below. Our business could be materially and adversely affected by any of the risks and uncertainties described below.

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to the PRC automobile industry; (iii) risks relating to business operations in the PRC.

RISKS RELATING TO OUR BUSINESS

We may not be able to continue to expand into the OEM market or maintain our cost competitiveness to effectively compete in the OEM market.

Our competitors in the OEM market include captive axle assembly suppliers controlled by OEMs, as well as other independent axle assembly providers. Captive suppliers are either subsidiaries or affiliates of an OEM, with the primary purpose of supplying such OEMs with particular automobile components. We are not a captive supplier to any OEM. Product development and research and development capabilities, production scale, value for money and after-sales services are the primary factors that our OEM customers consider when making purchasing decisions. Traditionally, OEMs have relied on their captive suppliers to supply many of their axle assembly products. As a result of competitive pressures in the OEM market and other industry trends, OEMs are developing strategies to reduce costs while at the same time increasing capacity. As captive axle assembly suppliers face limited production capacity and may not be price competitive, OEMs have increasingly turned to independent axle assembly providers, such as us, to provide their axle assemblies. If the captive suppliers are able to increase production capacity or increase their price competitiveness to meet the OEM customers’ demands or we are no longer able to offer products at competitive prices or otherwise cannot compete with these captive suppliers or other independent axle assembly providers, our OEM customers may decide to purchase their axle products from these suppliers instead of us. In the event that this occurs, we may lose our existing OEM customers or fail to develop new OEM customers. Therefore, we may not be able to continue expanding into the OEM market and our business and growth plans could be materially and adversely affected.

Additionally, our OEM customers typically have purchasing power over their automobile parts suppliers, including us. In the past, some of our large OEM customers have required us to follow their standard credit terms. We generally follow the industry practice of granting up to 90 to 120 days’ credit to our OEM customers. However, we cannot assure you that we will be able to effectively continue to implement our credit policy, and we may be required by our OEM customers to extend credit for longer periods in the future. Further, we cannot assure you that such customers will not seek to impose on us other contractual terms, including pricing terms that are unfavorable to us. We also cannot assure you that we will be able to avoid or offset future customer price reductions through improved operating efficiencies, new production processes, sourcing alternatives or other cost reduction initiatives. In the event that we are unable to avoid or offset future customer price reductions, we may not be able to maintain our cost competitiveness and our profitability will be materially and adversely affected.

RISK FACTORS

We rely on third-party distributors to sell our axle components and provide after-sales services to our end-users in the aftermarket, and any failure by them to sell, market and service our products may materially and adversely affect our business.

We sell a substantial majority of our axle components to end-users through our third-party provincial-level, first-tier and second-tier distributors. We do not typically have direct contact with our end-users except through our distributors. Our distributors directly sell and market to the repair centers and end-users in the PRC MDT and HDT aftermarket as well as provide after-sales services to our end-users.

We normally enter into one-year agreements with our provincial-level and first-tier distributors. Our agreements with these third parties specify a wide range of requirements that these counterparties are subject to, including, among other things, the geographic distribution and service areas, purchase targets, suggested sales prices, marketing efforts, and service standards. We rely on these contractual obligations to impose our sales and service policies on our provincial-level and first-tier distributors. Although our provincial-level and first-tier distributors are contractually obligated to pay us specified damages in the event of a breach, we cannot assure you that we will be able to recover our investments in these distributors, such as time spent in developing and training them, should they fail to perform or breach the agreements. Since we do not enter into agreements with our second-tier distributors, we rely on our first-tier distributors to manage and impose our sales and service policies on our second-tier distributors.

Although we have dedicated sales personnel to manage our distributors, there can be no assurance that our distributors will remain committed to or comply with our sales policies, purchase targets, or service standards. If our distributors fail to effectively sell, market and service our axle components, or if we fail to effectively manage them, our sales, market share, financial condition and results of operations may be adversely affected. For further information, please refer to the section headed “Business — Sales, Marketing and Services — Sales, Marketing and Services Network for Aftermarket” in this document.

We also highly rely on our relationships with our distributors. If they should decide not to market or sell our products or adhere to our policies, we cannot assure you that we will be able to find new distributors that are qualified or are able to meet our needs. As the growth of our business is, in part, dependent upon our distributors, if we are unable to develop additional distributors or retain existing distributors, our business could be materially and adversely affected.

Failure to market our existing key products, design and introduce new products and adapt to meet our customers’ demands in a timely manner or to maintain the high quality of our products may cause us to lose customers and market share.

We believe that consumer preferences and market demand for MDTs and HDTs vary due to factors such as culture, level of industrial development, environment, climate, topography, local economy, local development policies as well as local rules and regulations. In order to service our diverse markets, we have developed and engineered numerous axle products, including axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles, front axle beams, axle assemblies and suspension assemblies. If we fail to design or market new makes and models of our axle components and adapt to meet our customers’ demands in a timely manner, our customer base, market share, profitability and financial condition will be materially and adversely affected.

RISK FACTORS

We believe that our position as a leading independent provider of axle products is directly attributable to the high quality of our products and our reputation in the marketplace as a provider of high quality products. If we fail to maintain the high quality of our products, our customers may lose confidence in our products and discontinue purchasing our products. As a result, the market demand for any of our existing axle components and axle assemblies may decline and our business, financial condition and results of operations may be adversely affected.

The loss of any one or more of our significant customers could have a material adverse impact on our business, financial condition and results of operations.

Some of our customers individually accounted for a significant portion of our consolidated revenue for the Track Record Period. During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, sales to our five largest customers accounted for 47.0%, 29.8%, 27.6% and 26.0% of our total revenue, respectively, and sales to our largest customer accounted for 19.2%, 9.2%, 9.5% and 10.2% of our total revenue, respectively. The loss of any of one or more of our customers that historically have individually accounted for a significant portion of our consolidated revenue could have a material adverse impact on our business and on our operating results.

We may not be able to sustain our historically high rate of growth.

Our revenue from sales of our axle products was RMB176.7 million, RMB417.8 million and RMB801.2 million in 2007, 2008, and 2009, respectively, which represented a CAGR of 112.9%. For the six months ended June 30, 2010, our revenue was RMB694.6 million, representing an increase of 109.7% as compared to the corresponding period in 2009. We anticipate a significant expansion of our business operations in tandem with the growth of the PRC economy over the next few years. However, our growth will depend on a number of factors, many of which are beyond our control, including the macroeconomic policies of the PRC Government, the level of competition in the PRC axle and MDT and HDT markets, changes in market demand, and prices of raw materials and components. We cannot assure you that we will be able to maintain our historically high rate of growth and, to the extent that we experience any significant decrease in demand for our products or increase in competition, our growth, financial condition and results of operations may be materially and adversely affected. You should not rely on our past growth rate as an indication of our growth in the future.

We had negative operating cash flow for the financial years 2007 and 2009 and may not be able to generate sufficient cash from our operations or obtain adequate financing to fund our capital requirements.

We have relied on cash generated from our operations, bank and other borrowings and contributions from our shareholders to fund our capital requirements. After the [●], we expect to continue to derive funding from cash generated from our operations and bank and other borrowings. For the years ended December 31, 2007 and 2009, our net cash outflow from operating activities was RMB42,000 and RMB60.4 million, respectively. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our net cash outflow from investing activities was RMB121.5 million, RMB131.1 million, RMB158.8 million and RMB94.0 million, respectively, which was primarily related to purchases or prepayments of property, plant and equipment, machinery and the acquisition of land use rights necessary to expand our business and production capacity. For further information, please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Cash Flows” in this

RISK FACTORS

document. Our ability to obtain adequate funding and generate sufficient cash from our operating activities to finance our operations and expansion plans depends on a number of factors, including but not limited to general economic and capital market conditions, credit availability from banks and other lenders, investor confidence, the performance of our operations, inventory purchases and the ability of our customers to settle their payments. In particular, as of December 31, 2009, our trade receivables were approximately RMB317.0 million, of which RMB25.7 million had not been settled as of March 31, 2010. We typically grant a credit period of 90 to 120 days to our customers. As a result, we are subject to certain risks relating to our customer settlements. If the ability of our customers to settle their payments is significantly limited or affected for any reason, our business, cash flows, results of operations and financial position may be materially and adversely affected.

We cannot assure you that we will not experience negative operating cash flow in the future or that external financing means will be available to mitigate any such negative operating cash flow on terms that are satisfactory or commercially acceptable to us, or at all. As of July 31, 2010, our aggregate borrowings were RMB362.5 million. For further information on our indebtedness, please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness, Capital Commitments, Contractual Obligations and Contingent Liabilities” in this document. Without sufficient liquidity, we will be forced to curtail our operations and expansion plans. Disruption, uncertainty or volatility in the capital markets or credit markets may significantly limit our access to capital for our operations and expansion, decrease our profitability and reduce our financial flexibility. Furthermore, the level of our indebtedness will affect the amount of our cash flow from operating activities that we must allocate to fund repayments of our debt, which may reduce the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes. As a result, our business, financial position and results of operations may be materially and adversely affected.

Our profitability may be materially and adversely affected due to increased costs of raw materials, energy and parts and components.

Most of our raw materials and energy and some of our parts and components, are procured from third-party suppliers. We are exposed to fluctuations in the prices of raw materials, primarily steel, as well as the price of energy used in our production process, which are subject to global as well as regional supply and demand conditions. In particular, the price of steel has fluctuated significantly in the past few years. For example, the China domestic hot rolled coil steel average spot price increased by 45.4% from June 2007 to June 2008, and then decreased by 41.3% from June 2008 to June 2009. From June 2009 to December 2009, the domestic hot rolled coil steel average spot price increased by 7.1%. We expect the volatility of steel prices to continue. We do not currently engage in any transactions to hedge against risks relating to fluctuations in steel prices. During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our cost of raw materials accounted for 86.1%, 83.3%, 85.7% and 83.0% of the total cost of sales, respectively, and our cost of steel purchases accounted for 65.0%, 67.0%, 68.0% and 66.2% of the total cost of sales, respectively. Fluctuations in the cost of steel during the Track Record Period did not significantly impact our gross profit margin as we were generally able to pass on the cost increases to our customers. However, because steel plays a prominent role in the manufacture of our products, any steel price increase may add to our cost of production and we may not be able to pass such increased costs to our customers due in part to the increased competition in the PRC axle market. As a result, we may experience lower profit margins, which will materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

If our suppliers fail to sell their supplies to us at our desired prices, fail to deliver their supplies to us on a timely basis or fail to meet our product quality standards, our business could be materially and adversely affected.

Our production depends on an adequate supply of quality raw materials and components delivered on a timely basis. Our principal raw materials and components which we do not self-produce are sourced from domestic suppliers. For example, we purchased supplies which primarily consisted of additional roughcast axle housings from Yongding Changfeng which accounted for 15.0%, 8.4%, 10.3% and 5.6% of the total cost of goods purchased, respectively, during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, purchases from our five largest suppliers together accounted for 40.8%, 40.8%, 37.1% and 37.2% of the total cost of goods purchased, respectively, and purchases from our largest supplier accounted for 15.0%, 14.1%, 16.3% and 11.1% of the total cost of goods purchased, respectively. While we have other suppliers from which we can purchase these raw materials and axle components, we cannot assure you that we will be able to obtain these raw materials and components from them on the same terms as our primary suppliers.

Suppliers may from time to time extend lead-time, limit supplies or increase prices due to capacity constraints or other factors. We have entered into long-term strategic cooperation agreements with some of our suppliers as well as monthly and yearly agreements with other suppliers. We have in the past experienced delays by our suppliers in the delivery of some of their raw materials and components during peak seasons. If any supplier fails to meet our requirements with respect to the time, quantity, quality and prices we require, whether due to causes within or beyond its control, and we cannot locate a replacement in a timely manner, it could jeopardize or cause a delay in our product delivery, result in our products being unacceptable to our customers and/or otherwise materially and adversely affect our business operations. We cannot assure you that the suppliers of these raw materials and components will be able or willing to meet our future needs on a timely basis. A significant disruption in the supply of these raw materials and axle components could have a material adverse effect on our results of operations and financial condition.

We may not be able to accurately forecast customer demand, which could cause us to incur costs associated with carrying excess raw materials or render us unable to fulfill customer orders.

For our aftermarket operating segment, we rely on internal forecasts to estimate the type and volume of raw materials to be purchased and the timing of such purchases as well as the type and volume of products to be manufactured and the timing of such production. If our internal forecasts do not accurately reflect customer demand, the level of which may vary for a variety of reasons beyond our control, we may incur costs associated with carrying excess raw materials or encounter shortages in raw materials available to fill customer orders. For example, we increased our raw materials from RMB32.5 million as of December 31, 2008 to RMB75.5 million as of December 31, 2009 in preparation for increased sales activities during 2009 and further increased our raw materials to RMB141.3 million as of June 30, 2010 in anticipation of sales activities for the next quarter and due to the purchase of additional steel for future production. Not all of our forecasts in the past have been consistent with actual market conditions. We may experience fluctuations in customer orders and if sales and shipments do not occur as we expected, expenses and inventory levels could be disproportionately high as compared to sales generated in the same period, and our business and results of operations could be materially and adversely affected.

RISK FACTORS

Our business relies heavily on production techniques and processes that are subject to continuous changes and we cannot assure you that we will be able to continue to develop our own proprietary production techniques and processes or continue to license technologies that would enable us to remain competitive in the axle market.

Our competitiveness in the axle market depends in large part on our ability to develop new production processes and techniques so that we are able to continuously tailor our products to meet our customers’ needs. These techniques and processes are subject to continuous evolution and changes. We have developed proprietary cost-saving techniques and processes employed in our production.

We also license recently developed technologies in our field that we consider important to the research, development or production of our products. For example, we license non-exclusive and exclusive technology from the Beijing Research Institute of Mechanical and Electrical Technology (the “**Beijing Research Institute**”), for our front axle beam forging process. If the Beijing Research Institute licenses its non-exclusive front axle beam forging technologies to any of our competitors, our business could be materially and adversely affected.

Both our proprietary techniques and processes as well as our licensed technologies may be critical to the continuous improvement of our product quality and performance, as well as our ability to gain market share through launching new products. If we are unable to develop our own proprietary techniques and processes, or acquire or license technologies that would enable us to remain competitive in the axle market, our business, results of operations and financial condition could be materially and adversely affected.

Production processes for some of our products are complex and dangerous.

The production processes for some of our products are complex. They require technically advanced and costly equipment and involve risks, including breakdown, failure or substandard performance of equipment, improper installation, maintenance or operation of equipment, accidents and other environmental hazards. In April 2010, there was one accidental death involving an employee during the operation of our equipment during production. Please refer to the section headed “Business — Health and Safety Compliance” in this document for additional information. We cannot assure you that the safety measures we have in place for our operations will be sufficient to mitigate or reduce industrial accidents. We also cannot assure you that casualties or accidents will not occur in the future or that our insurance coverage would be sufficient to cover costs associated with major accidents. The occurrence of material operational problems, major accidents or deaths or the existence of major environmental hazards may materially and adversely affect our financial condition and results of operations.

We rely on third-party vendors to manage logistics and transportation of our products to our OEM customers and some of our axle assembly provider customers. If our third party vendors fail to deliver our products on a timely basis or fail to deliver our products in good condition, our business could be materially and adversely affected.

We rely on third-party vendors to manage all of the logistics and transportation of our products to our OEM customers and some of our axle assembly provider customers because we do not have our own capabilities to transport our products. Title to our products do not pass to such customers until after such third-party vendors have delivered our products to them, and therefore, we bear the risk of loss until the products have been delivered. If our third-party vendors fail to timely deliver our products within the

RISK FACTORS

timeframe expected by such customers, regardless of the reason, or if our third-party vendors fail to deliver our products in good condition, our OEM customers and certain axle assembly provider customers may reject such products and, may become dissatisfied with us and decide not to purchase additional products from us, and our business could be materially and adversely affected.

We may be subject to warranty and recall claims, which may increase our overhead costs and adversely affect our financial condition and liquidity.

We face an inherent business risk of exposure to warranty claims if our products actually or allegedly fail to perform as expected. We cannot assure you that we will not incur significant costs to defend any such claims. In addition, if any of our designed products are or are alleged to be defective, we may be required to participate in a recall of such products. We cannot assure you that the future costs associated with providing product warranties and/or bearing the cost of repair or replacement of our products will not have a material adverse effect on our financial condition and liquidity.



Any failure or delay to implement our production capacity expansion plan or any restraints on our production capacity could have a material adverse impact on our business and could cause us to lose market share.

The PRC axle industry has experienced significant growth in recent years as a result of improved macroeconomic conditions in China and other factors which have driven the growth of the MDT and HDT markets. The market demand from both the automobile components aftermarket and the OEM market for our products has also increased substantially. We intend to increase our production capacity in anticipation of future growth of the PRC MDT and HDT markets and increased demand for axle products, and to further increase our market share. Currently we are planning to increase our production capacity for our cast steel and punched steel axle housings, front axle beams, brake drums, axle shafts, axle differentials and reducers, steering knuckles and axle assemblies at our existing production facilities. Our new production facility in Nanchong, Sichuan province is currently under construction and is expected to commence operations by the end of 2010. For further details of our production capacity expansion plans, please refer to the section headed “Business — Production — Production Capacity” in this document.

Our production capacity expansion plans described above involve the installation of new equipment and assembly of new production lines. We cannot assure you that our production capacity expansion plans will be successfully implemented without delay or at all. Nor can we assure you that our expanded production capacity will meet our anticipated production objectives. Any failure or delay in implementing any part of these plans may result in a lack of production capacity to fill our customer orders, which could cause us to lose customers and market share and, in turn, materially and adversely affect our financial condition and profitability.

As a result of high demand, our production facilities operate at full or close-to-full capacity during peak seasons, and we have encountered periods during which we had to reject additional purchase orders that exceeded our production capacity. We cannot assure you that we will not experience such restraints on our production capacity in the future. Any future production capacity restraints may result in our inability to accept additional customer orders, and could result in harm to our relationships with our customers and our reputation. This, in turn, could materially and adversely affect our financial condition and profitability, and cause us to lose market share.

Our measures to protect our intellectual property rights against infringement may not be adequate and we may be exposed to infringement claims. Any unauthorized use of our brand or trademark may materially and adversely affect our business.

We have registered our trademark, , in 17 class types with the PRC trademark authorities for a period of ten years. We are in the process of applying for registration of our trademark, , in three class

RISK FACTORS

types and our trademark, 暢丰, in two class types with the PRC trademark authorities. We have also registered our trademarks with the Hong Kong trademark authorities. We have also registered a number of patents in China relating to the products we produce and sell and are in the process of applying for registration of additional patents in China. We believe our brand, trademarks and other intellectual property rights are important to our success. For further information, please refer to the sections headed “Business — Research and Development” and “Business — Intellectual Property” in this document. Existing laws in China offer limited protection for our intellectual property rights. We rely upon a combination of patent, copyright and trademark laws, trade secrets, confidentiality policies, non-disclosure and other contractual arrangements to protect our intellectual property rights. We cannot assure you that we will be able to detect unauthorized use or take appropriate, adequate and timely actions to enforce our intellectual property rights. Consequently, we may not be able to effectively prevent unauthorized use of our trademarks and patents in other countries where such trademarks and patents are not registered. Historically, China has not protected intellectual property rights to the same extent as the United States or Hong Kong. The measures we take to protect our intellectual property rights may not be adequate and monitoring and preventing unauthorized use is difficult. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be materially and adversely affected.

Our competitors may have independently developed technologies or designs of axle products that contain similarities to ours, and these competitors may have applied for registration of patents or other intellectual property rights in respect of their technologies or designs. In addition, as we procure various components from third-party suppliers, we may be involved in infringement claims against the suppliers from whom we purchase components that are alleged to infringe certain intellectual property rights. There may be patents held by others of which we are unaware that contain claims that our products or operations may infringe. Any involvement in intellectual property rights infringement litigation may result in substantial costs, reputational damage and diversion of resources and management attention. If we are barred from using certain material trademarks, technologies, designs or other intellectual properties and fail to develop non-infringing substitutes or replacements or to obtain licenses to such intellectual properties, our business operations may be interrupted and, should that continue, our results of operations and financial condition could be materially and adversely affected.

Our success depends on the continuing services of our senior management team and other key personnel as well as our ability to retain and recruit additional qualified personnel.

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, the Chairman of our Board of Directors, Mr. Wong Kwai Mo and one of our executive Directors, Ms. Wu Ching, each of whom has over 15 years of experience in the PRC axle industry. Most members of our senior management team have over ten years of experience in the PRC automotive parts and axle industry. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. As competition in the PRC for senior management and key personnel experienced in the axle industry is intense and the pool of qualified candidates is limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or begins a competing business, we may lose customers, key professionals or staff members. Furthermore, as our business continues to grow, we will need to recruit and train additional qualified personnel. If we fail to attract and retain qualified personnel, our business and prospects may be materially and adversely affected.

RISK FACTORS

We may not be able to retain our skilled workers or obtain additional skilled workers to meet our demands.

A large part of our operations is labor intensive, and we require a large number of skilled production workers. Due to the skills involved in operating some of our equipment, it normally takes a few months’ training for a new hire to attain the necessary skills. In addition, skilled workers are not easily replaceable. Occasionally in the past, we have experienced constraints in this regard. We may have to offer better salaries and other benefits to hire and retain sufficient skilled production workers to sustain or grow our business operations, which will increase our costs and may adversely affect our results of operations. For example, we provide seniority-based bonuses and prioritize labor allocation on the basis of seniority during the off-peak season.

Our bank indebtedness is primarily concentrated in loans serviced by two banks and any default or delay to timely repay any of these loans could have a material and adverse effect on our business and financial condition and may adversely affect our ability to obtain additional funds or financing.

Our bank indebtedness is primarily concentrated in short-term loans serviced by Bank of China and China Construction Bank. As of December 31, 2007, 2008 and 2009 and as of June 30, 2010, 78.8%, 91.3%, 87.8% and 87.0%, respectively, of our total bank indebtedness were loans from these two banks. Due to the high concentration of our loans with these two banks, any default or delay by us to timely repay any of these loans as they become due could have a material and adverse impact on our financing credit. These loan agreements also contain cross-default provisions that provide that in the event of a default by us under any loan agreement serviced by that bank or under any other loan agreement regardless of the servicing bank, we would be considered to be in default under these loan agreements. Further, pursuant to share pledge agreements entered into by our subsidiary Fujian Changfeng to secure a loan facility obtained from the Bank of China, in the event of default on the loans, the Bank of China may enforce its right to all of the equity interest in our three subsidiaries, namely Longyan Shengfeng, Kaifeng Changfeng and Sichuan Changfeng, which are pledged to the bank and may dispose of such interest by sale or auction, and also has the right to treat a default under other loan agreements with the Bank of China as a default under such share pledge agreements. Please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness, Capital Commitments, Contractual Obligations and Contingent Liabilities — Borrowings” in this document for additional information. If we fail to repay our debts under any of our loan agreements, we cannot assure you that our creditors will not invoke these cross-default provisions under our loan agreements and treat us as being in default under the terms of our loan agreements with them.

In the event of default or delay in payment, Bank of China or China Construction Bank could choose, under the terms of our agreements, to impose additional interest as a penalty, accelerate the payment due date or decline to extend additional credit to us, which may have a material and adverse effect on our business and financial condition and may adversely affect our ability to obtain additional funds in the future. While historically we have been able to obtain financing to meet our operational needs and to fund our production expansion plans, we cannot assure you that we will continue to be able to obtain financing in the future. If we are unable to obtain additional financing, we may be unable to meet our operational costs and future production expansion plans, if any. Additionally, most of our loans are short-term loans guaranteed by our property, plant and equipment and other assets. If we are unable to timely pay off our loans, our normal business operations may be disrupted. Our ability to obtain future loans will also be adversely affected. In the event we cannot generate sufficient funds from our operations or cannot raise sufficient funds to meet our capital investment needs on terms acceptable to us or at all, our product development, expansion plans, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We may be required to repay a loan in advance under relevant PRC regulations.

We have entered into a loan agreement with Yongding County State Owned Asset Investment and Management Co., Ltd. (永定縣國有資產投資經營有限公司) ("**Yongding Investment and Management Co.**"), which is an Independent Third Party, pursuant to which we have borrowed an aggregate amount of RMB20.0 million at a monthly interest rate of 0.45%, subject to adjustment based on the benchmark interest rate applicable to the same lending term published by the PBOC. The loan is due by December 31, 2011. The governing authority of Yongding Investment and Management Co., which advanced the loan to us in order to support the development of local enterprises such as our subsidiary, Longyan Shengfeng, and to promote local economic development, is the People's Government of Yongding County. Under Articles 61 and 73 of the PRC General Principles of Loans (貸款通則) promulgated by the PBOC on June 28, 1996, the PBOC may impose a penalty on lenders that do not have a financial business operation permit and are not legally authorized to act as lenders. Such penalties may amount to five times the income to be generated from the unauthorized lending. Yongding Investment and Management Co. does not have a financial business operation permit and is therefore not legally authorized to act as a lender. Our PRC legal advisor has advised us that in the event that the PBOC determines that the loan agreement violates relevant regulations, we will be required to immediately repay the principal amount under such loan. However, our PRC legal advisor has advised us that there are no additional associated penalties for us under PRC law. We do not intend to repay the loan prior to the [●]. In the event that we are required to repay such loan prior to its due date, our business and financial condition could be adversely affected.

Our trade and notes receivables balance is impacted by our sales practices and any delay or failure by our customers to timely pay us or any extension of credit terms may result in our inability to generate sufficient cash to meet our cash flow requirements.

We generally provide our customers with up to 90 to 120 days' credit which has a significant impact on our trade and notes receivables balances. For example, our trade and notes receivables balances were RMB55.1 million, RMB110.0 million, RMB353.1 million and RMB427.2 million, respectively, as of December 31, 2007, 2008, and 2009 and as of June 30, 2010. The turnover days of our trade and notes receivables were 78.6 days, 72.2 days, 105.5 days and 102.8 days, respectively, for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. We will need to maintain significant amounts of working capital in order to continue to increase our sales to our customers. If our customers fail to timely pay us, or we are unable to timely collect the amounts owed to us from our customers, or our customers require us to extend credit to them beyond 90 to 120 days, we may be unable to generate sufficient cash flow to meet our cash flow requirements, which, in turn, could materially and adversely affect our business and financial condition.

The customary practice of not carrying product liability insurance in the PRC automobile parts industry may subject us to potential product liability claims.

Although we have obtained general insurance coverage for damage to our existing properties, inventories and facilities, we do not carry any product liability insurance for the products we manufacture or sell. Under current PRC laws, we are not required to maintain product liability insurance and we believe it is customary in the automobile parts industry in China not to maintain product liability insurance. However, we are subject to the risk of exposure to product liability, warranty and product recall claims in the event that our products are defective or result in any property damage, personal injury or death.

RISK FACTORS

Although, as of the Latest Practicable Date, we had not received any material complaint or claim, nor were we subject to any material legal or administrative proceedings, in relation to the quality of our products, there can be no assurance that material claims in relation to product liability will not be brought against us in the future. Any such claims will divert our management attention as well as financial resources from our operations. If we fail in defending against such claims, we could be subject to significant damage awards as well as reputational losses. Any material product defect could require us to publicly undertake service actions or recall campaigns. Any of these actions or campaigns in the future could require us to incur considerable expense in correcting problems and could influence purchasing decisions of our customers, thereby negatively affecting our future sales and profitability. In addition, parts or components of sub-standard quality from third-party suppliers may expose us to additional product liabilities and increase our costs associated with warranty claims made by customers and end-users of our products. Also, our insurance coverage for damage to our existing properties, inventories and facilities may be inadequate to compensate our losses in connection with a specific loss event. To the extent that our insurance coverage is inadequate to compensate us for a specific loss, such inadequacy could have a material adverse effect on our operating results.

Our business, financial condition and results of operations may be materially and adversely affected if we fail to comply with present or future applicable environmental laws and regulations.

Under relevant PRC environmental laws and regulations, the construction, expansion and operation of our production facilities are subject to certain environmental permits and other relevant PRC Government environmental approvals. The failure to obtain such permits or approvals may subject us to fines and penalties imposed by the relevant PRC Government and we may be required to suspend the use of production facilities or vacate the premises. In addition, as our production processes generate noise, waste water and other industrial wastes, we are also required to comply with national and local environmental regulations applicable to us. If we fail to comply with present or future applicable environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use or to restrict adequately the discharge of hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations, which would have a material adverse effect on our business and results of operations.

In addition, we cannot assure you that future changes in PRC environmental protection laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. As China is experiencing substantial issues with environmental pollution, it is likely that the national, provincial and local governmental agencies will adopt regulations setting forth stricter pollution controls and requirements. Any such regulation applicable to the manufacture of our products may increase our operating costs.

We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.

In accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing accumulation fund. We provide social insurance and contribute to the housing accumulation fund for our employees in accordance with the policies and practices of local government authorities' interpretation and implementation of relevant PRC labor laws and regulations. Our PRC legal advisor has advised us that such policies and practices may be less stringent than PRC labor laws and regulations. We have obtained written confirmations from relevant

RISK FACTORS

local government authorities confirming that our social insurance and housing accumulation fund contributions comply with the PRC laws and regulations and the policies of the local government authorities. We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.

We do not possess valid title to certain properties that we occupy.

We have not yet obtained the land use rights for approximately 4,266 square meters of the site area occupied by our Kaifeng Changfeng production facility, nor have we obtained the building title certificate with an aggregate gross floor area of approximately 4,266 square meters located on such land, although we intend to do so by the end of 2010. This area consists of a portion of a workshop used for cutting steel and warehousing steel and roughcast goods, which we believe is not crucial to the Group’s operations because there is adequate vacant land with proper land use rights located at our Kaifeng Changfeng production facility to build a replacement workshop. We believe it would take approximately three months to build a replacement workshop and estimate the cost of building such a workshop to be approximately RMB5.0 million. If we fail to obtain the land use rights certificate for this area of land and the building title certificate, we may be required to return such area of land to the relevant governmental authorities, the building located on such land may be confiscated, and we may be subject to fines. We may be required to relocate our business operations conducted on the property temporarily or permanently, and such relocation could materially and adversely affect our financial condition and results of operations.

Business interruptions due to force majeure and other causes such as work stoppages could materially and adversely affect our operations.

We manufacture and sell our products and provide after-sales services through our sales, marketing and services network of distributors as well as through our own sales employees at various facilities across China. Our operations are vulnerable to interruptions by war, riot, fire, earthquake, epidemic, power blackout and other events beyond our control. In recent years, some regions in China have experienced power shutdowns during peak seasons. An interruption in production or service capabilities at any of our facilities, even for a short duration, could result in decrease in production capacity for a sustained period and delays in deliveries of our products, which would reduce our sales and earnings for the affected period. Any significant delay in deliveries to our customers could lead to increased sales returns or cancellations of orders and cause loss of customers and revenue. In addition to these business interruptions, our business is also subject to potential interruptions due to the expansion of our production capacity. Please refer to the section headed “Business — Production — Production Capacity” in this document for additional details. Our contemplated production capacity expansion may not be completed as smoothly as we plan, and any failure or delay to implement our production capacity expansion plan could have a material adverse impact on our business and could cause us to lose market share. Any losses due to business interruptions could have a material adverse effect on our prospects, profitability and results of operations.

Additionally, a work stoppage at one or more of our production facilities could have material adverse effects on our business. If a significant customer were to experience a work stoppage, that customer could halt or limit purchases of our products, which could result in shutting down the related production facilities producing such products. Also, a significant disruption in the supply of a key component or raw material due to a work stoppage at one of our suppliers could result in the shutting down of our production facilities, which could have a material adverse effect on our business.

RISK FACTORS

We may not be able to successfully identify or acquire suitable acquisition targets or businesses.

We seek to acquire companies in businesses complementary to our own in order to expand our product portfolio, including companies with products that we currently do not produce and companies with additional technological capabilities. While we continually seek acquisition opportunities, we do not have any finalized understanding, commitments or agreements with respect to any acquisitions [●] and we cannot assure you that we will be able to identify suitable acquisition targets in the near future.

Even if we do identify suitable acquisition targets, we cannot assure you that we will be able to complete the acquisitions successfully. Completion of proposed acquisitions is dependent upon the completion of due diligence and the negotiation of definitive agreements, and there can be no assurance that any proposed acquisition will be consummated on commercially reasonable terms, or at all. Since our management has flexibility in determining the criteria for and selecting acquisition candidates, and in the [●] we receive in the [●], you may not have recourse against us in the event you disagree with their judgment in selecting acquisition candidates. If any of the acquisitions do not generate revenue, profit or cash flow at anticipated levels, our business, financial condition, results of operations and growth prospects may be adversely affected.

We may not be able to successfully implement our future overseas expansion plans and strategies.

We sell a small portion of our products to overseas markets and plan to further increase overseas sales of our products. Please refer to the section headed “Business — Our Strategies” in this document for additional details. However, we may not be able to continue to expand into international markets successfully due to various factors, including the following:

- our lack of experience and lack of substantial presence in the overseas market may make it difficult for us to effectively expand into foreign markets successfully;
- there may not be a steady increase in our overseas orders or we may not be able to predict market trends and customer needs to offer an appropriate product mix to overseas markets;
- these overseas markets have been affected by the global financial crisis and to the extent that they continue to be affected by the global financial crisis, there may not be sufficient demand for our products; and
- current and future trade and economic sanctions among countries may cause difficulties in exporting our products to certain countries as a result.

If we are unable to successfully implement our future overseas expansion plans, we may have to adjust our overall business strategies and, as a result, our business plans and growth prospects may be materially and adversely affected.

RISK FACTORS

The interests of our Controlling Shareholders may not align with those of our other Shareholders.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In cases where their interests are aligned and they vote together, our Controlling Shareholders will also have the power to prevent or cause a change in control. Without the consent of one or all of the Controlling Shareholders, we may be prevented from entering into transactions that could be beneficial to us. In addition, such Controlling Shareholders are also the controlling shareholders of, or may otherwise participate in the management of, certain other companies that are outside of our Group. We cannot assure you that they will act in our interests or that conflicts of interest will be resolved in our favor.

We rely principally on dividends paid by our subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name, the instruments governing the debt may restrict payment of dividends or other distributions on its equity interest from such subsidiary to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. In addition, our PRC subsidiaries are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year for their statutory reserves in accordance with the requirements of relevant PRC laws and provisions in their respective articles of association. These reserves are not distributable as cash dividends. As a result, our PRC subsidiaries may be restricted in their ability to transfer any portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends or other payments to us could materially and adversely limit our ability to conduct and expand our business, make investments or acquisitions that could be beneficial to our businesses, or pay dividends or otherwise provide funds.

Under the new EIT Law, which was issued on March 16, 2007 and became effective on January 1, 2008, and the Implementation Rules for the EIT Law (中華人民共和國企業所得稅法實施條例) issued by the State Council, which became effective simultaneously with the EIT Law, a PRC enterprise income tax at the rate of 10% is applicable to dividends paid by PRC enterprises to their respective foreign parent companies which are “non-resident enterprises” (enterprises that do not have an establishment or place of business in China, or that have an establishment or place of business in China but the relevant income is not effectively connected with such establishment or place of business), subject to the application of any relevant tax treaty that China has entered into with such foreign parent companies’ jurisdiction of incorporation which provides for a lower withholding tax rate. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Hong Kong Tax Treaty**”), a company incorporated in Hong Kong will be subject to withholding tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in the PRC subsidiary at the time of the distribution, or at

RISK FACTORS

a rate of 10% if it holds less than a 25% interest in the PRC subsidiary. If we or our non-PRC subsidiaries are considered “non-resident enterprises,” any dividend that we or any such non-PRC subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at a rate of 5% or 10%, as the case may be. In order to enjoy a favourable tax rate on dividends under relevant tax treaties, an approval from the competent tax authorities needs to be obtained by the “non-resident enterprise.” In addition, the PRC State Administration of Taxation (中國國家稅務總局) promulgated a tax notice on October 27, 2009 (“**Circular 601**”), which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. It is possible however, that under Circular 601 Changfeng Hong Kong would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty. Furthermore, if we are deemed a PRC “resident enterprise” under the EIT Law, we may be subject to PRC taxation on our worldwide income; please refer to the section headed “Risk Factors — Risks Relating to Business Operations in China — We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.”

We cannot assure you that we will declare dividends in the future.

We cannot assure you that we will pay dividends in the future. Our Board is responsible for determining and declaring the amount of dividends. Whether dividends will be distributed and the amount to be distributed will depend on various factors, including without limitation, the results of our operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our Directors may determine as important. For further details of our dividend policy, please refer to the section headed “Financial Information — Dividend Policy” in this document. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Cayman Island laws, including the approval of our Shareholders or our Directors. In addition, upon the [●], we may only pay dividends out of distributable reserves as determined under PRC GAAP or HKFRS, whichever is lower. As a result, we may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, including in respect of periods that our financial statements indicate that our operations have been profitable.

RISKS RELATING TO THE PRC AUTOMOBILE INDUSTRY

Our results of operations tend to fluctuate with the performance of the PRC industrial sector and overall economic development in China.

Our business depends significantly on the performance of the PRC economy and tends to fluctuate in response to cycles in the overall economic environment. Strong economic growth in the PRC and the accompanying increase in fixed assets investment, improved road transportation infrastructure and enhancement of consumer purchasing power have contributed to the growth of our industry in recent years. Fuel costs, cargo transportation prices and availability of suitable road networks also impact our industry. If China is unable to sustain the growth rate of its general economy or in any major sectors served by MDTs and HDTs, such as infrastructure, construction, container transport, logistics, mining, steel and chemical industries, this could lead to a decrease in the demand for our products. Historically, the PRC government has adopted and may continue to adopt various measures to slow down the growth rate of the PRC economy and to curb the perceived over-development of certain industrial sectors served by MDTs

RISK FACTORS

and HDTs, such as the real estate and construction industries. These measures may slow down economic growth or restrain the growth of the targeted industries to a greater degree than the PRC Government intends, causing the demand for axle components and axle assemblies for MDTs and HDTs to decline.

Any change in the conditions of the MDT and HDT markets in the PRC or in the PRC Government’s enforcement and enactment of regulations regulating the MDT and HDT industry may adversely affect our revenue, results of operations and demand for our products.

Our business depends substantially on the conditions of the MDT and HDT markets in the PRC. These markets are not expected to sustain the same level of growth that they have experienced in the past. Furthermore, global fuel prices have fluctuated significantly in the past few years and are expected to fluctuate in the future. Rising global oil prices and increasing demand for fuel in recent history has led to fuel shortages in certain parts of China. Any fuel shortages and rising fuel costs could slow down the growth of the PRC MDT and HDT markets. In addition, fuel shortages and rising fuel prices may serve as a disincentive for potential buyers to purchase MDTs and HDTs and therefore materially and adversely affect the demand for our products. Any change in the conditions of the MDT and HDT markets in the PRC may adversely affect our revenue, results of operations and demand for our products.

Additionally, the high frequency of replacement for MDT and HDT axle components is particularly attributable to the practice of pervasive overloading in the PRC. The PRC Government has in recent years adopted a number of national and local regulatory measures regulating vehicle overloading and initiated a series of campaigns to crack down on vehicle overloading. On June 1, 2005, the State Council issued a circular to strengthen the crack-down and penalty measures against vehicle overloading. Based on the foregoing national rules, the central and local PRC governments subsequently promulgated various national and local implementation rules and regulations, imposing various requirements and administrative penalties on the carriers and drivers that are found to be in violation. The punishment for overloading includes monetary fines, seizure of vehicles, and revocation of transportation business licenses, although regional implementation rules as well as local government enforcement against overloading may vary from place to place and may be updated from time to time. However, these rules and regulations against overloading generally have been poorly and inconsistently enforced. Increased stringency by the PRC Government in regulating and enforcing its vehicle overloading policies could lead to a lower demand for repair of automobile components for MDTs and HDTs, and particularly, for our products. The PRC Government has also, in recent years, implemented a number of policies and measures to regulate the MDT and HDT industry such as the Automobile Industry Development Policy (汽車產業發展政策) and the Restructuring and Rejuvenation Program of the Automobile Industry (汽車產業調整和振興規劃) which set forth guidelines regarding the automobile components and parts industries as further described under the section headed “PRC Regulatory Overview” in this document. The uncertainties resulting from the implementation of these policies and measures may impact potential buyers’ decisions in purchasing MDTs and HDTs, and, in turn, also adversely affect demand for our products.

RISK FACTORS

We operate in a highly competitive industry and if we cannot compete successfully against our competitors, our market share and profitability may decline.

We operate in a competitive market that can be primarily divided into two categories: (i) the MDT and HDT axle aftermarket and (ii) the MDT and HDT OEM and related market. Our axle component products compete on the basis of product quality, value for money, after-sales services, brand, product line breadth and depth, and distribution capabilities. Our axle assembly products compete on the basis of product development and research and development capabilities, production scale, value for money and after-sales services.

Our competitors may have competitive advantages over us, such as greater financial or other resources, stronger production and distribution capabilities, more advanced technologies and equipment, better product quality, higher brand recognition, and a wider customer base. To compete successfully, we may need to incur additional capital expenditures to improve product quality, enhance product performance and strengthen our existing sales network through further marketing and promotional efforts. However, we cannot assure you that our strategies will be effective nor can we predict what measures our competitors may take. If we cannot maintain our competitiveness in the market, we may lose our market share, experience slower growth of our customer base, or suffer a reduction in our profit margin, any of which could materially and adversely affect our business, results of operations and financial condition.

Continuous investment in the PRC automobile components manufacturing industry may result in over-capacity, which could materially and adversely affect our sales and overall business prospects.

Driven by the continued growth of the PRC economy, increased investment in fixed assets and improved road transportation infrastructure, the demand for MDTs and HDTs in China, and, in turn, automobile components, has been increasing in recent years. As a result, the major PRC manufacturers of automobile components have been expanding their production capacities to capitalize on this demand, and are expected to continue to expand. However, the anticipated sales growth in the PRC automobile components market may not grow at the same rate as the production capacity expansion rate, which may result in over-capacity in the PRC automobile components industry. Any over-capacity in the PRC automobile components industries could affect the sales of our products and force us to reduce our selling prices and therefore lower our profit margins.

Longer product life of parts may reduce demand for some of our products.

The average useful life of original automobile parts has been steadily increasing in recent years due to improved quality and innovations in products and technologies. Longer product lives allow vehicle owners to replace parts of their vehicles less often. Additional increases in the average useful life of automobile components are likely to materially and adversely affect the demand for our aftermarket products. At the same time, additional improvements in the quality of our products may also lead to a lower frequency of replacement and may materially and adversely affect the demand for our products in the aftermarket. Additionally, if our OEM customers should offer longer or extended warranty coverage for their MDTs and HDTs, the demand by end-users for our axle components in the aftermarket will likely decline.

RISK FACTORS

Any recurrence of the global financial crisis and economic downturn of 2008 and 2009 could materially and adversely affect our business, financial condition, results of operation and prospects.

The global market and economic conditions in 2008 and 2009 were unprecedented and led most major economies into recession during this time period. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook negatively affected business and consumer confidence and contributed to market volatility of unprecedented levels. These events also led to a slowdown in the PRC economy, with the PRC’s gross domestic product growth rate decreasing by 0.5% during 2009 as compared with the prior year period. Due to the global financial crisis, we experienced a decrease in our sales activities at the end of 2008. Although the global and PRC economies have shown signs of recovery, any recurrence of the global financial crisis may cause a further decline in the PRC economy, which may materially and adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO BUSINESS OPERATIONS IN THE PRC

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to the risks of future economic, political and legal developments in China.

PRC economic, political and social conditions as well as government policies could affect our business.

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- its structure;
- the level of government involvement;
- the level of development;
- its growth rate;
- government policies relating to foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be adversely affected by the PRC Government’s control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to us.

RISK FACTORS

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past two decades the PRC Government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

Uncertainties with respect to the PRC legal system could adversely affect us.

Our core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has significantly promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, due to the fact that these laws and regulations have not been fully developed and are relatively new, and because of the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws and regulations involves a degree of uncertainty. Some of these laws and regulations may be changed without being immediately published or may be amended with retroactive effect. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, that may have a retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All of these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under permits, and other statutory and contractual rights and interests.

Restrictions on currency exchange may limit our ability to utilize our revenue and funds effectively.

Substantially all of our revenue and operating expenses are denominated in Renminbi, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under our current structure, our source of funds will primarily consist of dividend payments from our PRC subsidiaries and other payments. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other amounts to us, or to satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

RISK FACTORS

Currently, our PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to us, without the prior approval of SAFE by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account items are still subject to limitations and require approval from SAFE, this could affect our PRC subsidiaries’ ability to make overseas investment or to obtain required foreign exchange through equity financing or debt, including by means of capital contributions or loans from us. We also cannot assure you that the PRC Government will not impose further restrictions on the convertibility between the Renminbi and other currencies.

We are subject to risks presented by fluctuations in foreign currencies.

Most of our revenue is generated from our PRC operating subsidiaries and denominated in Renminbi. Please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosure about Market Risks — Foreign exchange fluctuations” in this document. From 1994 until 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set by the PBOC, which were set daily based on the previous day’s PRC interbank foreign exchange market rate and then current exchange rates on the world financial markets. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. Since then and up to the Latest Practicable Date, the Renminbi has appreciated by approximately 19.3% against the U.S. dollar. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert foreign currencies into Renminbi for such purposes. Any significant depreciation in the exchange rates of the Renminbi against the U.S. dollar or the Hong Kong dollar could adversely affect the value of our dividends, which would be funded by Renminbi but paid in Hong Kong dollars.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

The discontinuation of any preferential tax treatment currently available to us and the increase in the PRC enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.

The rate of income tax applicable to companies in China varies depending on the availability of preferential tax treatment based on their industry or location. Under the previous provisions of the Foreign Invested Enterprises and Foreign Enterprises Income Tax Law (外商投資企業和外國企業所得稅法) promulgated on April 9, 1991, the standard statutory national income tax rate and local income tax rate for foreign invested enterprises (“FIEs”), was 30% and 3%, respectively. If an FIE is a manufacturing enterprise with any operating term of more than ten years, it is exempted from PRC enterprise income tax for two years starting from the first profit-making year and receives a 50% reduction in the enterprise income tax for the three years thereafter.

RISK FACTORS

The new EIT Law and its implementation rules, effective on January 1, 2008, imposed a single uniform income tax rate of 25% on all PRC enterprises, including FIEs, and eliminated or modified most of the tax exemptions, reductions and preferential treatment under the previous tax laws and regulations. On December 26, 2007, the State Council issued the Circular to Implement the Transition Preferential Policies for the Enterprise Income Tax (關於實施企業所得稅過渡優惠政策的通知) (the “**Transition Preferential Policy Circular**”), which became effective upon promulgation. Pursuant to the Transition Preferential Policy Circular, those PRC enterprises established prior to March 16, 2007, which were granted enterprise income tax holidays pursuant to prior tax laws or regulations before January 1, 2008, may continue to enjoy the existing tax holidays until their expiration. However, if a company established prior to March 16, 2007 failed to make its first profit before January 1, 2008, the tax holiday is deemed to commence from January 1, 2008. One of our subsidiaries, Fujian Changfeng, is a manufacturing FIE which was established before March 16, 2007 and was granted a two-year exemption from enterprise income tax from the first profitable year of operation and a 50% reduction from enterprise income tax for the subsequent three years. Fujian Changfeng enjoyed a full enterprise income tax exemption in 2007 and 2008. It was subject to an enterprise income tax rate of 12.5% in 2009, and will continue to enjoy such reduced rate in 2010 and 2011. Without any further tax exemptions, Fujian Changfeng will be subject to the uniform enterprise income tax rate of 25% from 2012 onwards. The reduction or elimination of the preferential tax treatment during the above grandfathered period or the imposition of additional taxes on us or our subsidiaries in China may significantly increase our income tax expense and materially reduce our net income.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.

Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the implementation rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation (中國國家稅務總局) promulgated a circular to clarify the criteria to determine whether the “de facto management bodies” are located within the PRC for enterprises incorporated overseas with controlling shareholders being PRC enterprises. However, it remains unclear how the PRC tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by individual permanent residents of Hong Kong, as in our case.

The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. As substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our worldwide income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions. Please also refer to the section headed “Risk Factors — Risks Relating to Business Operation in the PRC — Dividends payable by us to our foreign investors and gains on the sale of our Shares by our foreign investors may become subject to withholding taxes under PRC tax laws.”

RISK FACTORS

Dividends payable by us to our foreign investors and gains on the sale of our Shares by our foreign investors may become subject to withholding taxes under PRC tax laws.

Under the EIT Law and its implementation rules, a PRC income tax at the rate of 10% is applicable to dividends payable to investors (excluding individual natural persons) that are “non-resident enterprises” (that do not have an establishment or place of business in China, or that have an establishment or place of business in China but the relevant income is not effectively connected with such establishment or place of business) to the extent such dividends are sourced within China. A lower withholding tax rate may apply if such “non-resident enterprise” is incorporated in a jurisdiction that has entered into an income tax treaty or agreement with China that allows a lower withholding tax. Similarly, any gain realized on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are considered a PRC “resident enterprise,” it is unclear whether the dividends we pay with respect to our Shares, or the gain our foreign shareholders (excluding individual natural persons) may realize from the transfer of the Shares, would be treated as income derived from sources within China and thus be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign shareholders (excluding individual natural persons), or if they are required to pay PRC income tax on the transfer of the Shares, the value of their investment in our Shares may be materially adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to approval by relevant governmental authorities in China and other requirements under relevant PRC regulations. We may also decide to finance our PRC subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, depending on the amount of total investment and the type of business in which a foreign-invested enterprise is engaged, capital contributions to foreign-invested enterprises in China are subject to approval by the MOFCOM or its local branches. We may not obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our PRC subsidiaries. If we fail to receive such approvals, our ability to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations.

The PRC Labor Contract Law (中華人民共和國勞動合同法) became effective and was implemented on January 1, 2008. This new labor law and its implementing rules have reinforced the protection for employees, who, under the existing PRC Labor Law, have certain rights, such as the right to have written labor contracts, the right to enter into labor contracts with no fixed terms under specific circumstances, the right to receive overtime wages when working overtime and the right to terminate or alter terms in the labor contracts. In addition, the Labor Contract Law and its implementing rules have amended the existing PRC Labor Law and added some clauses that could increase labor costs. As the Labor Contract Law and its implementing rules are relatively new, there remains significant uncertainty as to their interpretation and application by the PRC Government. In the event that we decide to significantly reduce our workforce, the Labor Contract Law and its implementing rules could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could lead to a negative impact on our business and results of operations.

RISK FACTORS

You may experience difficulty in effecting service of legal process and enforcing judgments against us and our management.

We are incorporated in the Cayman Islands. The majority of our assets are located in the PRC. The majority of our directors and officers reside in the PRC. As a result, it may not be possible for investors to effect service of process within the United States, the United Kingdom, Japan, Singapore or other countries upon such persons or us or to enforce against them or us judgments obtained in such courts.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and Singapore, among others. As a result, recognition and enforcement in the PRC of judgments of a court in any of the jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Any future natural disasters, acts of God, outbreak of any severe communicable disease in China or any other epidemic may adversely affect our operational results.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. For instance, in the first half of 2003, certain Asian countries, including China, encountered an outbreak of severe acute respiratory syndrome (“SARS”), a highly contagious form of a typical pneumonia. In May and June of 2008, a serious earthquake and its successive aftershocks hit Sichuan province, resulting in tremendous loss of lives and injury and destruction of assets in the region. In April 2009, a human swine influenza also known as Influenza A (H1N1), broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. Past occurrences of natural disasters, acts of God and epidemics, depending on their scale, have caused different degrees of damages to the national and local economies in the PRC. If in the future any of our employees or our customers in our facilities are suspected of having contracted SARS, H5N1 avian flu or H1N1 human swine flu, or any other epidemic or any of our facilities are identified as a possible source of spreading such epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and therefore suffer a temporary suspension of our operations. Any quarantine or suspension of our operations will affect our operational results. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as H5N1 avian flu or H1N1 human swine flu, especially in the cities where we have operations, may result in material disruptions to the production schedule for our products and to our sales and distribution processes, and result in delays in meeting our customers’ demands, which, in turn, would adversely affect our financial condition and results of operations.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the axle industry in the PRC;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the PRC; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “going forward,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “propose,” “seek,” “should,” “will,” “would” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this document, including statements regarding our strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statement.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, factors disclosed under the section headed “Risk Factors” and elsewhere in this document and the following:

- demand for our products;
- changes in the general operating environment of the axle industry;
- general economic, market and business conditions in China and globally;
- the effects of competition on the demand for and the prices of our products;
- the development of new products affecting our current and future business;

FORWARD-LOOKING STATEMENTS

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

DIRECTORS

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Wong Kwai Mo (王桂模)	Flat E, 37/F Block 2, Marbella 23 On Chun Street Ma On Shan New Territories Hong Kong	Hong Kong, Chinese
Wu Ching (胡靜)	Flat E, 37/F Block 2, Marbella 23 On Chun Street Ma On Shan New Territories Hong Kong	Hong Kong, Chinese
Lai Fengcai (賴鳳彩) (with effect from the [●])	Room 102, Block 19 Yujin Yuan West Road of Zhong Cheng Bei Huan Xinluo District Longyan, Fujian Province China	Chinese
<i>Non-executive Director</i>		
Dong Ying, Dorothy (董穎)	Room 11A No. 6 Lane 1328 West Yan'an Road Shanghai China	Canadian
<i>Independent non-executive Directors</i>		
Zhu Weizhou (朱偉洲) (with effect from the [●])	No. 166 Yugu Road Xihu District Hangzhou, Zhejiang Province China	Chinese
Li Xiuqing (李秀清) (with effect from the [●])	Room 701 No. 18, Lane 177 Tianshan Road Changning District Shanghai China	Chinese
Chong Ching Hei (莊清喜) (with effect from the [●])	Flat C, 9/F Tower 33, the Oasis South Horizons Hong Kong	Hong Kong, Chinese

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters in the PRC	Longyan Economic Zone Longyan, Fujian Province China
Principal place of business in Hong Kong	Suite 2008, 20th Floor Jardine House 1 Connaught Place Central Hong Kong
Company’s website	www.changfengaxle.com.hk <i>(information contained in this website does not form part of this document)</i>
Company secretary	Chan Wai Shing <i>FCCA HKICPA</i>
Audit committee (with effect from the [●])	Chong Ching Hei <i>(Chairman)</i> Zhu Weizhou Li Xiuqing
Remuneration committee (with effect from the [●])	Zhu Weizhou <i>(Chairman)</i> Chong Ching Hei Wong Kwai Mo
Nomination committee (with effect from the [●])	Li Xiuqing <i>(Chairperson)</i> Wong Kwai Mo Zhu Weizhou
Principal bankers	Bank of China Longyan Branch 1 Longchuan North Road Longyan City Fujian, China China Construction Bank Longyan 1st Sub-branch No. 7 Lianxing Zhong Road Xinluo District Longyan City Fujian, China Industrial and Commercial Bank of China Yongding County Sub-branch No. 108, Nanmen Street Fengcheng Town Yongding County Longyan City Fujian, China

INDUSTRY OVERVIEW

Certain facts, statistics and data presented in this section and elsewhere in this document are derived from various publications issued by PRC Government entities and other third parties. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

SOURCE OF INFORMATION

In connection with the [●], we have engaged Frost & Sullivan to conduct a detailed analysis of the MDT and HDT axle market in China. Frost & Sullivan is an independent global market research and consulting company which was founded in 1961 and is based in the United States. We have included certain information from the Frost & Sullivan Report in this document because we believe such information facilitates an understanding of this market for potential investors. The Frost & Sullivan Report was prepared based on economic and demographic data from the PRC Government, industry reports and publications, company websites and the proprietary databases of Frost & Sullivan. In the course of research, Frost & Sullivan conducted numerous interviews with OEMs, agents and distributors of axle products, end-users of MDTs and HDTs, automobile repair centers, industry experts, our customers, and other market observers. Frost & Sullivan has assumed that the information and data which it relied on are complete and accurate. The information contained herein has been obtained from sources Frost & Sullivan believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We paid a total of RMB464,440 in fees for the preparation of the Frost & Sullivan Report.

In preparation of the Frost & Sullivan Report, Frost & Sullivan arrived at certain conclusions pertaining to the Group’s market share and position, diversity of product offerings, distribution channels and brand awareness within the PRC MDT and HDT axle market using the following methodologies:

- The Group’s position as a leading independent axle component provider in the PRC MDT and HDT aftermarket was determined as a result of a multi-factor analysis which considered the Group’s capabilities along the value chain; its position as the largest independent axle housing provider as measured by sales volume with the highest brand recognition in the aftermarket; its diversified axle component product offerings compared with other independent axle component providers; and its extensive sales, marketing and services network compared with other axle component providers.
- The Group’s leading position among independent axle component providers in terms of diversity of axle component product offerings was determined through a combination of research of company websites, interviews with sales departments of other independent axle component providers, field interviews and data from Frost & Sullivan’s own research database.

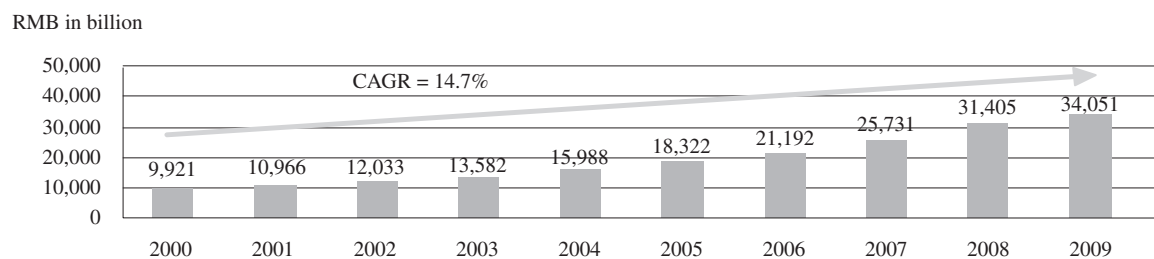
INDUSTRY OVERVIEW

- The Group’s leading position among independent axle component providers in terms of geographic reach and market penetration of its sales, marketing and services network in China was determined through a combination of research of company websites, interviews with industry experts, distributors and sales departments of other axle component providers and data from Frost & Sullivan’s own research database. In conducting its research, Frost & Sullivan excluded companies which did not have a significant aftermarket business, had inadequate production scale and/or did not offer multiple axle component products.
- The Group’s highest brand recognition among independent axle housing suppliers by service stores and truck owners was determined after conducting multiple phone and online surveys of automobile repair centers and truck end-users across 22 provinces in China.

OVERVIEW OF THE PRC ECONOMY AND INFRASTRUCTURE DEVELOPMENT

The PRC economy has experienced sustained and rapid growth over the last two decades. The PRC economy has grown at a CAGR of 14.7% from 2000 to 2009. In October 2007, the PRC Government announced its goal of quadrupling China’s per capita GDP by 2020 from its level in 2000. The following chart illustrates China’s nominal GDP and compound annual growth rates from 2000 to 2009.

China’s Nominal GDP and Compound Annual Growth Rates

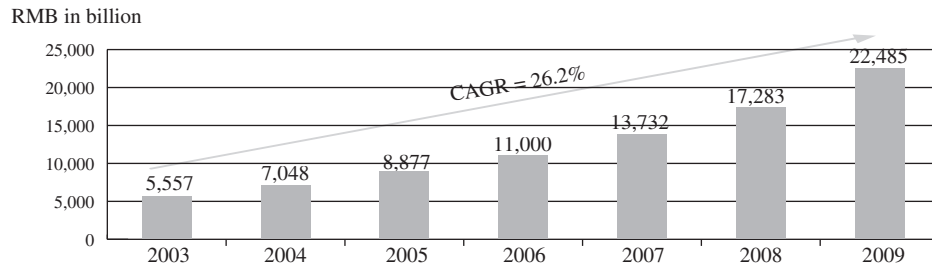


Source: National Bureau of Statistics of China

Consistent and rapid growth in fixed asset investment is an important driver behind China’s continued growth and has led to significant infrastructure development such as road and highway construction. The following chart illustrates China’s fixed asset investments and corresponding compound annual growth rates from 2003 to 2009.

INDUSTRY OVERVIEW

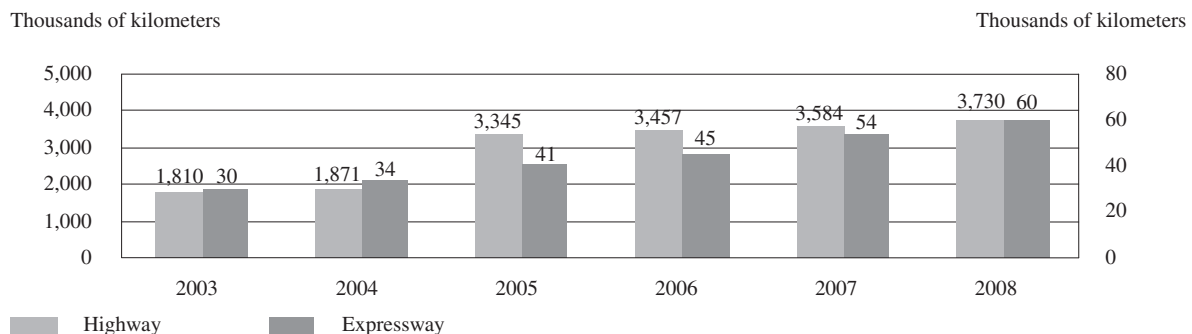
China’s Fixed Asset Investments and Compound Annual Growth Rates



Source: National Bureau of Statistics of China

Since China’s adoption of economic reforms in 1978, rapid economic growth and significant infrastructure spending has led to the rapid expansion of modern highways and expressways in China. By the end of 2008, China had approximately 3.73 million kilometers of highways (including paved roads that meet PRC national or provincial standards), which includes approximately 60,302 kilometers of expressways connecting major cities. The length of highways and expressways in China more than doubled from 2003 to 2008. In addition to the expansion of highways and expressways, according to the PRC Government’s Planning for Technical Development of Highway and Waterway Transportation set forth in the National Eleventh Five-Year Plan, China expects to construct or re-construct 1.2 million kilometers of roads in rural areas by the end of 2010. The following chart illustrates the length of China’s highways and expressways for 2003 to 2008.

Length of China’s Highways and Expressways



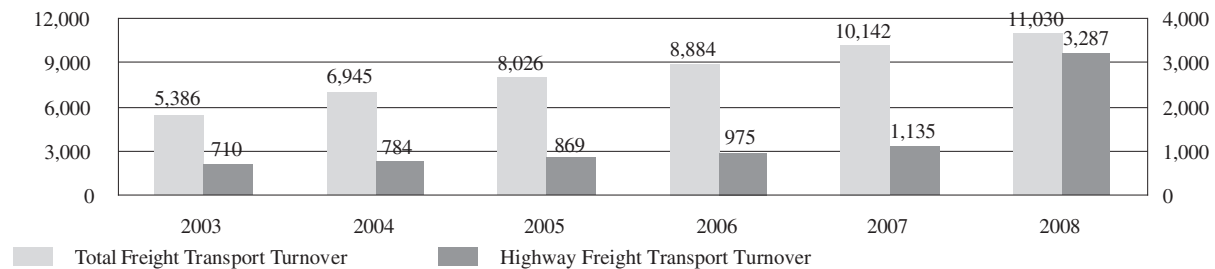
Source: 2008 China Statistical Yearbook, National Bureau of Statistics of China

The continuing efforts by the PRC government to expand its road transportation network has, in turn, increased the demand for both long-haul logistics and transportation vehicles such as MDTs and HDTs. Increasing domestic commerce as well as import and export activities in China have also increased freight transportation on highways and expressways in China, which has increasingly driven the demand for MDTs and HDTs. The following chart illustrates the total freight and highway freight transport turnover in China for 2003 to 2008.

INDUSTRY OVERVIEW

China’s Total Freight and Highway Freight Transport Turnover

Billion tonne kilometers



Source: 2008 China Statistical Yearbook, National Bureau of Statistics of China

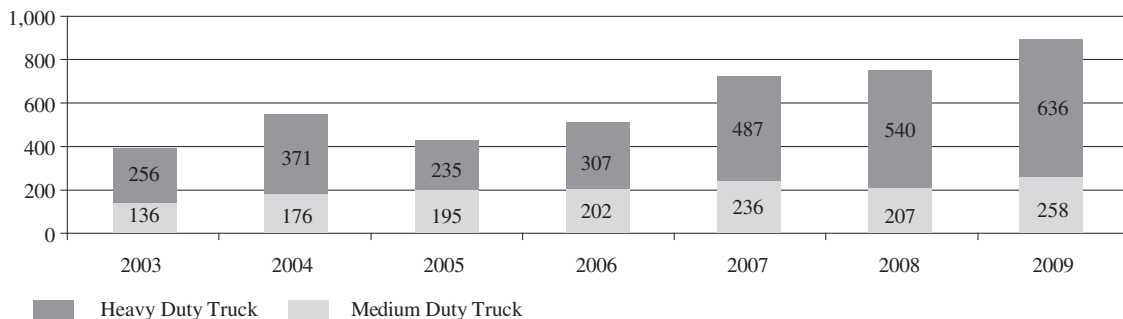
In addition, in November 2008, the Chinese government announced an estimated RMB4 trillion (approximately US\$586 billion) stimulus package, for boosting China’s overall economy, in the midst of the global financial crisis. According to NDRC, approximately RMB1.5 trillion (approximately US\$220 billion), or approximately 37.5% of the entire stimulus package, is aimed at bolstering infrastructure investment, which is the largest area of investment targeted by the stimulus package. We believe that the PRC government’s infrastructure investment will further increase growth momentum for road transportation.

OVERVIEW OF MEDIUM DUTY AND HEAVY DUTY TRUCK MARKET IN CHINA

With the development of the economy, transportation infrastructure and the increased volume of trade, the demand for MDTs and HDTs has also increased over the years. In 2009, China ranked first in terms of global unit sales volume of MDTs and HDTs. The following diagram shows the unit sales volume of MDTs and HDTs in China from 2003 to 2009.

Unit Sales Volume of Medium Duty Trucks and Heavy Duty Trucks in China

Thousands of units

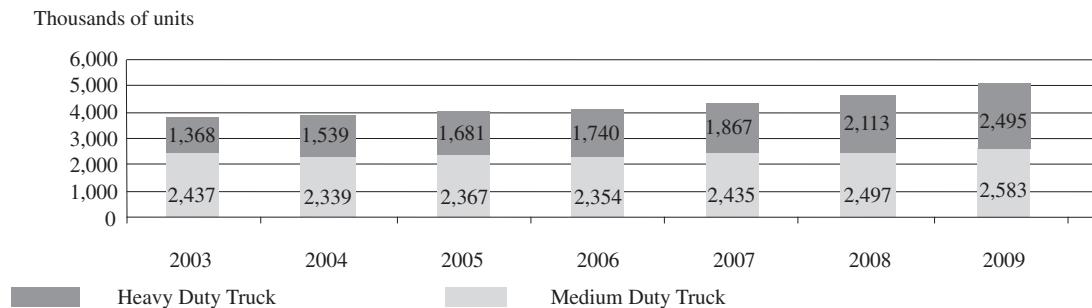


Source: China Automotive Industry Yearbook, China Association of Automobile Manufacturers

INDUSTRY OVERVIEW

Sales of MDTs and HDTs in China have experienced a CAGR of 11% and 16%, respectively, from 2003 to 2009. Such sales have added to the significantly larger number of MDTs and HDTs already in use in China. For 2009, there were approximately 5.1 million MDTs and HDTs in use in China as compared to approximately 0.9 million MDTs and HDTs sold in China. The following diagram shows the volume of MDTs and HDTs in use in China from 2003 to 2009.

Number of Medium Duty Trucks and Heavy Duty Trucks in Use in China



Source: China Automotive Industry Yearbook, Frost & Sullivan analysis

OVERVIEW OF MEDIUM DUTY AND HEAVY DUTY TRUCK AXLE MARKET

The PRC MDT and HDT axle market can be primarily divided into two categories: (1) the MDT and HDT axle aftermarket and (2) the MDT and HDT OEM and related market.

Medium duty and heavy duty truck axle aftermarket

The MDT and HDT axle aftermarket generally refers to the market for the sale and replacement of axle components such as axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles, bearings, wheel hubs and crown gears and, to a lesser extent, the replacement of axle assemblies after the sale of an automobile by an original truck manufacturer, either through such manufacturer’s service network or through other distribution channels such as automobile repair centers. According to the Frost & Sullivan Report, the MDT and HDT aftermarket size for axle components in China for 2009 was estimated to be approximately 20% of the total market size for the MDT and HDT automobile parts aftermarket in China in terms of revenue. The sales of axle components in the aftermarket has continued to increase in line with the increase of MDTs and HDTs in use. Certain axle components such as axle housings are subject to less wear and tear and generally are more durable than other components such as brake drums, axle shafts and axle differentials and reducers, which are subjected to substantial wear and tear and need to be replaced more frequently.

The Frost & Sullivan Report projects that the total aftermarket size of axle components for MDTs and HDTs in China will increase from RMB13 billion in 2009 to RMB21 billion in 2015. One primary factor that is expected to contribute to this rapid increase in demand for axle components is the loading practices for trucks in China. These loading practices have led to a higher frequency of replacement for axle components for MDTs and HDTs in China, especially for trucks used in the construction and mining industries. According to the Frost & Sullivan Report, HDTs used in construction and mining typically need to replace their out-of-warranty axle housings, brake drums, axle shafts, and axle differentials and reducers every two and a half years, ten months, one year and eight months, respectively. This is in contrast to the use of HDTs in developed countries such as Europe and the United States where the replacement of these axle components is less frequent.

INDUSTRY OVERVIEW

After the warranty period, which is typically six months, has expired for new MDTs and HDTs, truck users tend to purchase their replacement axle components from independent producers rather than OEMs, because OEMs’ axle components are generally more expensive than independent producers’ in the aftermarket. These MDT and HDT users typically purchase their axle components at the truck repair stores where their vehicles are being serviced. The truck repair stores, in turn, purchase the axle components from numerous automobile parts distributors in the aftermarket. According to the Frost & Sullivan Report, there were over 5,000 authorized¹ truck repair stores in China in 2008, with most of them supplying axle components manufactured by different producers. MDT and HDT users consider many factors when replacing the axle components of their vehicles, such as durability, value for money, after-sales service and brand awareness.

Overall, the MDT and HDT axle aftermarket in China is highly fragmented. The market fragmentation within each axle component sub-market in the aftermarket varies depending on the production complexity and capital investment requirements. According to the Frost & Sullivan Report, there were approximately 15 major producers of axle housings in 2009 in China and we were the largest independent supplier with a 43% market share in terms of sales volume. The sub-markets for the other axle components are more fragmented. For example, according to the Frost & Sullivan Report, there are hundreds of local and regional producers of brake drums with the largest independent supplier having a 6% market share in terms of production volume in 2009. The barriers to entry are relatively low for the MDT and HDT axle aftermarket in China. Market participants who offer quality products at competitive prices, have diversified product offerings, develop an extensive sales and distribution network and maintain a strong brand name are able to sustain and grow their market share.

Medium duty and heavy duty truck OEM and related market

The MDT and HDT OEM and related market primarily consists of two sub-markets: (1) the sale of axle assemblies directly to OEMs for the manufacture of new MDTs and HDTs (the “**OEM market**”) and (2) the sale of axle components to axle assembly providers who assemble and further sell their axle assemblies to OEMs for the manufacture of new MDTs and HDTs. With respect to the OEM market, there are two major types of participants: (1) captive suppliers of OEMs and (2) independent axle assembly providers. According to the Frost & Sullivan Report, the PRC MDT and HDT OEM market in 2009 was approximately RMB25.3 billion, of which RMB21.9 billion was attributable to HDTs and RMB3.4 billion was attributable to MDTs. By 2015, the market is projected to reach RMB39.8 billion. Large OEMs typically use captive suppliers, which are suppliers that are either subsidiaries or affiliates of an OEM with the primary purpose of supplying such OEMs with particular automobile components. Because of their focus on supplying and selling to their OEMs, captive suppliers generally limit their product offerings to the makes and models of MDTs and HDTs manufactured by their OEM parent or affiliates and provide after-sales warranty services through such OEM’s dealer network. Independent axle assembly providers, on the other hand, are not subsidiaries or affiliates of an OEM, and are free to sell their products to whomever they choose, subject to any contractual restrictions they may agree to. They are free to manufacture axle products for any make and model of MDTs and HDTs and provide after-sales warranty services for their axle products through multiple OEM dealer networks and their own distribution network. According to the Frost & Sullivan Report, approximately 90% and 60%, respectively, of the HDT and MDT axle assemblies used by OEMs in China in 2009 were supplied by captive suppliers. According to

Note:

- (1) An authorized truck repair store meets certain service level requirements and maintains certain price schemes established by a specific truck OEM, and is thus authorized by such OEM to repair its trucks.

INDUSTRY OVERVIEW

the Frost & Sullivan Report, OEMs are increasingly using non-captive independent axle assembly providers to provide their axle assemblies, as is evidenced by the increase in market share of HDT axle assemblies supplied by non-captive independent axle assembly providers from 5% in 2005 to 9% in 2009. According to the Frost & Sullivan Report, independent axle assembly providers who possess adequate product development capabilities and production capacity and who can meet OEMs’ product quality and delivery timing requirements at more favorable prices to their captive suppliers have increased competition with such captive suppliers, which has resulted in the increasing trend for MDT and HDT OEMs to purchase more axle assemblies from such independent axle assembly providers.

Production of MDTs and HDTs in China is dominated by a few large OEMs, which typically purchase axle assemblies from their captive suppliers, but on occasion also purchase from independent axle assembly providers. According to the Frost & Sullivan Report, the top five independent axle assembly providers in 2009 are estimated to account for 76% of the OEM market that is not captured by captive axle assembly providers in terms of revenue, with our Company holding 10%. OEMs consider many factors in selecting suppliers for its MDT and HDT axle assemblies, such as product development speed and research and development capabilities, production scale, value for money, after-sales services and relationship with OEM, which result in a relatively high barrier for independent axle assembly providers to enter into the PRC MDT and HDT OEM market. We believe market participants who possess these qualities are able to sustain and grow their market share.

PRC REGULATORY OVERVIEW

THE PRC LEGAL SYSTEM

The PRC legal system is based on civil law and consists of statutory codes, administrative rules, regulations, local regulations and directives. Court rulings do not constitute binding precedents although they serve as a reference and guidance for judges.

At the national level, the legislative branch consists principally of the National People’s Congress (全國人民代表大會) (“NPC”), and the Standing Committee of the NPC. They are empowered by the PRC Constitution to exercise the legislative powers of the State. The NPC has the power to amend the PRC Constitution (中華人民共和國憲法), supervise the implementation of the PRC Constitution, and promulgate specific laws governing government institutions, civil matters and criminal matters. The Standing Committee of the NPC is empowered to interpret the laws promulgated by the NPC and to promulgate laws other than those specifically required to be promulgated by the NPC.

The administrative branch consists principally of the State Council. The State Council is the highest institution in the administrative branch and has the power to promulgate administrative rules and regulations.

Ministries and commissions under the direct control of the State Council have the delegated powers to promulgate orders, directives and regulations for matters within their respective jurisdictions. Any orders, directives and regulations promulgated by such ministries and commissions, however, must not conflict with the PRC Constitution and national laws. In the event of a conflict, the Standing Committee of the NPC and the State Council have the power to nullify the relevant orders, directives and regulations.

At the provincial and municipal level, each province or municipality consists principally of a people’s congress and its standing committee (which is the legislative division) and a local government and its agencies (which is the administrative division). The people’s congress and its standing committee have the power to promulgate local rules and regulations, while the local government has the power to promulgate administrative rules and directives applicable to its administrative area. These local regulations and directives must not conflict with the PRC Constitution, national laws, or any administrative rules and regulations promulgated by the State Council.

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The PRC Government administers its regulation of the automotive components and parts industry primarily through:

- NDRC;
- State Administration on Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局); and
- Ministry of Environmental Protection.

Each of these agencies has a different mandate to regulate the PRC automotive components and parts industry. NDRC is in charge of making the overall policy and mid-term to long-term development plan of the automotive components and parts industry in China; the State Administration on Quality Supervision, Inspection and Quarantine focuses on product quality control; and the Ministry of Environmental Protection regulates environmental protection affairs relating to the investment in and construction of automotive manufacturing facilities and the manufacturing processes.

PRC REGULATORY OVERVIEW

In 1994, the PRC government issued the Industrial Policy for the Automotive Industry (汽車工業產業政策) as an overall policy guideline for the automotive industry (including the automotive components and parts industry) in China. Although the 1994 automotive industry policy did not constitute a “law” or “regulation” in its formal sense, it constituted the cornerstone of the overall regulatory regime of the PRC automotive industry. In 2004, the PRC Government issued the Automotive Industry Development Policy (汽車產業發展政策) to replace the 1994 Industrial Policy for the Automotive Industry.

The Automotive Industry Development Policy sets forth some guidelines regarding the automotive components and parts industry, including:

- to make a special development plan for automobile components and parts, to guide and support production of automobile components and parts through classification of products, to guide public funds to invest into the production of automobile components and parts, and to impel enterprises with comparative advantages in producing automobile components and parts to form the ability of specialization, mass production and the modularization of the supply of products;
- to give priority to automobile components and parts enterprises which are able to supply components and parts to several independent enterprises that produce complete vehicles, and which is integrated into the international system of procurement of automotive components and parts, in aspects of technology introduction, technological transformation, financing and mergers and reorganization;
- to encourage manufacturers of complete automobiles to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized parts and components manufacturing enterprises;
- to encourage enterprises that produce complete automobiles to procure components and parts from third parties via electronic commerce or net procurement, on a step-by-step basis;
- to support automobile parts and components manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile parts and components manufacturers to develop parts and components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automobile parts and components to the filing procedures with the investment administration departments of the provincial governments.

In March 2009, the General Office of the State Council issued the Restructuring and Rejuvenation Program of the Automobile Industry (汽車產業調整和振興規劃) (the “**Program**”), as amended on August 15, 2009, as an action plan for omnibus response measures of the automobile industry from 2009 to 2011. The Program specifies certain objectives, policies and measures in relation to the automotive components and parts industry as follows:

- to boost the restructuring of the automotive industry. The key automobile parts and components manufacturers are encouraged to expand their scale through merger, acquisition and reorganization, and to increase their market share in the domestic and overseas markets;

PRC REGULATORY OVERVIEW

- to realize the technological independence of key parts in engine, transmission, steering system, braking system, drivetrain system, suspension system and vehicle bus control system; to encourage the development of key parts that can improve the performance of whole vehicles;
- to implement automobile product export strategies; the construction of national export bases for automobiles and automobile parts and components shall be accelerated;
- to improve the automobile enterprise reorganization policies and to encourage automobile production enterprises to jointly develop and manufacture new automobile products and key parts and assemblies; and
- to make more investments in technological progress and innovation and to develop key parts and assemblies which fill the domestic vacancies, build the platforms for the research, development and testing of common technologies of automobiles and spare parts.

On October 23, 2009, MOFCOM, NDRC, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) as well as other authorities jointly issued an opinion regarding the sustained development of automobile exports. According to the opinion, the export of automobiles and automobile parts will reach an average annual growth rate of 10% from 2009 to 2011, the export value of automobiles and automobile parts will reach up to USD85 billion by 2015 and the export amount will account for 10% of the global trade of automobile products by 2020. In this regard, the opinion encourages the realization of five changes to the export structure and the acceleration of the construction of export bases of automobile and automobile parts.

The PRC Government has adopted a number of national and local regulatory measures regulating vehicle overloading, including the Highway Law of the PRC (中華人民共和國公路法), the Law of Road Traffic Safety of the PRC (中華人民共和國道路交通安全法) and the Administrative Rules on Highway Driving of Overloading Vehicle (超限運輸車輛行駛 公路管理規定), and initiated a series of campaigns to crack down on vehicle overloading. On June 1, 2005 and September 27, 2009, the State Council and the Ministry of Transportation of the PRC (中華人民共和國交通運輸部), respectively, issued circulars to strengthen the crack down and penalty measures against vehicle overloading. Based on the foregoing national rules, the central and local PRC government subsequently promulgated various national and local implementation rules and regulations, imposing various requirements and administration penalties on the carriers and drivers in violation. The punishments for overloading include monetary fines, seizure of vehicles, and revocation of transportation business license, although the regional implementation rules as well as the local government approach against overloading may vary from place to place and may be updated from time to time.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

In accordance with the Catalogue of Foreign Investment Industry (2007) (外商投資產業指導目錄(2007年修訂)) promulgated jointly by NDRC and MOFCOM on October 31, 2007, foreign investment in manufacture of key automobile components and parts such as drive axle assembly is classified under the “encouraged investment” category. An automobile components and parts manufacturing enterprise may be 100% foreign-owned.

PRC REGULATORY OVERVIEW

Pursuant to Circular No. 75, issued on October 21, 2005, effective on November 1, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC resident legal person (a **"PRC Resident"**), must register with the local branch of SAFE before it establishes or controls an overseas SPV for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC Resident contributes the assets of or its equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests to an overseas SPV, such PRC Resident must register its interest in the overseas SPV or any changes to its interest in the overseas SPV with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of China, such as change in share capital or merger and acquisition, the PRC Resident must, within 30 days after the occurrence of such event, register such change with the local branch of SAFE.

Under SAFE Circular No. 75, failure to comply with the registration procedures may result in penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV.

FOREIGN EXCHANGE LAWS AND REGULATIONS

Foreign exchange administration is principally governed by two statutes, the PRC Foreign Exchange Control Regulations (中華人民共和國外匯管理條例), which were promulgated by the State Council on January 29, 1996, and amended on January 14, 1997 and August 1, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定), which were promulgated by the PBOC, on June 20, 1996. Under the applicable regulations, upon payment of the applicable taxes, FIEs may convert the dividends they receive in Renminbi into foreign currencies and remit such amounts outside the PRC through their foreign exchange bank accounts.

Conversion of Renminbi into Foreign Currencies

Generally, FIEs may engage in foreign exchange transactions by converting Renminbi into foreign currencies and remitting money out of China without the prior approval of SAFE under two situations: (i) when an enterprise needs to settle current account items in foreign currencies (in this situation, the enterprise may make such payments through its foreign exchange account at one of the designated foreign exchange banks, supported by valid receipts and any other relevant documents); and (ii) when an enterprise needs to distribute dividends to its foreign shareholders (in this situation, the enterprise may make such distribution through its foreign exchange account at one of the designated foreign exchange banks, supported by a board resolution authorising the distribution of dividends and any other relevant documents).

In other situations, including the settlement of capital account items (e.g, direct investment and capital contributions), FIEs are subject to regulatory restrictions. They must seek prior approval from SAFE or its relevant branches before converting Renminbi into foreign currencies.

Dividend Distribution and Remittance

In accordance with the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated on April 12, 1986 and amended on October 31, 2000, foreign investors may remit dividends distributed by a wholly foreign-owned enterprise (**"WFOE"**) overseas. Under the Implementing Rules of Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) promulgated on December 12, 1990 and amended on April 12,

PRC REGULATORY OVERVIEW

2001, a WFOE, may distribute dividends out of its profits after it has set aside at least 10% of after-tax profit for its reserve fund (no after-tax profit needs to be set aside once the cumulative amount of the reserve fund reaches 50% of the registered capital of the WFOE) and, at its discretion, allocate a portion of its after-tax profits to the staff welfare and bonus fund.

TAX LAW

On January 1, 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) was abolished, and the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), promulgated on March 16, 2007, became effective. Pursuant to the Enterprise Income Tax Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

Pursuant to the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy (國務院關於實施企業所得稅過度優惠政策的通知), enacted by the State Council of the PRC on December 26, 2007, enterprises that had enjoyed the preferential policy of a full exemption in the first two years and a 50% reduction from the third to the fifth years of the income tax since the first profit-making year, shall continue to enjoy the former policy until the preferential period expired; enterprises that were entitled to but had not enjoyed the aforesaid preferential policy due to their failure to make profit shall enjoy the aforesaid preferential policy beginning in 2008.

ENVIRONMENTAL PROTECTION LAW

The PRC Government has formulated and implemented various environmental protection laws and regulations, including the Environment Protection Law (中華人民共和國環境保護法), the Water Pollution Prevention and Control Law (中華人民共和國水污染防治法), the Atmospheric Pollution Prevention and Control Law (中華人民共和國大氣污染防治法), the Solid Waste Environment Protection and Control Law (固體廢物污染環境防治法), the Environmental Noise Pollution Prevention and Control Law (中華人民共和國環境噪聲污染防治法) and the Environmental Impact Evaluation Law (中華人民共和國環境影響評價法) (collectively referred to as the “**Environmental Laws**”).

Under the relevant environmental protection laws and regulations, the construction, expansion and operation of automobile components and parts production facilities are subject to certain government evaluation process, inspection procedures and approvals. The failure to go through such government process or procedures or to obtain such government approvals may subject the manufacturer to fines and penalties imposed by the relevant PRC environmental authorities, including suspension of the production facilities.

The Environmental Laws also impose fees for the discharge of waste substances, permit the imposition of fines and compensation for the improper discharge of waste substances and serious environmental offences. The PRC environmental authorities may, at their discretion, close any facility that fails to comply with orders requiring it to correct or stop operations causing the environmental damage.

PRC REGULATORY OVERVIEW

LABOR LAW

Enterprises are mainly subject to the following PRC labor laws and regulations: the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for enterprises in the PRC.

According to the PRC Labor Law and the PRC Labor Contract Law, labor contracts in written form shall be executed to establish labor relationships between employers and employees. Salaries shall not be lower than local minimum wage. The company must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

As required under the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance, enterprises are obliged to provide employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

PRODUCTION SAFETY LAW

According to the Safety Production Law of the PRC (中華人民共和國安全生產法) which became effective on November 1, 2002 and was amended on August 27, 2009, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of production safety. The Safety Production Law provides that an entity engaging in manufacturing activities must meet national or industry standards regarding safety production and provide relevant working conditions as required by the laws, administrative rules and the national or industry standards. An entity engaging in manufacturing activities must install prominent warning signs at or on relevant dangerous operation sites, facilities and equipment. The design, production, installment, use, test, repair, upgrade and disposal of safety equipment must comply with national or industry standards.

PRODUCT LIABILITY LAW

Manufacturers and vendors of defective products in the PRC may incur liability for loss and injury caused by such products. Under the General Principles of the Civil Laws of the PRC (中華人民共和國民法通則), which became effective on January 1, 1987, a defective product which causes property damage or physical injury to any person could subject the manufacturer or retailer of such product to civil liability for such damage or injury.

In 1993, the General Principles of the Civil Laws of the PRC was supplemented by the Product Quality Law of the PRC (as amended in 2000) (中華人民共和國產品質量法) and the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), which were enacted to protect the legitimate rights and interests of end-users and consumers and to strengthen the

PRC REGULATORY OVERVIEW

supervision and control of the quality of products. If products purchased by consumers are of sub-standard quality but not defective, the retailers will be responsible for the repair, exchange, or refund of the purchase price of the sub-standard products and for the compensation to the consumers for their losses (if any). However, in the event that the manufacturers are held liable for the sub-standard products, the retailers are entitled to seek reimbursement from the manufacturers for compensation paid by the retailers to the consumers. If the products are defective and cause any personal injuries or damage to assets, the consumer has the option to claim compensation from the manufacturer, distributor or retailer. Retailers or distributors who have already compensated the consumers are entitled to claim reimbursement from the liable manufacturers.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

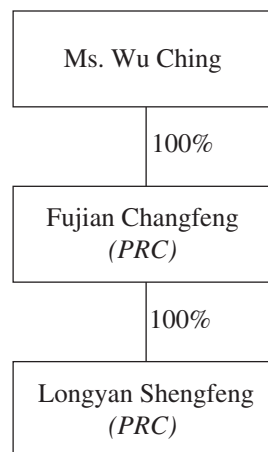
HISTORY

The history of our Group traces back to 2001 when our main operating subsidiary, Fujian Changfeng (which was previously known as Longyan Changfeng Mechanical Factory Co. Ltd.), was established by Ms. Wu Ching (who is one of our executive Directors and the spouse of our chairman, Mr. Wong Kwai Mo) as a wholly foreign-owned enterprise to operate the business of manufacturing and sales of axle housings and other axle components. The source of funding for the establishment of Fujian Changfeng was derived from her own funding and a personal loan from her brother-in-law, Mr. Liu Man Chun.

In 2007, in order to enhance and expand its production capacity, Fujian Changfeng entered into an equity transfer agreement with Mr. Lu Hanwang and Mr. Lu Wenxuan, who are Independent Third Parties, to acquire their respective direct equity interest of 16% and 60% in Longyan Shengfeng for a total consideration of RMB6,080,000, which was determined with reference to the registered capital of Longyan Shengfeng at the time of such transfer. The acquisition was completed on September 20, 2007 and after the completion of such acquisition, Longyan Shengfeng was owned as to 76% by Fujian Changfeng and 24% by Mr. Lu Hanwang. On December 19, 2007, Fujian Changfeng entered into an equity interest transfer agreement with Mr. Lu Hanwang to acquire the remaining 24% of the equity interest in Longyan Shengfeng for a consideration of RMB3,600,000, which was determined with reference to the registered capital of Longyan Shengfeng at the time of such transfer. The acquisition was completed on December 25, 2007 and after the completion of such acquisition, Longyan Shengfeng became our wholly-owned subsidiary.

REORGANIZATION

The following chart sets out our shareholding structure immediately prior to the Reorganization:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

Our Group underwent the Reorganization [●], which involves the following:

Acquisition of Kaifeng Changfeng

On April 16, 2008, Fujian Changfeng entered into an equity transfer agreement with Mr. Wong Kwai Mo and Special Vehicle to acquire 90% and 10% of the equity interest in Kaifeng Changfeng owned by Mr. Wong Kwai Mo and Special Vehicle,¹ respectively, for a total consideration of RMB50,000,000. The consideration was determined with reference to the registered capital of Kaifeng Changfeng at the time of such transfer. On July 25, 2008, based on the valuation report issued by Jones Lang LaSalle Sallmanns Limited on July 18, 2008, the consideration for the purchase of 90% equity interest in Kaifeng Changfeng from Mr. Wong Kwai Mo was adjusted from RMB45,000,000 to approximately RMB56,171,636. Following the completion of the acquisition on July 21, 2008, Kaifeng Changfeng became a wholly-owned subsidiary of Fujian Changfeng.

Our PRC legal adviser has advised us that the New M&A Rules will only be applicable if a merger or acquisition involves an acquisition of a domestic enterprise by a foreign investor as provided under the New M&A Rules. Given that Fujian Changfeng is a foreign-funded enterprise established in the PRC under the PRC laws but not a “foreign investor” under the New M&A Rules, and Ms. Wu Ching and Mr. Wong Kwai Mo are Hong Kong permanent residents, therefore the acquisition of Kaifeng Changfeng by Fujian Changfeng is not subject to the relevant provisions on the related party acquisition between two companies controlled by PRC individuals under the New M&A Rules. As such, our PRC legal adviser has opined that the New M&A Rules do not apply to the acquisition of Kaifeng Changfeng.

Acquisition of Fujian Changfeng from Ms. Wu Ching

On May 5, 2008, Changfeng Hong Kong, a company wholly-owned by Ms. Wu Ching and Mr. Wong Kwai Mo, entered into an equity transfer agreement with Ms. Wu Ching to acquire the entire equity interest in Fujian Changfeng from Ms. Wu Ching for a consideration of RMB36,000,000, which was determined with reference to the registered capital of Fujian Changfeng at the time of such transfer. Ms. Wu Ching agreed to waive the payment obligation of Changfeng Hong Kong in respect of the consideration for the acquisition. The acquisition was completed on May 27, 2008 and, following the completion of such acquisition, Fujian Changfeng became a wholly-owned subsidiary of Changfeng Hong Kong.

Incorporation of our Company

On May 21, 2008, our Company was incorporated in the Cayman Islands as an exempted limited liability company and a wholly-owned subsidiary of Changfeng BVI, a company which was, in turn, owned as to 45% by Ms. Wu Ching, 45% by Mr. Wong Kwai Mo and 10% by Mr. Liu Man Chun. Mr. Liu Man Chun is the brother-in-law of Ms. Wu Ching, one of our executive Directors. Our Directors have confirmed that Mr. Liu Man Chun did not hold any position with any member of the Group during the Track Record Period. Mr. Liu Man Chun is a Hong Kong permanent resident who primarily engages in sub-contracting of electronic components. In 2007, Mr. Liu Man Chun provided financial assistance in the

Note:

- (1) Special Vehicle is currently an Independent Third Party but at the time of the acquisition, Special Vehicle was a connected person of the Group. Special Vehicle was owned as to 41.0% to 87.7% by Mr. Wong Kwai Mo, our executive Director, during the period from November 5, 2002 to February 15, 2008 and Mr. Wong Kwai Mo served as the legal representative and executive director of Special Vehicle during the same period. On February 15, 2008, Mr. Wong Kwai Mo transferred all of his equity interest in Special Vehicle to Mr. Lai Fengcai, our executive Director. Mr. Lai Fengcai served as the legal representative, executive director and general manager of Special Vehicle during the period from February 15, 2008 to June 30, 2008. Mr. Lai Fengcai subsequently transferred all of his equity interest in Special Vehicle to an Independent Third Party on June 30, 2008. The business operations of Special Vehicle is different from that of our Group.

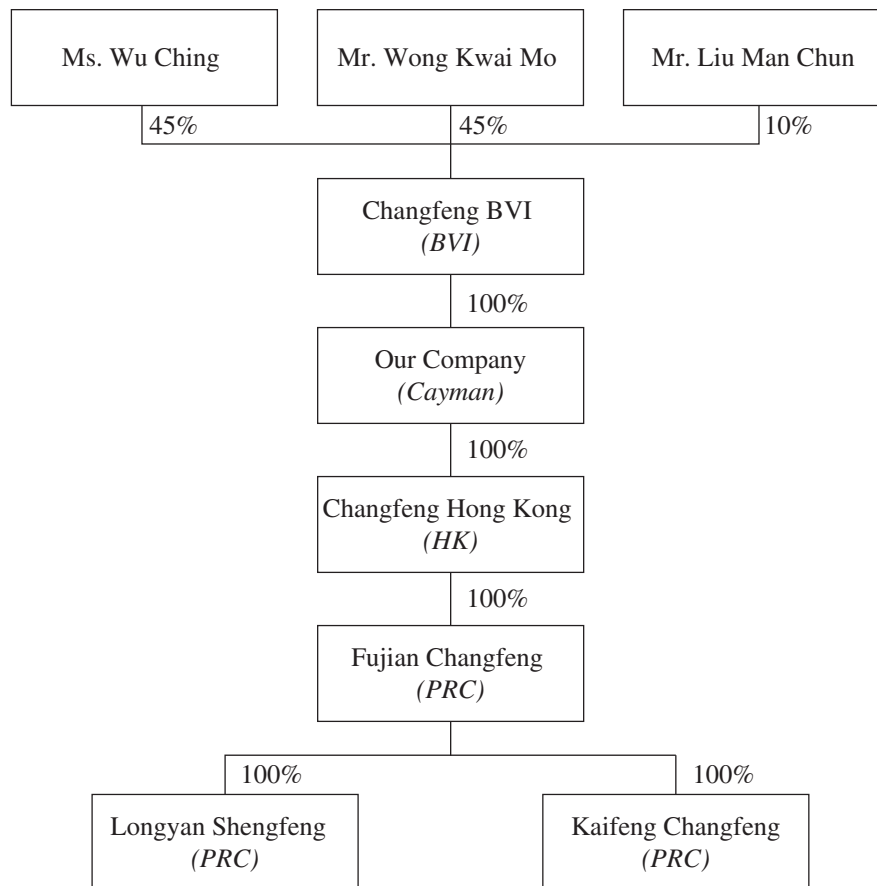
HISTORY, REORGANIZATION AND GROUP STRUCTURE

form of personal loans to Mr. Wong Kwai Mo and Ms. Wu Ching in support of the establishment of Fujian Changfeng. In consideration of Mr. Liu Man Chun’s financial assistance, Mr. Wong Kwai Mo and Ms. Wu Ching invited Mr. Liu Man Chun to jointly establish Changfeng BVI in 2008. Mr. Liu Man Chun has contributed US\$5,000 to subscribe for 10% of the total issued share capital of Changfeng BVI.

On June 17, 2008, Ms. Wu Ching and Mr. Wong Kwai Mo transferred the entire issued share capital of Changfeng Hong Kong to our Company for a consideration of HK\$10,000. Ms. Wu Ching and Mr. Wong Kwai Mo agreed to waive the payment obligation of our Company in respect of the consideration for the acquisition. Following the completion of such transfer, our Company became the holding company of our Group.

For details of the changes in our share capital since the date of incorporation of our Company, please refer to the section headed “Statutory and General Information — Further Information about our Company and our Subsidiaries — Change in Share Capital” in Appendix VI to this document.

The following chart depicts the structure of our Group immediately following the above Reorganization steps:



THE INVESTMENTS

Investment by Starr Investments

In order to fund the expansion of our business and increase our working capital, we invited Starr Investments to invest in our Group in or around August 2008 (the “**Investments**”) and entered into a series of agreements as further described below.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

On July 31, 2008, our Controlling Shareholders and Starr Investments entered into a subscription agreement, pursuant to which Starr Investments agreed to subscribe for senior secured 3% exchangeable notes (the “**EBs**”) in Changfeng BVI which were issued in two tranches:

- the first tranche of EBs (which was in the initial principal amount of the U.S. dollar equivalent of RMB122,052,000) was issued on August 7, 2008 (the “**Tranche A EB**”); and
- the second tranche of EBs (which was in the initial principal amount of the U.S. dollar equivalent of RMB80,000,000 and which was conditional upon Fujian Changfeng achieving a net profit after tax (excluding any non-operational extraordinary income) (“**NPAT**”) of at least RMB80,000,000 for the year ended 2008) was issued on March 10, 2009 (the “**Tranche B EB**”).

The consideration for the first and second tranches of the Investment was settled in August 2008 and March 2009, respectively.

The Tranche A EB and the Tranche B EB may be voluntarily exchanged by Starr Investments into Shares of our Company held by Changfeng BVI (the “**Exchange Rights**”). The number of Shares to which Starr Investments is entitled will be calculated by dividing the principal amount of the outstanding EBs plus any accrued but unpaid interest on the EBs, by a pre-determined exchange price (the “**Exchange Price**”) of RMB16,621 (as amended by the amendment to note instrument dated March 10, 2009). The Exchange Price is subject to adjustment to reflect, inter alia, any subsequent share reorganization, or bonus issues of Shares, details of which are set out below.

Terms and conditions of the EBs

The terms of the EBs were set out in the note instrument issued by Changfeng BVI on August 7, 2008 (as amended by the amendments to note instrument dated March 10, 2009 and May 11, 2010, respectively) (the “**Note Instrument**”).

Interest

The outstanding EBs entitle Starr Investments to a payment of interest at a rate of 3% per annum, compounded annually. Under the terms of the EBs, interest shall accrue and be payable upon the earlier of (i) an exchange of the EBs pursuant to (x) a [●] or (y) Starr Investment’s exercise of its Exchange Rights; (ii) the redemption of the EBs by Changfeng BVI upon (x) December 31, 2010, unless extended to December 31, 2012 upon the mutual written agreement of Changfeng BVI and Starr Investments (the “**Maturity Date**”) or (y) Starr Investment’s exercise of its redemption rights; or (iii) the occurrence of any liquidation events set out in the Note Instrument.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Redemption

All the outstanding EBs will mature on the Maturity Date and must be redeemed by Changfeng BVI at the Mandatory Redemption Amount. The “**Mandatory Redemption Amount**” is an amount equal to the sum of the aggregate principal amount of the Notes then outstanding plus an amount equal to a 12% internal rate of return on the aggregate principal amount of the Notes then outstanding, provided that the aforementioned internal rate of return calculation shall take into consideration any interest previously paid to Starr Investments in respect of the EBs.

Starr Investments is also entitled to accelerate the redemption of any or all of the outstanding EBs at varying redemption amounts before the Maturity Date under certain circumstances including (without limitation) the following:

Partial Exchange Right. If Starr Investments exercises its Exchange Right for less than all of the outstanding EBs, then Starr Investments shall be entitled to require Changfeng BVI to redeem any principal amount of the EBs not exchanged pursuant to its Exchange Right, at a redemption amount equal to the Mandatory Redemption Amount.

Accelerated Buyback. In the event that Fujian Changfeng’s aggregate audited NPAT for the years ended December 31, 2008 and December 31, 2009 is lower than RMB130 million, Starr Investments shall be entitled to require Changfeng BVI to redeem all or any portion of the then outstanding EBs at a redemption amount equal to the Mandatory Redemption Amount; provided that such request for redemption must be exercised within 30 days of receipt of Fujian Changfeng’s audited financial statements for the year ended December 31, 2009; and provided further that Changfeng BVI shall pay such Mandatory Redemption Amount to Starr Investments within 90 days of receipt of notice from Starr Investments of its intention to request redemption.

Anti-dilution Adjustment to Exchange Price

The Exchange Price is subject to anti-dilution adjustments for the purpose of protecting Starr Investments’ interests in the EBs and the value of the underlying Exchange Rights. The Exchange Price may be adjusted to take into account any share capital reorganizations such as Share subdivision, Share combination/consolidation, the issue of Shares, declaration of dividends or other distributions. In addition, the Exchange Price will be adjusted if Fujian Changfeng fails to meet the following accumulative performance targets (as amended by the amendment to note instrument dated March 12, 2009) for the years ended December 31, 2008, 2009 and [●]:

Year ending December 31,	Performance targets (RMB millions)	
	Tranche A EB	Tranche B EB
2008	100	80
2009 (including NPAT performance target for 2008)	250	230
2010 (including NPAT performance target for 2008 and 2009)	450	430

Fujian Changfeng achieved a NPAT of a total of RMB263.7 million in the years ended December 31, 2008 and 2009, which exceeded the accumulative NPAT target of at least RMB250 million for the years ended December 31, 2008 and 2009 in the Note Instrument.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Undertakings

Certain reserved matters of the Group (such as material changes of business scope, related party transactions, incurrence of indebtedness or expenditure over a certain limit other than those permitted by the annual operating business plan, changes in capital structure, amendments to constitutional documents, the Shareholders and Noteholders Agreement (as defined below), reorganizations, mergers, amalgamations and acquisitions, de-mergers, re-organizations and disposition of substantial assets, declaration of dividends, adoption or amendments to annual operating business plan, liquidation, bankruptcy, establishment of new subsidiaries, mortgage of assets, amendments to material terms of existing debt instruments, and amendments to service contracts entered into with Mr. Wong Kwai Mo and Ms. Wu Ching must be approved by Starr Investments.

Upon the exchange of all the outstanding EBs into Shares of our Company in connection and simultaneous with the completion of the [●], Starr Investments shall no longer be entitled to the rights conferred upon it pursuant to these undertakings.

Shareholders and Noteholders Agreement

On August 7, 2008, Changfeng BVI, Ms. Wu Ching, Mr. Wong Kwai Mo and Starr Investments entered into a shareholders and noteholders agreement (as amended by the amendment to shareholders and noteholders agreement dated May 11, 2010, the “**Shareholders and Noteholders Agreement**”), pursuant to which Starr Investments had the following material rights:

Sharing of Liquidating Event Proceeds. Starr Investments is entitled to receive any remaining proceeds received from a liquidation event after repayment of the aggregate principal amount plus accrued interest on the EBs on a pro rata basis with Ms. Wu Ching and Mr. Wong Kwai Mo in accordance with the number of Shares it would receive if the EBs are exchanged based on the Exchange Price then in effect.

Restrictions on Transfer of shares. Subject to certain exceptions, no shares of any member of our Group or Changfeng BVI may be transferred without the consent of Starr Investments.

Directed Sale. Starr Investments is entitled to cause the sale of all or substantially all of Changfeng BVI (and its subsidiaries) to a third party.

Starr Investments also has special rights such as nomination rights, information rights and minority protection rights in its capacity as a noteholder of Changfeng BVI. Such rights of Starr Investments as set forth in the Shareholders and Noteholders Agreement will cease upon the exchange of the EBs for our Shares in connection and simultaneous with the [●].

Charge Over Shares

To secure due and punctual performance of its obligations under the Note Instrument, on August 7, 2008, Changfeng BVI and Starr Investments entered into a Charge Over Shares, pursuant to which Changfeng BVI charged in favor of Starr Investments all of the issued and outstanding shares of our Company owned by Changfeng BVI (the “**Share Charge**”). Conditional upon and with effect as from the exchange of the EBs for our Shares in connection and simultaneous with the completion of the [●], the Share Charge by Changfeng BVI in favor of Starr Investments will be released and discharged.

Use of Proceeds of the EBs

The proceeds from the investment by Starr Investments in our Company were used as capital expenditures for the acquisition of Kaifeng Changfeng by Fujian Changfeng and the expansion of production capacity of Longyan Shengfeng and Kaifeng Changfeng and as general working capital.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Compliance

All the terms, conditions and covenants of the above agreements entered into with Starr Investments had been complied with in all material aspects as of the Latest Practicable Date.

Background of Starr Investments

Starr Investments, a company incorporated in the Cayman Islands on June 11, 2007, is principally engaged in the business of investment holding and is an indirect wholly-owned subsidiary of Starr International. Starr International was incorporated in 1943 and is a private holding company of insurance and investment entities around the world. Starr International is chaired by Mr. Maurice R. Greenberg and is ultimately owned by Starr International Foundation, a charitable foundation established in Switzerland. Starr International’s investment subsidiaries make investments through direct equity investments in listed and non-listed companies, private equity funds and majority position investments in the insurance and banking sectors. To the best of the Directors’ knowledge, Starr International, through Starr Investments, has invested more than US\$175 million in private equity funds and businesses with a primary focus on those in the PRC, which includes auto parts, media, healthcare services, food and logistics. Save for its shareholding in our Company, Starr Investments is a third party independent of our Company.

Starr Investments currently has one representative, namely Ms. Dong Ying, Dorothy, on our Board. Following our [●], Ms. Dong Ying, Dorothy will be subject to the normal retirement, re-election and removal processes applicable to all Directors as stipulated in the Articles.

ESTABLISHMENT OF BEIJING CHANGFENG AND SICHUAN CHANGFENG

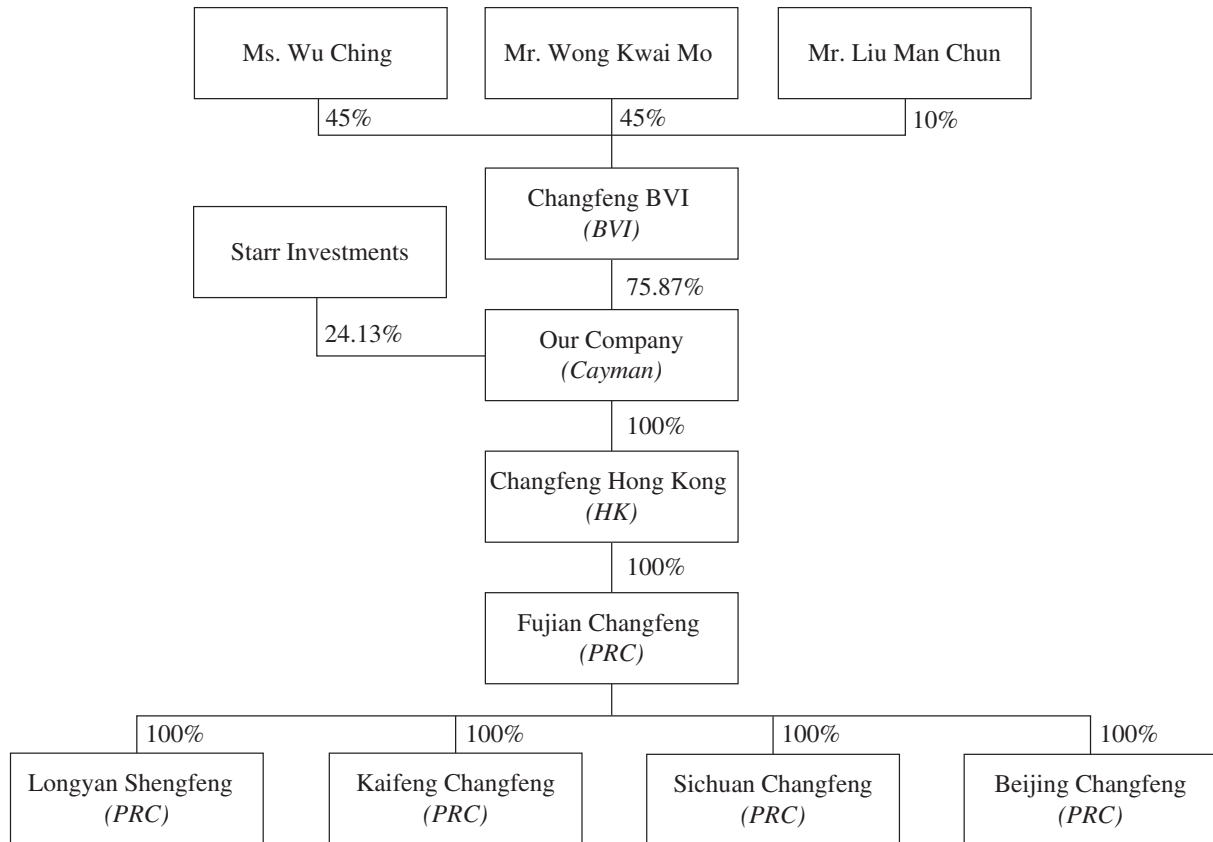
Following the completion of the Investments, we established Beijing Changfeng on July 6, 2009 and Sichuan Changfeng on July 16, 2009.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

OWNERSHIP INTERESTS IN CHANGFENG BVI AND OUR COMPANY

On the [●], the Starr Share Exchange will have occurred, resulting in 144,801,600 Shares of our Company being transferred from Changfeng BVI to Starr Investments.

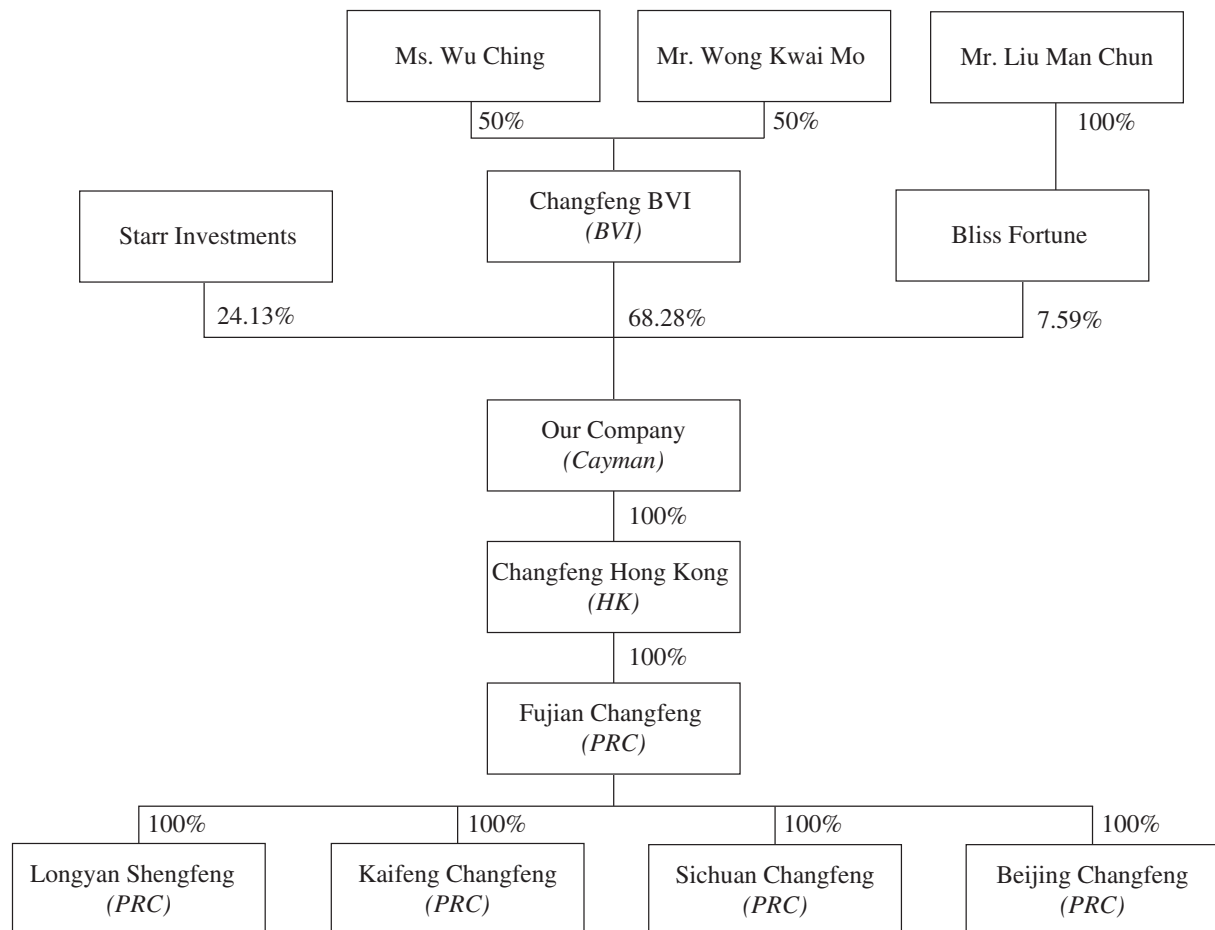
The following chart depicts the structure of our Group immediately following the Starr Share Exchange:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

On the [●], Mr. Liu Man Chun will transfer 5% of the issued share capital in Changfeng BVI to each of Ms. Wu Ching and Mr. Wong Kwai Mo for a consideration of US\$1 for each transfer. On the same date, Changfeng BVI will transfer 10% of its Shares in our Company immediately before completion of the [●] on a fully diluted basis to Bliss Fortune,¹ a company wholly-owned by Mr. Liu Man Chun, for a consideration of US\$2. Following the completion of the above transfers (the “**Bliss Fortune Share Transfers**”), Changfeng BVI will be owned equally by Mr. Wong Kwai Mo and Ms. Wu Ching and our Company will be owned as to 68.28%, 24.13% and 7.59% by Changfeng BVI, Starr Investments and Bliss Fortune, respectively.

The following chart depicts the structure of our Group immediately following the Reorganization, the [●], the Starr Share Exchange, and the Bliss Fortune Share Transfers but before completion of the [●]



Note:

- (1) Bliss Fortune was incorporated in the BVI on November 19, 2009 as an investment holding company with an authorized share capital of US\$50,000 divided into 50,000 Shares of US\$1.00 each, of which one share was issued to and fully paid up by Mr. Liu Man Chun.

BUSINESS

OVERVIEW

We are a leading independent¹ axle component provider for China’s medium duty truck and heavy duty truck aftermarket with the most diversified product offerings among independent axle component providers in China, according to the Frost & Sullivan Report. We market our axle components to our customers in the aftermarket through our sales, marketing and services network, which was the most extensive among all axle component providers in China’s MDT and HDT axle aftermarket in terms of geographic reach and market penetration.² We are also the second largest independent axle assembly provider as measured by revenue in 2009 for China’s MDT and HDT OEM market, according to the Frost & Sullivan Report. In 2009, independent axle assembly providers had approximately a 17% share of China’s MDT and HDT OEM market as measured by sales volume, according to the Frost & Sullivan Report. We believe our strong “暢豐” (Changfeng) brand associated with our high quality products and our extensive sales, marketing and services network differentiates us from our competitors. We also believe that our participation in both the aftermarket and OEM market mutually enhances our market position and branding in both markets.

Our diversified axle component product offerings include seven major categories of axle components with over 680 models. Our products cover all major axle components, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams. We also manufacture an extensive range of front, middle and rear axle assemblies and suspension assemblies in over 400 models. We use proprietary processing techniques in our production process to manufacture quality products that are characterized by their strong durability and competitive prices. Our comprehensive axle component production capabilities, vertically integrated production process and research and development abilities allow us to swiftly respond to changes in market trends and meet customer demands. According to the Frost & Sullivan Report, we had a 43% market share of the PRC MDT and HDT axle housing aftermarket based on sales volume for 2009.

We sell our axle components and a small portion of our axle assemblies in the MDT and HDT axle aftermarket primarily through our extensive sales, marketing and services network, which covers 30 provinces, municipalities and autonomous regions across China, and our revenue from the aftermarket accounted for 62.5% of our total revenue in 2009. As of December 31, 2009, this network consisted of 25 provincial-level distributors, 192 first-tier distributors and 412 second-tier distributors. As of December 31, 2009, we had 33 exclusive distributors, comprised of all 25 of our provincial-level distributors and eight of our first-tier distributors. We have continued to expand our sales, marketing and services network in 2010, including our exclusive distributors. We require our exclusive distributors to sell only our Changfeng-branded products and renovate their stores according to our Changfeng-branded design and layout requirements. This uniform branding and marketing strategy, which we pioneered in the axle aftermarket in China, helps promote brand awareness and strengthen customer confidence in our products, thereby increasing our overall sales. We are in the process of converting our existing non-exclusive first-tier distributors into exclusive first-tier distributors as we increase our production capacity and product supply. We enter into distributorship agreements with all 25 of our provincial-level distributors to

Notes:

- (1) For an explanation of “independent” versus “captive” providers, please refer to the section headed “Industry Overview – Overview of Medium Duty and Heavy Duty Truck Axle Market – Medium duty and heavy duty truck OEM and related market” in this document.
- (2) As of December 31, 2009 according to the Frost & Sullivan Report.

BUSINESS

exclusively sell, market and distribute our axle component products in each major province in which we operate. We also enter into distributorship agreements with our first-tier distributors which purchase axle component products from us or our provincial-level distributors on an exclusive or non-exclusive basis. The first-tier distributors are required to meet minimum purchase targets and to establish and maintain a certain number of second-tier distributors to increase our market penetration in their appointed geographic areas. Our nationwide marketing, management, pricing and after-sales service policy allows us to effectively manage our network, monitor our distributors and expand our sales. Our extensive network also enables us to provide prompt, nationwide after-sales services, including responses to product warranty claims, to our customers throughout China regardless of where our customers and end-users initially purchase our products. Due to the strong market demand for our axle component products, our provincial-level and first-tier distributors are willing to bear most of the marketing and promotion costs related to selling our products, and we believe they have maintained stable and long-standing relationships with us because they share our financial goals and long-term vision for our business growth. In particular, we have had low turnover among our provincial-level distributors since our inception in 2001.

Through our quality products and strong after-sales services, we have achieved the highest brand recognition among independent axle housing suppliers by service stores and truck owners according to the Frost & Sullivan Report. We also have established strong pricing power in certain of our leading products, such as axle housings, which allows us to pass on significant raw material cost increases to our aftermarket customers. We believe our strong reputation in China’s MDT and HDT axle aftermarket, combined with our extensive sales, marketing and services network, enable us to successfully promote our existing and new products and capitalize on the momentum of the vast and growing MDT and HDT axle aftermarket in China.

We primarily sell our axle assemblies directly to OEMs in China on a made-to-order basis to match our customers’ specification requirements. As the second largest independent axle assembly provider for China’s MDT and HDT OEM market, we had a 10% market share as measured by revenue in 2009 of the OEM market that was not already captured by captive axle assembly suppliers, according to the Frost & Sullivan Report. On occasion, we sell a small portion of our axle components to other axle assembly providers. Our OEM customers include OEMs such as Anhui Hualing Automobile Co., Ltd. (安徽華菱汽車股份有限公司), Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), Changsha Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司長沙汽車廠), Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Changde Motor Crane Branch (長沙中聯重工科技發展股份有限公司常德汽車起重機分公司), Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), Chengdu Wangpai Motor Group Co., Ltd. (成都王牌汽車集團股份有限公司) and Hubei Tri-Ring Special Truck Co., Ltd. (湖北三環專用汽車有限公司). We have a dedicated sales team assigned to service each of our OEM customers. These sales teams typically are located near such OEM customers’ facilities and continually market, promote and provide after-sales services for our products on-site. We believe our strong growth in the OEM market is primarily attributable to our rapid product development and customization capabilities, the high quality of our products offered at competitive prices, our excellent after-sales services, and our good relationships with OEM customers. As OEM customers increasingly turn to independent axle assembly providers who have rapid product development and customization capabilities and offer high quality products at competitive prices to supply their axle assemblies, we believe our growth in the OEM market will continue.

We believe our presence in both the aftermarket and the OEM market enhances our overall growth potential. Among independent axle component providers in China, we believe that our reputation for strong product quality, the most diversified product offerings and the most extensive sales, marketing and

BUSINESS

services network in the aftermarket have enabled us to secure more business from OEM customers. We believe our position as the second largest independent axle assembly provider in the OEM market has increased the awareness of our products among end-users, which, in turn, has enabled us to widen our customer base and further strengthen our brand image in the axle aftermarket. The mutual recognition of our products by our aftermarket and OEM customers has enabled us to further increase customer awareness of our products and boost sales in both markets. We believe we are well positioned to take advantage of growth opportunities in both markets in the future.

We enjoy significant cost advantages due to our cost savings in sourcing raw materials, our vertically integrated production process and our product development capabilities. We are able to leverage our economies of scale to obtain favorable prices for our raw materials, primarily steel, while still maintaining our high product quality standards. Because of the large volume of steel needed for the production of our products, we are able to negotiate discounts with our suppliers and require them to sell us steel on the basis of weight, which is generally less expensive than cut-to-length steel. In addition, due to our production of a broad range of axle component products that use different sizes of steel in large quantities, we are able to recycle our steel waste generated during the course of production so that such waste can be further used as raw material in our production process, which maximizes our steel utilization rate. Our vertically integrated production process allows us to reduce production time due to our in-house moulding capabilities and our ability to produce axle components directly from basic raw materials as opposed to relying on third parties to provide roughcast goods for production. Our product development capabilities, which include our proprietary production techniques, enable us to improve and innovate product designs to reduce the amount of raw materials needed in production and increase our utilization rate of steel. In addition, because we self-produce over 80% of the axle components used in our axle assemblies as measured by total axle component cost, we are able to better control the quality and cost of our axle assemblies while efficiently meeting our OEM customers’ requirements for timely delivery of products.

Our product development capabilities also enable us to develop new products and improve our existing products to meet market demand. Through a combination of our in-house technical department and our strategic cooperation with various research institutions, we have developed proprietary axle production technologies and processes that have facilitated our production of new and improved axle products. In 2009, our “Economical Forging Technology and Equipment for Automobile Steering Knuckle” (汽車轉向節經濟型鍛造技術與裝備) and “Energy-saving and Material-saving Precise Forging Technology and Equipment for Automobile Front Axle Beam” (汽車前軸節能節材型精密鍛造技術與裝備) were recognized by the China Machinery Industry Federation as internationally advanced “Scientific Technology Achievements.” We believe our product development abilities have allowed us to further diversify our product offerings and meet the demands of our broad customer base.

We have three production facilities, one of which is located in the city of Kaifeng in Henan province, and two of which are located in the city of Longyan in Fujian province. As our production facilities are strategically located near our primary suppliers and OEM customers, we are able to accelerate our procurement process, reduce our product delivery time and transportation costs and improve our logistical efficiency to meet our customers’ demands. As a result of strong demand for our axle component products, there have been occasions when we had to turn down purchase orders due to constraints in our production capacity. Therefore, we are currently expanding our production capacity, especially in relation to products for which we do not have high market penetration, at our existing production facilities and constructing another production facility in the city of Nanchong in Sichuan province, which we expect to commence operations by the end of 2010. Upon completion of the Sichuan Changfeng production facility, we believe that our four production centers located in the southern, central and western parts of China will form an

BUSINESS

even broader strategic production and distribution network for our products and further strengthen our position in both the MDT and HDT aftermarket and OEM market in China. For a more detailed discussion of our production capacity and utilization rates for our production facilities, please refer to the section headed “Business — Production — Production Capacity” in this document.

We have experienced significant growth in sales revenue and profit in recent years. In 2007, 2008 and 2009, our revenue was RMB176.7 million, RMB417.8 million and RMB801.2 million, respectively, representing a CAGR of 112.9%. For the six months ended June 30, 2010, our revenue was RMB694.6 million, representing an increase of 109.7% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, revenue from our aftermarket segment was RMB84.0 million, RMB274.5 million and RMB500.7 million, respectively, representing a CAGR of 144.1%, and revenue from our OEM and related market segment was RMB92.7 million, RMB143.4 million and RMB300.4 million, respectively, representing a CAGR of 80.0%. For the six months ended June 30, 2010, revenue from our aftermarket segment was RMB450.6 million, representing an increase of 156.3% as compared to the corresponding period in 2009, and revenue from our OEM and related market segment was RMB244.0 million, representing an increase of 57.1% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, our net profit was RMB42.3 million, RMB91.6 million and RMB162.8 million, respectively, representing a CAGR of 96.2%. For the six months ended June 30, 2010, our net profit was RMB147.5 million, representing an increase of 147.1% as compared to the corresponding period in 2009.

The following table sets forth the revenue generated from the sales of our axle components and axle assemblies during the Track Record Period:

	Year ended December 31,			Six months ended June 30, 2010
	2007	2008	2009	
	RMB'000			
Axle Components	104,712	223,140	466,328	453,809
Axle Assemblies	71,956	194,690	334,823	240,757
Total	<u>176,668</u>	<u>417,830</u>	<u>801,151</u>	<u>694,566</u>

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

We operate the most extensive sales, marketing and services network among all axle component providers in China’s MDT and HDT aftermarket

We operate the most extensive sales, marketing and services network among all axle component providers in China’s MDT and HDT aftermarket in terms of geographic reach and market penetration as of the end of 2009.¹ As of December 31, 2009, our network consisted of 25 provincial-level distributors, 192 first-tier distributors and 412 second-tier distributors, covering 30 provinces, municipalities and

Note:

(1) As of December 31, 2009 according to the Frost & Sullivan Report.

BUSINESS

autonomous regions across China. As of December 31, 2009, we had 33 exclusive distributors, comprised of all 25 of our provincial-level distributors and eight of our first-tier distributors. We have continued to expand our sales, marketing and services network in 2010, including our exclusive distributors. We require our exclusive distributors to sell only our Changfeng-branded products and renovate their stores according to our Changfeng-branded design and layout requirements. Through this uniform branding and marketing strategy, which we pioneered in the axle aftermarket in China, we seek to further promote brand awareness and strengthen customer confidence in our products, thereby increasing our overall sales. We believe our extensive sales, marketing and services network provides us with a distinct competitive advantage over our competitors in the fragmented aftermarket, as it allows us to: (1) penetrate new markets and enhance sales on a timely basis, (2) promote our existing and new products in a cost-efficient manner, (3) closely monitor market trends and customer preferences, enabling us to swiftly meet customer demands, and (4) provide prompt, nationwide warranties and after-sales services through our network throughout China regardless of where our customers and end-users initially purchase our products.

We employ systematic policies to manage all of our distributors to ensure effective and timely execution of our marketing strategy on a nationwide base. We contractually require our provincial-level distributors and first-tier distributors to sell our products within a limited geographic distribution and sales area, maintain minimum purchase targets, follow our uniform price scheme when selling our products downstream and adhere to prescribed guidelines and procedures. We also contractually require our provincial-level and first-tier distributors to expand the number of lower-level distributors in their appointed geographic area, which has been an important factor in widening our customer base and increasing our market penetration within each geographic region where our products are sold. We conduct monthly or bi-monthly reviews of our provincial-level and first-tier distributors to evaluate their compliance with our management and pricing policies, sales practices and purchase targets. We also collect monthly inventory information from our provincial-level and most of our first-tier distributors, who, in turn, are required by us to collect similar inventory information from our second-tier distributors, which we track in conjunction with our distributors’ purchase order history to ensure our sales reflect actual demand of our end-users. Due to the strong market demand of our axle component products, our provincial-level and first-tier distributors are willing to bear most of the marketing and promotion costs related to selling our products, and we believe they have maintained stable and long-standing relationships with us because they share our financial goals and long-term vision for our business growth. In particular, we have had low turnover among our provincial-level distributors since our inception in 2001. We believe that our effective management of distributors, together with our good relationships with them, allows us to maximize the benefits of our extensive sales, marketing and services network.

We are a leading independent axle component provider in China’s MDT and HDT aftermarket with the most diversified axle component offerings well recognized for high quality by our customers

We are a leading independent axle component provider for China’s MDT and HDT aftermarket with the most diversified product offerings among independent axle component providers in China, according to the Frost & Sullivan Report. Whereas most of our competitors focus on producing only two or three categories of axle components, our diversified product offerings include seven major categories of axle components. Our product range covers all major axle components for MDTs and HDTs, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, front axle beams and steering knuckles, comprising a combined total of over 680 different product models. We have the ability to produce a wide range of models that can be applied to broad types of MDTs and HDTs. In particular, for our axle housings, on which most axle components are installed, we offer cast steel and

BUSINESS

punched steel axle housings classified under 14 major product series with over 400 different models. According to the Frost & Sullivan Report, our axle housings can be used in approximately 70% of the makes and models of MDTs and HDTs in China and we achieved a 43% market share of the fragmented PRC MDT and HDT axle housing aftermarket based on sales volume in 2009. We also offer brake drums in 47 different models, which according to the Frost & Sullivan Report, covers approximately 60% of the makes and models of MDTs and HDTs in China.

Our high quality products are known for their durability and competitive prices. For example, our axle housings exceed the QC/T 534-1999 national and industry bending fatigue testing standards for durability by more than three times. Also, according to the Frost & Sullivan Report, the return rate for our brake drums during the warranty period is less than 1%, which we believe is significantly lower than that of our competitors. We believe that because of our diversified product offerings coupled with the high quality of our products, we have built up a wide customer base and well-recognized brand name, especially in relation to our axle housings, for which, according to the Frost & Sullivan Report, we have achieved the highest brand recognition among independent axle housing suppliers by service stores and truck owners. From 2007 to 2009, revenue from our aftermarket business segment grew by a CAGR of 144.1%. During this period, there were occasions when we experienced over-demand and had to turn down purchase orders. Due to the strong demand for our axle component products which we believe demonstrates the strong brand recognition and wide acceptance of our products, we generally are able to dictate the prices of our axle components to our aftermarket customers. As a result, despite the steel price volatility in recent years, we were able to pass on significant steel cost increases to our customers in the aftermarket. We believe our well-recognized brand name, wide customer base, strong demand for our axle component products and our pricing power will facilitate further market penetration of our axle components.

We are able to respond promptly to changes in market trends and customize our products according to our customers' specifications

We believe we are able to respond promptly to market trends and customer demands, and customize our products according to our customers' specifications because of the following:

- We are able to closely monitor market trends and customer preferences. In the aftermarket, our extensive sales, marketing and services network provides us with a constant flow of information and feedback from our customers, enabling us to track and predict market trends. In the OEM market, we have dedicated sales teams located near each OEM customer's facilities who are able to obtain product specification requirements and other information directly from our customers, allowing us to develop customized product solutions that meet our customers' demands in a timely manner.
- Our product development capabilities, including our in-house technical department and strategic cooperation with various research institutions, allow us to quickly develop new or customized products and improve existing products according to customer information we have collected and thus to timely meet market demands. We also design in-house and self-produce the moulds used to produce our axle housings instead of relying on third parties to provide moulds, which has significantly accelerated our design and experimentation process and, in turn, has shortened our development cycle for new products.

BUSINESS

As a result, our lead-time for developing new makes and models of punched steel axle housings and cast steel axle housings for our aftermarket customers is typically within one month. We are normally able to complete the design of axle assembly products that meet our OEM customers’ requirements within approximately one week and finish production within approximately one month. We believe that our strong customer service focus and rapid product development capabilities differentiate us from our competitors.

We achieve cost competitiveness through our vertically integrated production process, our cost savings on raw materials and our production technology

We believe we are able to achieve cost competitiveness primarily as a result of the following:

- We utilize a vertically integrated production process whereby we perform all major production steps in-house, including design, moulding, prototyping, casting, rolling, forging, machining and assembly, thereby allowing us to control production costs. Since we possess a vertically integrated production chain for our axle components sold in the aftermarket, we are able to self-produce a majority of the roughcast goods needed for production, which we believe differentiates us from many of our competitors who do not have this type of production business model. Such ability to produce our axle components directly from basic raw materials enables us to save significantly on production costs. Unlike many of our competitors in the OEM market, we self-produce over 80% of the key components for our axle assemblies, which increases our cost competitiveness. In addition, because our production facilities are strategically located near our primary OEM customers, we are able to reduce our transportation costs when delivering finished goods to such customers.
- Our economies of scale enable us to secure price advantages in sourcing our raw materials, primarily steel. Because of the large volume of steel needed for the production of our products, we are able to negotiate discounts with our suppliers and require them to sell us steel on the basis of weight, which is generally less expensive than cut-to-length steel. In addition, due to our production of a broad range of axle component products that use different sizes of steel in large quantities, we are able to recycle our steel waste created during the course of production so that such waste can be further used as raw material in our production process, which maximizes our steel utilization rate.
- We believe our production technology is superior to many of our competitors and results in higher utilization rates of raw materials and lower energy costs. For example, we use a cold-stamping composite moulding technology in the production of our punched steel axle housings that requires less energy and results in less steel waste during the production process than the traditional heat-treating method used by many of our competitors. We also use a “V-process” moulding technology that enables us to recycle used sand during the moulding process, which lowers our cost of production by approximately 2%. In addition, our “Economical Forging Technology and Equipment for Automobile Steering Knuckle” (汽車轉向節經濟型鍛造技術與裝備) and “Energy-saving and Material-saving Precise Forging Technology and Equipment for Automobile Front Axle Beam” (汽車前軸節能節材型精密鍛造技術與裝備) have each been recognized by the China Machinery Industry Federation as an internationally advanced “Scientific Technology Achievement.”

BUSINESS

Our leading presence as an independent provider of axle products in both the aftermarket and OEM market enhances our cross-marketing capabilities and maximizes our sales and profit

We believe our leading presence as an independent provider of axle products in both the aftermarket and the OEM market enhances our cross-marketing abilities and competitiveness in both markets. Because of our large customer base and the popularity of our products among end-users in the aftermarket, OEM customers have become increasingly aware of our products. We were the second largest independent axle assembly provider for the MDT and HDT OEM market in China as measured by revenue in 2009, according to the Frost & Sullivan Report. Our OEM customers include OEMs such as Anhui Hualing Automobile Co., Ltd. (安徽華菱汽車股份有限公司), Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), Changsha Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司長沙汽車廠), Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Changde Motor Crane Branch (長沙中聯重工科技發展股份有限公司常德汽車起重機分公司), Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), Chengdu Wangpai Motor Group Co., Ltd. (成都王牌汽車集團股份有限公司) and Hubei Tri-Ring Special Truck Co., Ltd. (湖北三環專用汽車有限公司). The increasing recognition of our products by our OEM customers has likewise helped to further strengthen our reputation as a high quality axle provider and boost our sales in the aftermarket. Our presence in both markets also provides us with the competitive advantage of having the ability to adjust and allocate our production resources and raw materials to accommodate prevailing demands in each market, thus enabling us to maximize our sales and profit while effectively controlling our production costs.

We sell most of our products in two markets which have different customer bases and demand for different axle product types. We believe that our presence in both markets will enhance our overall growth potential without exposing us to the greater operational risk of only serving a single market, and we are well positioned to capture opportunities in both the aftermarket and the OEM market. For example, during the most recent global recession, although our industry was negatively affected like many other industries, our total revenue grew at a CAGR of 112.9% from 2007 to 2009. We believe that one of the factors contributing to our stable revenue growth is our ability to serve two different markets through our product and business diversification.

We have an experienced management team with extensive industry knowledge and operational expertise

Our management team has extensive industry knowledge, management skills and operational expertise. Most members of our senior management team have over 10 years experience in the PRC automotive parts and axle industry, and most have been with us for over eight years. Ms. Wu Ching, one of our executive Directors, has over 15 years experience in the PRC axle industry. Ms. Wu has received the “National Machinery Industry Outstanding Entrepreneur (全國機械工業優秀企業家)” award from the China Machinery Industry Federation (中國機械工業聯合會) and the China Machinery Enterprise Management Association (中國機械工業企業管理協會), among other awards. Mr. Wong Kwai Mo, the chairman of our Board of Directors, also has over 15 years experience in the PRC axle industry. Mr. Wong has developed several patents relating to axle components. Under the collective leadership of our management team, we have established a track record of rapid growth and have attained leading positions in China’s MDT and HDT aftermarket and OEM market. We believe the strength of our management team will enable us to continue to take advantage of market opportunities and ensure our future growth.

BUSINESS

OUR STRATEGIES

We aim to strengthen our leading position in the axle industry. To that end, we have developed the following business strategies:

Increase our production capacity and improve our production, distribution and logistics capabilities to meet robust demand for our high quality products

We intend to increase our overall production capacity in order to meet robust demand for our high quality products from aftermarket and OEM customers. We have experienced rising demand for our products, especially those products for which we do not have a high market penetration such as front axle beams, brake drums, axle shafts, axle differentials and reducers and steering knuckles, which we believe is due to the strong reputation of our axle housing products, and expect this trend to continue. Because we have not been able to fully meet this rising demand, we plan to increase production capacity for all of our products, particularly the above-mentioned products, in order to better meet our end-users’ demands. We plan to increase the production capacity at each of our three existing production facilities in Kaifeng, Henan province and Longyan, Fujian province. We are also currently constructing a fourth production center in Nanchong, Sichuan province, which is expected to commence operations by the end of 2010. Designed for large-scale production of axle components and assemblies, our Sichuan Changfeng production facility is expected to have an annualized production capacity of 270,000 units for various axle components and 19,000 units for axle assemblies by the end of 2010. Upon completion of the Sichuan Changfeng production facility, we believe that our four production facilities located in the southern, central and western parts of China will form an even broader strategic production and distribution network for our products, which will enable us to maintain closer relationships with our customers and suppliers. We also believe that having production facilities in these three areas of China will provide us with further cost and other advantages over our competitors, as these strategic locations will reduce our transportation costs, improve our logistical efficiency and ultimately allow us to better serve our customers’ needs.

Further expand our extensive sales, marketing and services network and our market reach

In response to the strong demand for our axle component products in the aftermarket, we intend to leverage our extensive sales, marketing and services network to expand our market reach. We plan to expand our existing network by significantly increasing the number of our exclusive first-tier distributors who will only sell our Changfeng-branded products and our second-tier distributors that the first-tier distributors are required to establish under their distributorship agreements with us. We will also focus our efforts on developing distributors in regions with higher volumes of MDT and HDT usage. We are in the process of converting our existing non-exclusive first-tier distributors into exclusive first-tier distributors as we increase our production capacity and product supply. We plan to leverage these exclusive distributors to promote our strong Changfeng brand. We further plan to strengthen the management of our network, primarily by working with our distributors to streamline our pricing policies, develop nationwide and localized marketing strategies and enhance the training of our sales teams and those of our distributors to implement our uniform marketing and after-sales service approach. By expanding and making improvements to our sales, marketing and services network, we believe we will be able to further strengthen our market influence, increase our penetration in our end-user market and further increase our product sales to our customers.

BUSINESS

In the OEM market, we plan to continue to improve our product development and customization capabilities and promote sales of our quality products. Historically, our OEM customers purchased more rear and middle axle assemblies from us than front axle assemblies; however, we plan to develop and introduce new makes and models of our front axle assemblies to meet increasing demand for these products from our existing OEM customers. We also plan to increase the number of our OEM sales staff and dispatch dedicated sales teams to meet with OEMs on a more frequent basis, which we believe will allow us to stay more abreast of their requirements and, in turn, shorten our response time to produce customized products that better serve their needs. In addition, we plan to expand our customer base by leveraging the strategic location of our facility in Nanchong, Sichuan province to develop additional customers in western China. We believe that these efforts aimed at improving our ability to promptly meet our customers’ needs and expanding our customer base will increase sales of our axle assemblies and broaden our market reach in the OEM market.

Further expand our product offerings to become a “one-stop shop” provider of axle components for the MDT and HDT aftermarket in China

We intend to increase the total number of our axle component product models from over 680 as of the end of 2009 to over 1,000 within the next three years, which we believe will cover approximately 90% of the makes and models of MDTs and approximately 85% of the makes and models of HDTs in China. The addition of new makes and models of axle components to our product offerings will give us the ability to supply the full range of axle components to our large and growing aftermarket customer base. We intend to position our provincial-level and first-tier distributors who exclusively sell our Changfeng-branded products as “one-stop shops” so that our end-users can source most if not all of the axle components they need at these “one-stop shops.” We believe we are well positioned to capitalize on this business strategy by leveraging our comprehensive product offerings, strong brand recognition and our extensive sales, marketing and services network.

Improve our production efficiency, product development capabilities and quality controls to shorten our product development cycle and enhance our product quality

We plan to implement a number of measures to improve our production efficiency, including upgrading and further modernizing several of our production lines, and introducing additional equipment into our production chain to streamline our production process. We also intend to establish a center at our Kaifeng Changfeng production facility, which will be dedicated to the production of our cast steel products and reduce our reliance on third parties to supply roughcast goods currently used in the production of our products and increase our production efficiency. We also aim to improve our product development capabilities and develop new processing technologies, such as those aimed at improving our moulding production speed to further shorten our product development cycle. We also intend to establish national-level testing laboratories, which will enable us to test our products in-house for certification purposes within a shorter time frame than at third-party testing facilities, thereby significantly reducing our overall product development cycle. Additionally, we plan to increase quality control at our production facilities by standardizing our production techniques, performing additional testing procedures using new equipment such as fatigue-testing machines, and enhancing the training of our quality control personnel.

BUSINESS

Make selective acquisitions to expand our product offerings and strengthen our product development and production capabilities

There are many local and regional participants in the MDT and HDT aftermarket in China who lack adequate financial resources to keep pace with this fast changing and growing industry, which offers us a wide range of opportunities to acquire these companies. We plan to seek opportunities to acquire companies in businesses complementary to our own in order to expand our product portfolio. For example, we are interested in acquiring companies with products we do not currently produce, such as gears, because we believe such acquisitions will further diversify our product portfolio and accelerate our goal to become a “one-stop shop” provider of axle components. We also plan to further integrate our production process by acquiring companies with technological capabilities, such as additional casting capabilities. Having more in-house casting capabilities will further reduce our use of third-party suppliers and increase the integration of our production process, which we believe ultimately will lead to greater cost advantages.

Expand our international market presence

We plan to expand gradually into international markets in anticipation of overseas demand for our products. Leveraging our broad range of quality product offerings, product development capabilities and cost competitiveness, we believe we are well positioned to expand sales of our products into overseas markets. We intend to implement our overseas expansion plan gradually through a variety of efforts, including:

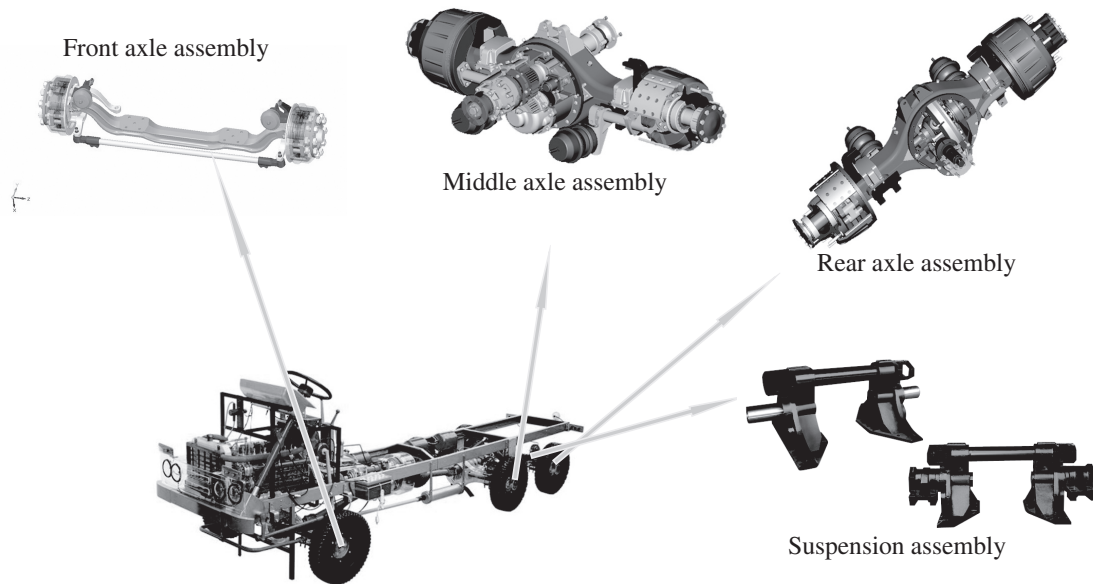
- developing new product models or modifying our existing products to satisfy the specification requirements of different types and models of vehicles used overseas;
- increasing the sales of our axle components products in the overseas axle aftermarket, initially in Southeast Asia, by leveraging our existing overseas distributors and developing new distributors through our marketing channels;
- increasing the sales of our customized axle assemblies, which are used in specialized commercial vehicles, such as fire trucks and truck cranes, in the overseas OEM market, after identifying OEM customers that potentially have a need for customized axle assemblies;
- improving our brand awareness overseas by accessing and advertising with business-to-business websites which target other countries; and
- participating in more MDT and HDT trade shows and events overseas where we can showcase our quality and competitively priced products.

BUSINESS

OUR PRINCIPAL PRODUCTS

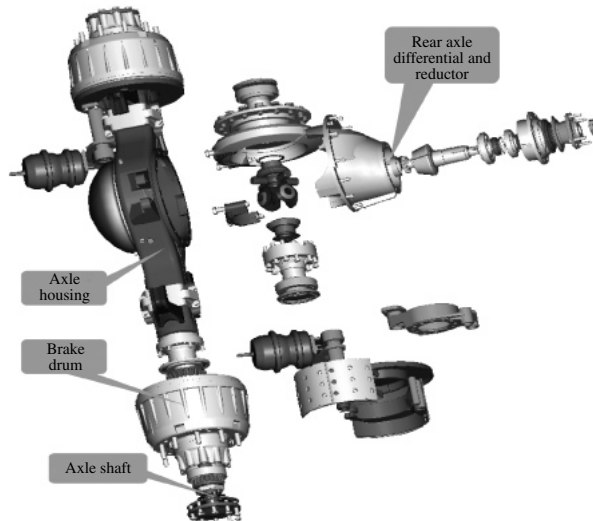
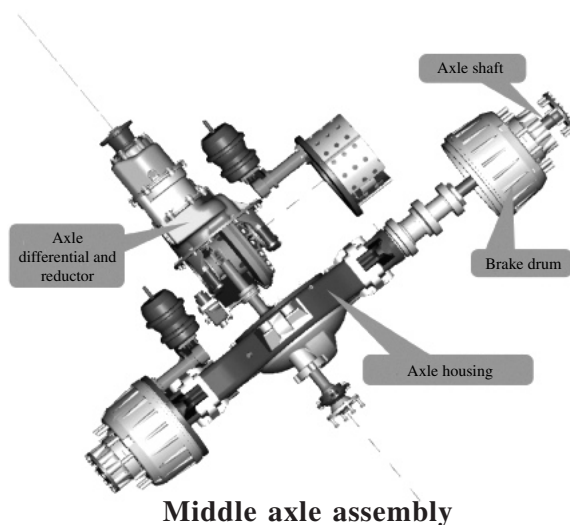
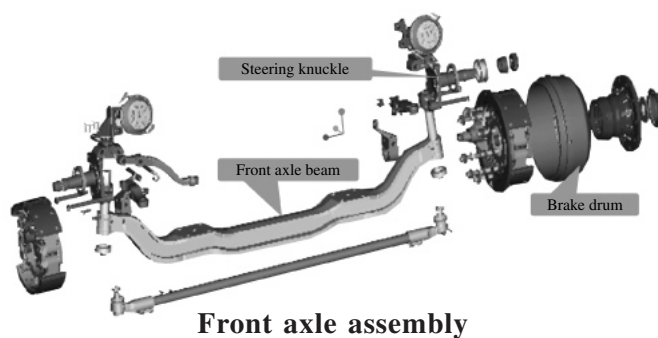
Our axle components and axle assemblies are used for steering, driving, trailing and non-driving axles used in MDTs and HDTs. We manufacture an extensive range of axle components including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams. Our axle component products cover seven major categories of products with over 680 models which are used in different types of MDTs and HDTs. Additionally, we manufacture an extensive range of front, middle and rear axle assemblies and suspension assemblies covering over 400 models.

The following picture illustrates our front, middle, rear axle assemblies and suspension assemblies as they are positioned on a truck chassis:



BUSINESS

The following pictures highlight the axle components that we produce in our front, middle and rear axle assemblies, respectively:



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Axle Components

We are a comprehensive provider of axle components in the aftermarket, and also provide our axle components to other axle assembly providers. Our axle components primarily consist of cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams, covering all major axle components for MDTs and HDTs. Our axle components cover seven major categories of products with over 680 models. Because of the functional similarities across many of our product models, the manufacture of new axle component models generally does not require significant modifications, which enables us to update our product portfolio without incurring substantial additional cost. Our axle components are manufactured in compliance with standard industry specifications such as hardness, strength and fatigue life and then modified to satisfy the specification requirements of different types and models of MDTs and HDTs such as length, size and weight.

We manufacture axle components for new MDT and HDT models when we see, or expect there will be, sufficient demand in the aftermarket for the repair or replacement of their axle components. Likewise, we cease to manufacture or reduce the production of axle components for existing MDT and HDT models if aftermarket demand for the repair or replacement of their axle component decreases or it becomes uneconomical for us to continue to produce them. We forecast demand of our axle component products for the aftermarket by (i) ascertaining market trends through our provincial-level and first-tier distributors and our sales managers located on-site who have gathered market trend information which has been communicated through our sales, marketing and services network and reflects end-user demand, (ii) monitoring historical purchase order fluctuations in the types and quantities of axle components being purchased, and (iii) taking into account peak and off-peak seasons. We also monitor the sales volume of new MDTs and HDTs and the rate of warranty claims made by end-users for the axle components of vehicles sold by OEMs to determine whether there is sufficient demand in the aftermarket for the repair or replacement of such axle components. The launch of new MDT and HDT models impacts the sales of our existing axle component products over an extended period of time as new truck models gradually require axle repair and old truck models are gradually phased out and eventually no longer used on the road.

We are the industry leader in both punched steel and cast steel axle housings for the MDT and HDT axle housing aftermarket in China with a 43% market share based on sales volume in 2009 according to the Frost & Sullivan Report, offering 14 major product series and over 400 different models of axle housings. According to the Frost & Sullivan Report, our axle housings can be used in approximately 70% of the makes and models of MDTs and HDTs in China. Each axle housing series is offered in cast steel and punched steel and either made to customers' specifications or developed and produced based on aftermarket demand. As compared to other axle housing products sold by our competitors in China, we believe our cast steel axle housings have longer lives, and are stronger and more durable for heavy duty tasks than those of our major competitors. Our cast steel axle housings exceed the QC/T 534-1999 national and industry bending fatigue testing standards for durability by more than three times. We believe our cast steel axle housings are more durable because of our advanced production techniques and product structures and designs.

We produce 47 different models of brake drums, which according to the Frost & Sullivan Report covers approximately 60% of the makes and models of MDTs and HDTs in China. We believe our brake drums are generally more durable than those of our competitors due to our product modifications to optimize the function of our brake drums and the enhanced smelting and forging techniques we use in their production. According to the Frost & Sullivan Report, the return rate for our brake drums by our end-users

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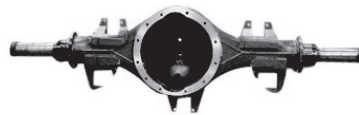
to our distributors during the warranty period is less than 1%, which we believe is significantly lower than that of our competitors. We also utilize our proprietary process to increase the durability of the high-carbon alloy cast iron used in the production of our brake drums. Due to the stronger durability of our brake drums, the Frost & Sullivan Report estimates that the average life of our brake drums for very heavy duty usage is three to four months, as compared with the average life of two months for similar brake drums produced by our competitors.

We also produce a number of other axle components such as axle shafts, axle differentials and reducers, steering knuckles and front axle beams in the aggregate of over 200 different models. As a result, we are a comprehensive provider of axle components and are able to produce over 80% of the key components typically comprising our MDT and HDT axle assemblies, as measured by the total axle component cost of the axle assembly. Currently, the majority of our self-produced axle components are sold to third parties or used in after-sales services such as fulfilling warranty claims, with the remaining portion used in our axle assembly products.

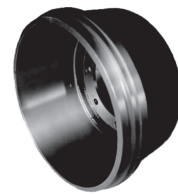
The following pictures illustrate the major axle components that we produce:



Cast Steel Axle Housing



Punched Steel Axle Housing



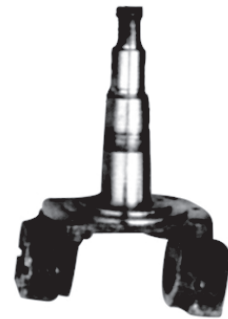
Brake Drum



Axle Shaft



Axle Differential and Reductor



Steering Knuckle



Front Axle Beam

Axle Assemblies

We offer front, middle and rear axle assemblies and suspension assemblies. We sell most of our axle assemblies to the OEM market where each of our axle assemblies is made to specifications required by our OEM customers. We also sell a small portion of our axle assemblies to the aftermarket according to customer demand. We offer our axle assemblies in more than 400 different made-to-specification models. We self-produce over 80% of the axle components comprising our axle assemblies, as measured by the

BUSINESS

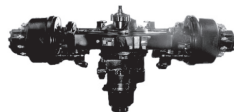
total axle component cost of the assembly, and purchase the remaining axle components from our approved axle components suppliers. Because of our research and development and product development capabilities, we are able to customize our axle assembly products to fulfill most of our OEM customers’ requirements.

We believe the following factors have allowed us to expand rapidly into the OEM market: our rapid product development and customization capabilities, resulting in large part from our strong research and development abilities and production technologies and processes; the consistent high quality of our products offered at competitive prices; and fast turn-around times. In addition, our excellent after-sales services and good relationships with our OEM customers are also important for us to expand our OEM customer base. We offer axle assembly products that match a wide variety of vehicle specifications based on customer demand in the OEM market.

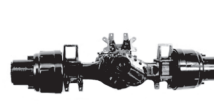
The following pictures illustrate our front, middle and rear axle assemblies and suspension assemblies:



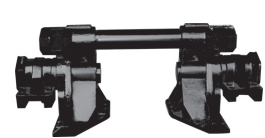
Front Axle Assembly



Middle Axle Assembly



Rear Axle Assembly



Suspension Assembly

SALES, MARKETING AND SERVICES

We classify our operations and sales by business segments, which are determined by the types of customers to which we sell our products. In general, our customers are divided into two groups: aftermarket customers and OEM and related market customers. Sales to aftermarket customers accounted for 47.5%, 65.7%, 62.5% and 64.9% of our total revenue for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Sales to OEM and related market customers accounted for 52.5%, 34.3%, 37.5% and 35.1%, respectively, of our total revenue for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

We sell most of our axle components and a small portion of our axle assemblies through our extensive sales, marketing and services network of provincial-level, first-tier and second-tier distributors that directly service the aftermarket. In our OEM and related market, we sell our axle assemblies directly to our OEM customers and also sell a small portion of our axle components to MDT and HDT axle assembly providers in China. In addition, we sell a small portion of our axle components and axle assemblies overseas.

BUSINESS

The following table sets forth the revenue generated from the sales of our axle components and axle assemblies during the Track Record Period:

	Year ended December 31,			Six months ended June 30, 2010
	2007	2008	2009	
	RMB'000			
Axle Components	104,712	223,140	466,328	453,809
Axle Assemblies	71,956	194,690	334,823	240,757
Total	<u>176,668</u>	<u>417,830</u>	<u>801,151</u>	<u>694,566</u>

Sales, Marketing and Services Network for Aftermarket

We operate the most extensive sales, marketing and services network among all axle component providers in the PRC MDT and HDT aftermarket in terms of geographic spread and market penetration as of the end of 2009. As of December 31, 2009, our network consisted of 25 provincial-level distributors, 192 first-tier distributors and 412 second-tier distributors, covering 30 provinces, municipalities and autonomous regions across China.

The following map illustrates the locations of our provincial-level distributors in our sales, marketing and services network for our aftermarket as of December 31, 2009:



BUSINESS

Our provincial-level distributors, who distribute our products on an exclusive basis, function as our sales and distribution management centers for the 30 provinces, municipalities and autonomous regions covered by our network. We primarily sell our axle component products to our provincial-level, first-tier and second-tier distributors. Our provincial-level distributors, in turn, primarily sell such products to our first-tier distributors. Our first-tier distributors then generally further sell and distribute such products to our secondary distributors who ultimately sell to end-users and aftermarket automobile repair centers in China. On a less frequent basis, we also sell directly to customers of our distributors, aftermarket automobile repair centers and end-users. We also sell a small portion of our axle assembly products through our distributors to the aftermarket according to customer demand.

As of December 31, 2009, we had 33 exclusive distributors, comprised of all 25 of our provincial-level distributors and eight of our first-tier distributors. We have continued to expand our sales, marketing and services network in 2010, including our exclusive distributors. We require our exclusive distributors to sell only our Changfeng-branded products and renovate their stores according to our Changfeng-branded design and layout requirements. This uniform branding and marketing strategy, which we pioneered in the axle aftermarket in China, helps promote brand awareness and strengthen customer confidence in our products, thereby increasing our overall sales. We are in the process of converting our existing non-exclusive first-tier distributors into exclusive first-tier distributors as we increase our production capacity and product supply. We convert our non-exclusive first-tier distributors by having them enter into our standard exclusive first-tier distributorship agreement and requiring them to renovate their stores in accordance with our design and layout requirements. Because there are no legal procedures required for this conversion, each store conversion generally will take one month to complete. Our non-exclusive first-tier distributors are not subject to the above-mentioned exclusivity and renovation requirements.

Distributors and Relationships

The following table set forth the total number of our provincial-level, first-tier and second-tier distributors in China by region as of December 31, 2007, 2008 and 2009, respectively.

	As of December 31, 2007			As of December 31, 2008			As of December 31, 2009		
	Provincial-level distributors	First-tier distributors	Second-tier distributors	Provincial-level distributors	First-tier distributors	Second-tier distributors	Provincial-level distributors	First-tier distributors	Second-tier distributors
Southeast China ⁽¹⁾	5	33	51	5	67	111	9	69	199
Southwest China ⁽²⁾	4	8	27	4	13	58	5	45	78
Northwest China ⁽³⁾	2	7	5	2	8	14	3	17	23
North China ⁽⁴⁾	1	17	44	1	25	86	8	61	112
Total.	12	65	127	12	113	269	25	192	412

Notes:

- (1) Southeast China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Guangdong, Hubei, Hunan and Hainan
- (2) Southwest China includes Chongqing, Sichuan, Guizhou, Yunnan and Guangxi
- (3) Northwest China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang
- (4) North China includes Shandong, Beijing, Tianjin, Henan, Hebei, Shanxi, Jilin, Liaoning, Heilongjiang and Inner Mongolia

BUSINESS

The following table sets forth the total number of our provincial-level and first-tier distributors in China as of December 31, 2007, 2008 and 2009 and the number of additions, promotions/demotions and non-renewals of such distributors for the years ended December 31, 2008 and 2009.

	As of December 31, 2007	Addition	(Promotion/ Demotion)	(Non- renewal)	As of December 31, 2008	Addition	(Promotion/ Demotion)	(Non- renewal)	As of December 31, 2009
Provincial-level distributors	12	0	0	0	12	13	0	0	25
First-tier distributors	65	65	(0/14)	(3)	113	153	(13/53)	(8)	192

In 2009, we promoted 13 of our existing first-tier distributors to provincial-level distributors in order to deepen the reach of our sales, marketing and services network as many of our existing provincial-level distributors at the time covered more than one province within their appointed geographic area. These 13 distributors are included as additions of provincial-level distributors and as promotions of first-tier distributors for the relevant period in the above chart. During 2009, we demoted 53 of our first-tier distributors at the time to second-tier distributors due to inadequate operational performance, scale and capabilities. The eight non-renewals were due to one first-tier distributor going bankrupt, three first-tier distributors exiting the business altogether and four first-tier distributors being reclassified as OEM and related market customers. The first-tier distributor that went bankrupt in 2009 was located in Shaanxi Province and went bankrupt due to poorly managed operations and a reduction in its sales, which were not due to the accumulation of inventory of our products. The bankruptcy of this distributor in 2009 did not have a financial or other impact on us because we did not have any outstanding trade receivables from it, we did not renew our distributorship agreement with this first-tier distributor at the end of 2008 and we found a replacement distributor immediately thereafter.

In 2008, we demoted 14 of our first-tier distributors at the time to second-tier distributors due to inadequate operational performance, scale and capabilities. The three non-renewals were due to such first-tier distributors exiting the business altogether.

We did not replace or early terminate any provincial-level distributors during the three years ended December 31, 2009, and we did not early terminate any first-tier distributors during the three years ended December 31, 2009. None of our provincial-level or first-tier distributors terminated cooperation with us during the three years ended December 31, 2009.

We add, promote, demote or do not renew our first-tier distributors at the request of our provincial-level distributors based on their evaluation of the first-tier distributors with respect to sales performance, cooperation, accounts receivable collectability and other market factors. All additions, promotions, demotions and non-renewals of first-tier distributors require our approval. Changes to the number of second-tier distributors are made by our first-tier distributors because we generally do not have direct contractual relationships with the second-tier distributors. However, we have the right to require our first-tier distributors to cease supplying our products to any second-tier distributor. First-tier distributors are required to notify us of any changes to the number of second-tier distributors under their appointed geographic area.

We have long-standing relationships with our provincial-level distributors, who we believe share our financial goals and long-term vision for our business growth, which has resulted in their strong loyalty to us and low turnover since our inception in 2001.

BUSINESS

One of our current employees was a shareholder of one of our provincial-level distributors until November 2009. As a condition to joining the Group in October 2007, we required such employee to dispose of his equity interest in the distributor and to cease participating in the distributor’s operations. Based on the Group’s internal investigation, both of the aforementioned conditions were satisfied by such employee, although the equity transfer agreement entered into between the employee and the transferee in September 2007 was not registered with the local government authorities until November 2009. The percentage of our revenues attributable to this distributor during the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was 13.1%, 9.2%, 9.5% and 10.2%, respectively. We conducted all transactions with such distributor on an arm’s-length basis. Other than the foregoing and save for their relationships as distributors of our products, none of our distributors has had any relationship, past or present, with any members of the Group, their shareholders, directors and senior management and their respective associates.

Distributorship Agreements and Guidelines

We enter into standardized distributorship agreements with our provincial-level distributors and for our first-tier distributors we enter into a three-party distributorship agreement among our first-tier distributors, provincial-level distributors and us. We have entered into distributorship agreements with such distributors since our inception in 2001. A three-party distributorship agreement helps us directly control and monitor our first-tier distributors while at the same time maximize our efficiency by delegating certain management oversight of our first-tier distributors to our provincial-level distributors. Our provincial-level distributors undertake under these three-party distributorship agreements to assist in the management of our first-tier distributors by providing our products to the first-tier distributors, verify payments and product deliveries between the provincial-level and first-tier distributors, assist the first-tier distributors in sales and marketing, training and after-sales services in the appointed geographic area of the first-tier distributors.

Although we do not enter into written agreements with our second-tier distributors, we require our first-tier distributors to enforce our pricing policies, guidelines and procedures on the second-tier distributors in our network, which we believe allows us to effectively manage and control them. We believe this requirement strengthens our brand recognition and helps us to build a consistent brand image and management system at the second-tier distributor level, which is often a direct contact point with the end-users of our products. Any non-compliance with our guidelines by second-tier distributors will be referred to the relevant first-tier distributor and the relevant first-tier distributor is responsible to ensure that such second-tier distributor rectifies the non-compliance.

Our provincial-level and first-tier distributors are required under their distributorship agreements with us to comply with the following undertakings:

Purchase target and development of lower-level distributors. Our provincial-level and first-tier distributors must meet yearly minimum purchase targets and add a minimum number of lower-level distributors under such distributor’s appointed geographic area. Such targets are determined after discussion between these distributors and us based on local market demand, prior year performance, and after taking into account our production capacity and product supply. The achievement of these targets serve to widen our customer base and increase our market penetration within each geographic region that our products are sold.

BUSINESS

Geographic and customer limitations. We require our provincial-level distributors and first-tier distributors to sell only within their appointed provinces and cities, which we believe minimizes competition between our different levels of distributors. In limited instances, a provincial-level distributor will cover more than one province. We generally do not appoint provincial-level or first-tier distributors to geographic areas which overlap, however, we retain the right to appoint other distributors to the same geographic area. We have guidelines which are not in our distributorship agreements that require our first-tier distributors not to sell our products to automobile repair centers who are the customers of our second-tier distributors. We believe these guidelines are an effective method in minimizing competition between our first-tier and second-tier distributors.

Pricing. We require our provincial-level and first-tier distributors to comply with our uniform pricing scheme in which our products are to be sold to lower-level distributors at different fixed price levels. Please refer to the section headed “Business — Sales, Marketing and Services — Pricing Policy” in this document for further information.

Marketing and after-sales services. We require our provincial-level and first-tier distributors to comply with our promotion arrangements, obtain our approval before commencing self-initiated promotion arrangements, assist in providing after-sales services to end-users of our products, provide market trend information and report end-user complaints. Our distributorship agreements do not allow our distributors to return goods other than as described in the section headed “Business — Sales, Marketing and Services — After-Sales Services” in this document.

Our distributorship agreements have a term of twelve months, which may be renewed by agreement of the parties. Distributors who violate certain undertakings such as failure to meet yearly minimum purchase targets or monthly average purchase targets for three successive months, selling outside their appointed geographic area, failing to provide requested lower-level distributor information, breaching our uniform product pricing schemes, failure to make timely payment within 30 days after payment is due or continuing to supply our products to lower level distributors whom we want to eliminate from our network, are subject to penalties. The penalties may include monetary fines, suspension of product supply or early termination of the distributorship agreement. Each of our distributorship agreements have standard confidentiality clauses which require each party to maintain the confidentiality of the other contracting parties’ trade secrets during and following the term of the agreement.

In addition to our distributorship agreements, we also require our provincial-level and first-tier distributors to comply with our management manual which provides guidelines, standards and procedures on operating within our network and details regarding the implementation of certain terms of the distributorship agreements.

Selection, Management and Evaluation of our Distributors

From our initial selection process to our annual evaluation, we systematically manage our distributors to determine whether to renew their distributorship agreements with us. As a result, we believe they have the reputation, sales network coverage, work force, after-sales service capabilities, and facilities and equipment to market and sell our products effectively and to facilitate our long-term development strategy.

Selection criteria and process. Our provincial-level and first-tier distributors must meet certain requirements in order to become a part of our network such as minimum capital investment, store size, managerial abilities, industry experience and acknowledgment and consent of our corporate culture and

BUSINESS

development strategies. We work with our provincial-level distributors in determining any additions, early terminations or non-renewals of our first-tier distributors, and primarily rely on our first-tier distributors to determine any additions, early terminations or non-renewals of our second-tier distributors.

Management, assistance and training. To improve compliance with our guidelines and procedures and to help our distributors achieve their purchase targets, we have sales managers who are permanently located at the locations of our provincial-level distributors, except in limited circumstances where a sales manager may cover more than one provincial-level distributor, and are responsible for the management of such distributors. These sales managers conduct monthly or bi-monthly meetings with our provincial-level and first-tier distributors to discuss brand promotions, new products, local market trends, competitors, end-user and distributor complaints and other information material to the business of such distributors.

In order to help our distributors to meet the sales targets, we provide suggested expansion plans to these distributors based on reports that we receive from our sales managers who are responsible for that geographic area. Our sales managers report the performance of the distributors to us once a week by telephone and every three months in person. These reports identify local market conditions, competitor analysis and distributor performance, which enable us to identify and suggest areas of expansion for our distributors. We assist our distributors to implement our suggested expansion plan by participating in business development efforts, providing market information, brand image improvement techniques and other marketing tools.

We collect monthly inventory information that reflect the changes in inventory levels of the products of our provincial-level and most of our first-tier distributors, who, in turn, are required by us to collect similar inventory information from our second-tier distributors, which we track in conjunction with our distributors' purchase order history with us to verify that the growth in the sales of our products to our distributors during the Track Record Period is supported by the growth in the sales of our products to the end-users of our products. Purchase orders for our products generally are generated from a bottom-up methodology beginning with automobile repair centers who directly service MDT and HDT end-users and are aggregated through our tiers of distributors until they are provided to us. Our second-tier distributors and automobile repair centers typically are unable to maintain significant inventory levels of our products due to cash flow limitations. Where inventory has been accumulated to unreasonable levels by our provincial-level or first-tier distributors, we usually require such distributors to reduce inventory to levels acceptable to us before we will accept additional purchase orders from them. We also randomly conduct on-site inspections of the inventory levels of our products at our provincial-level and first-tier distributors to confirm that the inventory information we are given are accurate, and conduct random on-site inspections of our second-tier distributors to check their inventory levels of our products. We believe making aggressive purchases of our products may impose risks on the stability of our sales, marketing and services network and do not encourage our distributors to place aggressive purchase orders. We believe that there is no unreasonable accumulation of inventory by our different tiers of distributors.

Our sales and marketing personnel also work together with our provincial-level and first-tier distributors on marketing campaigns for our products, and provide them with periodic training on marketing, after-sales services, new products, market updates, inventory management, and technological advancements. These distributors bear most of the costs associated with the re-sale of our products, including most marketing costs and all transportation costs from our production facilities to their locations.

BUSINESS

Evaluation. Our sales managers conduct monthly or bi-monthly meetings with and inspections of our provincial-level and first-tier distributors to evaluate their compliance with our guidelines and procedures, sales practices, purchase targets, operation results, distribution network management and development, marketing activities, pricing policies and inventory control. Our sales managers will also conduct random inspections of our second-tier distributors to evaluate their compliance with our guidelines and procedures.

We conduct annual evaluations of our provincial-level distributors based on the same criteria as our monthly or bi-monthly evaluations in order to determine whether to renew our distributorship agreements with them. We also work with our provincial-level distributors to determine whether to renew our distributorship agreements with our first-tier distributors based on the annual evaluation criteria of our provincial-level distributors as well as our own. We rely on our first-tier distributors to evaluate the second-tier distributors in order to determine whether or not to renew their distributorship agreements with them. However, we have the right to require our first-tier distributors to cease supplying our products to any second-tier distributor if we desire to eliminate such second-tier distributor from our network.

Breach Incidents of Distributorship Agreements

During the Track Record Period, we were aware of three incidents in which our provincial-level or first-tier distributors unintentionally breached their obligation to sell our products only within their appointed geographic areas because certain individuals, who represented themselves as end-users, purchased a small number of our axle housings from them and re-sold them outside of such distributor’s appointed geographic area. These breach incidents were immaterial to our operations, although in one instance, we fined the breaching distributor a nominal amount and transferred such fine to the complaining distributor. In order to prevent similar incidents in the future, we require our provincial-level and first-tier distributors to register their customers’ identification and contact information as well as the purpose of their purchase. The distributors are then required to verify this information with the customer and other sources of information to confirm its accuracy. If a distributor determines that a customer is not an end-user and is located outside the distributor’s appointed geographic area or the volume of products is unreasonably high for an end-user to be purchasing, such distributor should not conduct business with such customer.

Sales, Marketing and Services Network for OEM and Related Market

We primarily sell our axle assemblies on a made-to-order basis to match our OEM customers’ specification requirements and we constantly update our axle assemblies to match their needs. Our OEM customers then assemble our axle assemblies as part of their automobiles for sale. We also sell a small portion of our axle components to other axle assembly providers who then assemble axle components into axle assemblies for sale to their OEM customers.

We have a dedicated sales team assigned to service each of our OEM customers. These sales teams typically are located near our OEM customers’ facilities, where they can continually market, promote, sell and provide after-sales services for our products on-site. Our sales team members are responsible for handling purchase orders, coordinating transportation and logistics arrangements, inspecting goods upon delivery and all after-sales services. We typically enter into one-year agreements with our OEM customers, which provide that the OEM customers will send in their purchase orders to us on a monthly basis. These agreements do not impose any exclusivity restrictions on us, but require us to keep such customer’s trade secrets confidential during and after the term of the agreement. Our sales teams work closely with our product development and production teams to ensure we provide OEM customers with products that match their specifications on an ongoing basis. On occasion, we also receive one-time purchase orders from OEM customers which we fill depending on the availability of our production capacity.

BUSINESS

Customers

In our aftermarket business segment, we primarily sell our products to our provincial-level, first-tier and second-tier distributors on an arm’s-length basis. Our provincial-level distributors in turn primarily sell such products to our first-tier distributors. Our first-tier distributors then generally further sell and distribute such products to our second-tier distributors who ultimately sell to end-users and aftermarket automobile repair centers in China. On a less frequent basis, we also sell directly to customers of our distributors, aftermarket automobile repair centers and end-users. We also sell a small portion of our axle assembly products through our network to the aftermarket according to customer demand. During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, sales to our five largest aftermarket customers represented 20.9%, 14.8%, 14.9% and 21.6% of our total revenue, respectively, and sales to our largest aftermarket customer accounted for 13.1%, 9.2%, 9.5% and 10.2% of our total revenue, respectively. For further information regarding the total number of our provincial-level, first-tier and second-tier distributors in China by region, please refer to the section headed “Business — Sales, Marketing and Services — Sales, Marketing and Services Network for Aftermarket — Distributors and Relationships” in this document.

In our OEM and related market business segment, we primarily sell our products to OEMs and other axle assembly providers. As of December 31, 2009, we had a total of 28 OEM and related market customers located in Anhui, Fujian, Guangxi, Hubei, Hunan, Jiangxi, Shaanxi, Shandong and Sichuan provinces of China, such as Anhui Hualing Automobile Co., Ltd. (安徽華菱汽車股份有限公司), Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), Changsha Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司長沙汽車廠), Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Changde Motor Crane Branch (長沙中聯重工科技發展股份有限公司常德汽車起重機分公司), Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), Chengdu Wangpai Motor Group Co., Ltd. (成都王牌汽車集團股份有限公司) and Hubei Tri-Ring Special Truck Co., Ltd. (湖北三環專用汽車有限公司). Our top five OEM and related market customers in 2009 rank among the major MDT and HDT manufacturers within their respective regions, have sales and distribution offices and/or maintenance centers located across China and generally have large-scale production capacities for various types of MDTs and HDTs. For example, Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), our largest OEM and related market customer in 2009, is one of the core production centers for a large MDT and HDT manufacturer serving both the national and international markets. During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, sales to our five largest OEM and related market customers represented 37.8%, 22.9%, 20.4% and 17.3% of our total revenue, respectively, and sales to our largest OEM and related market customer accounted for 19.2%, 9.1%, 7.0% and 4.7% of our total revenue, respectively.

During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, sales to our five largest customers represented 47.0%, 29.8%, 27.6% and 26.0% of our total revenue, respectively, and sales to our largest customer accounted for 19.2%, 9.2%, 9.5% and 10.2% of our total revenue, respectively. Our five largest customers in 2009 have maintained business relationships with us for a range of two to five years. None of our Directors, their respective associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued share capital, has any interest in any of our five largest customers during the Track Record Period.

BUSINESS

Pricing Policy

We determine and adjust our product selling prices from time to time on the basis of market supply, market demand and the price of our raw materials. In determining our prices, we take into account our costs of production, pricing of comparable products in the market, prevailing market conditions for our products and the positioning of our products in the relevant market. We have a nationwide pricing policy for our network of distributors in the aftermarket in which all distributors must comply with whenever we make changes to our product selling prices. We sell our products at different price bands to each level of distributor with provincial-level distributors paying the lowest price and second-tier distributors paying the highest price. Any sales made to a particular level of distributor must comply with our uniform product price for that level of distributor. Our distributors may, after taking into account local market conditions and consumer preferences, sell a product to a lower-level distributor at an adjusted price which typically does not fluctuate by more than 10% of our uniform product price, however, such adjusted price is subject to our prior approval. We also have a suggested retail price in which distributors should sell our products to end-users at such price, however, our distributors have the discretion to sell our products to an end-user at a discount or premium to our suggested retail price. We monitor the sales and demand impact of any adjustments to our suggested retail price by our distributors through the feedback of end-users and other distributors. Due to the strong demand for our axle component products, we generally are able to dictate the prices of our axle components to our aftermarket customers and our axle assembly provider customers, which demonstrates our strong pricing power over them. In addition, we generally are able to pass on significant increases in our raw material costs to such customers. We negotiate product prices with our OEM customers on an individual basis, and are able to renegotiate prices with some of these customers if we experience significant increases in our raw material costs.

Marketing

We market our products primarily through print media advertisements and point-of-sale support materials. Most of our marketing and promotional efforts are directed through our sales, marketing and services network servicing the axle components aftermarket. We use information that our marketing department has collected to identify customer demographics and preferences, determine which products and options are most in demand, optimize inventory control, and adjust our production and distribution efforts accordingly. We primarily market our products by distributing print media advertisements at highway rest-stops and aftermarket repair centers. We also advertise our products at the storefronts of our distributors. We conduct nationwide promotional events several times a year where end-users of our products are given promotional gifts such as lighters, key chains and flashlights with our Changfeng logo. We are responsible for a small portion of the costs for the promotional activities and our provincial-level distributors are responsible for the remainder. Our distributors are responsible for the costs associated with other regional promotional events. We also attend various major automobile parts trade shows and fairs where we promote our brand name and market our products.

We frequently leverage our presence in both the OEM market and the axle aftermarket by launching newly developed makes and models of our products in the aftermarket in response to end-user demands that have been conveyed to us by our sales, marketing and services network of distributors. We believe that our OEM customers, upon becoming aware of our new products by word-of-mouth from their end-users, will directly contact us to produce new makes and models of our products for them.

Sales and Settlement Arrangements and Payment Terms

We manufacture our products for sale in the aftermarket upon receipt of purchase orders from our aftermarket customers and based on our monthly forecasts of market demands. We manufacture our products for sale in the OEM and related market pursuant to purchase orders received from our OEM and related market customers.

BUSINESS

We generally do not require our existing or new customers to pay an advance deposit at the time when they place purchase orders. Our customers are generally required to pay in full within 90 to 120 days of their receipt of our invoice. For information regarding our revenue recognition policy for sales of our products, please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Revenue Recognition” in this document.

Product Delivery

Our products are transported to our domestic customers by road. Our provincial-level distributors function as our sales and distribution management centers. Provincial-level distributors are required to pick up our products purchased by them directly from our production facilities, either themselves or through third-party transportation providers arranged by them or we can arrange for third-party transportation providers to transport our products to them. Regardless of the method used to pick up our products, once the products leave our production facilities, the risk of loss passes to these customers and they may not return the products to us unless it is pursuant to a valid warranty claim. Lower tier distributors then pick up our products from higher tier distributors or directly from our production facilities. Our distributors bear these transportation costs. We usually invoice our aftermarket customers by the end of the month in which the products leave our production facilities.

We are required to transport our products to our OEM and related market customers and to bear the costs of transporting our products to them. We usually invoice our OEM and related market customers by the end of the month in which we deliver our products to them. Our three production facilities in central and southern China give us the flexibility to manufacture our axle assemblies at the production facility which will result in less transit time and lower transportation costs. We also enter into one-year contracts with transportation logistics service providers that entitle us to the same rates year-round, adjusted for certain market conditions. We charter vehicles to exclusively transport our products, which reduces transit time in comparison to other methods of transportation which involve sharing vehicles with other automobile parts providers. We also have a systematic transportation logistics system where we can aggregate large-scale deliveries to the same area to lower our overall transportation costs.

After-Sales Services

Our extensive network of distributors, enables us to provide prompt, nationwide after-sales services to our aftermarket customers throughout China regardless of where such customers and end-users initially purchase our products. Due to the depth and breadth of our network, we believe our aftermarket customers and end-users of our products find our network locations to be more accessible than our competitors. We offer product exchanges within the warranty period on defective products sold by us to our aftermarket end-users primarily through our second-tier distributors, and to a lesser extent, our provincial-level and first-tier distributors. Our distributors manage our after-sales services by contacting our customer service department telephone number that is accessible 24-hours. Our end-users can also contact our customer service department directly.

We also offer product exchanges within the warranty period on defective products sold by us to our OEM and related market customers, subject to our written warranty policy. Our OEM sales teams provide immediate after-sales services to our OEM customers upon delivery of products, as well as to the end-users of the OEM’s vehicles that incorporate our axle assemblies so long as the axle assembly is still within the warranty period. Our sales teams directly assist our OEM customers or their authorized repair centers in

BUSINESS

addressing the end-users’ after-sales issues. We aim to provide on-site maintenance services within 48 hours of receipt of an OEM customer’s request. Our OEM and related market customers and the end-users of the OEM’s vehicles can also contact our 24-hour customer service department telephone number for direct handling of their after-sales service requests.

The warranty periods for our axle component products are as follows: (i) cast steel axle housings: one year; (ii) punched steel axle housings: six months; and (iii) brake drums, axle shafts, front axle beams, axle differentials and reducers, steering knuckles: three months. The warranty period for our front, middle and rear axle assemblies is six months and one year for our suspension assemblies. For products sold to our aftermarket customers, the applicable warranty periods for our products commence upon the earlier of: (i) the purchase date on the completed warranty card which we receive from the ultimate end-user of the product, or (ii) three months from the date of delivery of the product to the customer. As described in the section headed “Business — Sales, Marketing and Services — Product Delivery” above, for aftermarket sales, delivery of the product occurs when the customer picks up the product from our production facilities. For products sold to OEMs and subsequently used in MDTs and HDTs manufactured by the OEMs, the applicable warranty periods for the Group’s products commence on the date on which the end-users purchase the vehicle, which is reflected on the warranty card issued by the OEM to the end-user. Generally, the end-user of the vehicle will seek warranty service at the OEM’s repair centers. The OEMs will then seek reimbursements from the Group for the repair costs they incur.

During the Track Record Period, we made provisions for warranty claims only for the front, middle and rear axle assemblies we sold to our OEM customers, which are covered under a six-month warranty period, on the basis that historically and in practice our customers seldom make warranty claims on other products. Such provisions were made according to possible claims on products to be made by our OEM customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over the total sales amounts during the relevant period. In cases where the actual claims are greater than expected, a material increase in warranty expenses may arise and such increase would be recognized in profit or loss in the period in which such claims are made.

We incurred warranty costs of RMB0.1 million, nil, RMB6.7 million and RMB3.3 million for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. These costs were associated with product exchanges and reimbursements of costs incurred by OEM customers in repairing our defective products sold during the Track Record Period.

Except for exchanges of our products covered under warranties, we did not otherwise permit returns of our products by our aftermarket or OEM and related market customers during the three years ended December 31, 2009. Therefore, we did not make any provisions for returned goods during the three years ended December 31, 2009. However, beginning in 2010, we adopted a sales return policy providing that, if defective aftermarket products are returned to our provincial-level distributors and a refund is sought, such provincial-level distributors may then return the defective products to us along with the invoice for such products, and are entitled to a refund from us for the invoiced amount of the products. End-users of our aftermarket products are entitled to return defective products within the applicable warranty period for such product. As of the Latest Practicable Date, no refund has been paid or is payable by the Group for defective aftermarket products since the aforementioned sales return policy was adopted. Therefore, we do not intend to make any provision for returned goods in 2010. For defective products sold to our OEM and related market customers, currently we only permit product exchanges under applicable warranties and we neither allow returns nor provide refunds for such products.

BUSINESS

PRODUCTION

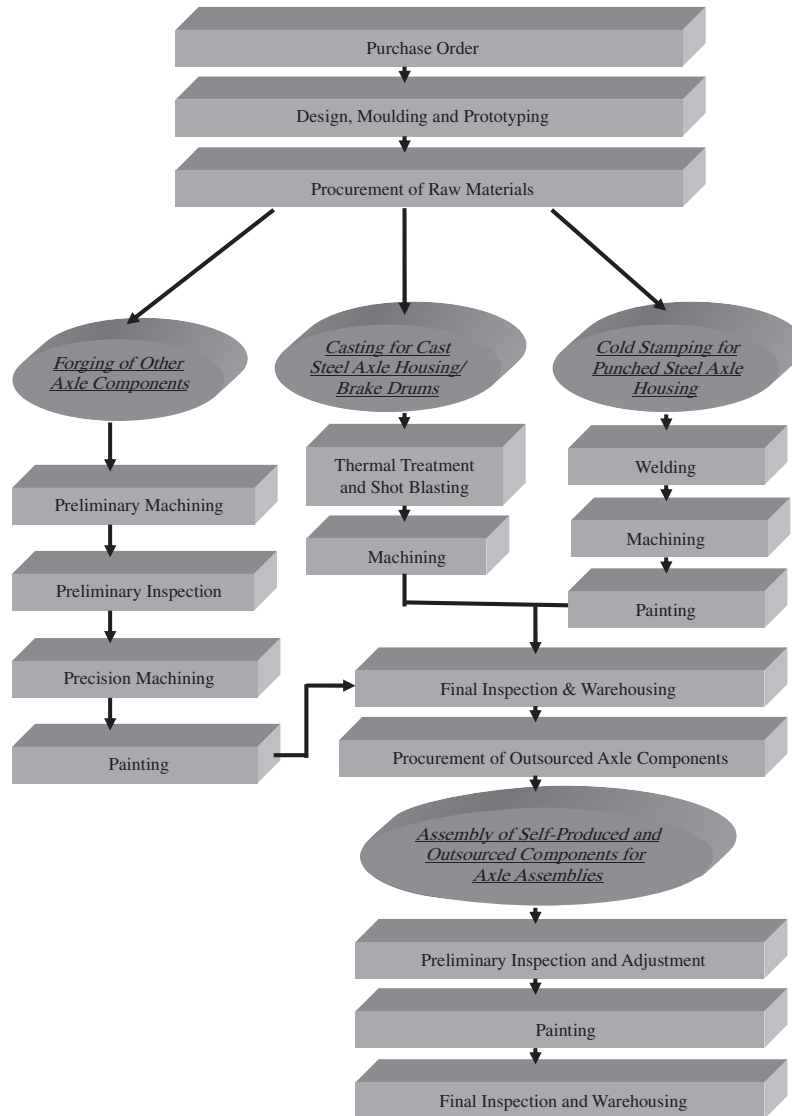
Upon receipt of a purchase order, our sales, procurement, production and production management departments coordinate to commence the purchase order verification process, which includes inventory verification, production planning and scheduling and final purchase order approval. We are able to promptly respond to our customers’ requirements and typically complete our purchase order verification process within one to two business days after receiving the purchase order. Once we have completed the purchase order verification process, we commence production for the purchase order. We forecast demand of our axle component products for the aftermarket before commencing production by (i) ascertaining market trend and specification requirements through our provincial-level and first-tier distributors and on-site sales managers located there who have gathered market trend information which has been communicated through our sales, marketing and services network and reflects end-user demand, (ii) monitoring historical purchase order fluctuations in the types and quantities of axle components being purchased, and (iii) taking into account peak and off-peak seasons.

Our production process utilizes a vertically integrated production model whereby we perform all major production steps in-house, including design, moulding, prototyping, casting, rolling, forging, machining and assembly, thereby allowing us to control production costs. We believe we use advanced production techniques in China for the production of axle components and axle assemblies for MDTs and HDTs. Our advanced production techniques are the product of our in-house product development efforts as well as our strategic partnerships with the Beijing Research Institute and other research institutions. We have jointly and separately developed various proprietary axle production technologies that have enabled us to produce quality axle products.

As a comprehensive provider of axle components and assemblies, we produce our axle components and axle assemblies in different production lines. We carefully monitor each stage of our production process through our quality control staff with specialized testing equipment to ensure that our final product achieves the highest possible quality standard.

BUSINESS

The following diagram illustrates the overall production process for our axle components and axle assemblies:



Production of Axle Components

Each of our axle components undergoes a different production process as described below:

- The process of producing cast steel axle housings and brake drums consists of the following major steps: design, moulding and prototyping, procurement of raw materials, casting, thermal treatment and shot blasting and machining. For the production of our cast steel axle housings and brake drums, we use scrap steel generated in our production of other axle components and procured from suppliers, and apply our “V-process” moulding technology which enables us to improve the speed of moulding and recycle used sand during the moulding process, thereby lowering our cost of production by approximately 2%.

BUSINESS

- The process of producing punched steel axle housings consists of the following major steps: design, moulding and prototyping, procurement of raw materials, cold stamping, machining and painting. For the production of our punched steel axle housing products, we use manganese plate, a type of high-strength low-alloy structural steel, and apply cold-stamping composite moulding technology because it requires less energy and results in less steel waste during the production process than the traditional heat-treated method which is used by many of our competitors. This process not only improves the mechanical strength of our punched steel axle housing products over those which are manufactured using the heat-treating method, but also reduces our production costs due to the energy savings.
- The process of producing our other axle components such as axle shafts, axle differentials and reducers, steering knuckles and front axle beams consists of the following major steps: design, moulding and prototyping, procurement of raw materials, forging, preliminary machining, preliminary inspection, precision machining and painting, with the exception of axle shafts which are not painted.

The average production time for axle components ranges from two to seven days depending on different axle components. Typically, it takes two to three days for punched axle housings; six to seven days for cast steel axle housings; five days for brake drums; three days for front axle beams; three days for steering knuckles; two to three days for axle shafts; and two to three days for axle differentials and reducers.

All axle components undergo final inspection by our quality control department and are warehoused until sold to third parties or needed for internal use in our axle assembly products. We also recycle our steel waste created during the course of production so that it can be used as raw material to produce other axle components, which maximizes our steel utilization rate and further reduces our production costs. We believe a combination of our efficient production process and production technology significantly reduces our overall production costs as compared with our competitors, thereby increasing our cost competitiveness.

Production of Axle Assemblies

The process of producing our front, middle and rear axle assemblies and suspension assemblies includes the assembly of multiple axle components. Front axle assemblies consist of front axle beams, steering knuckles, brake assemblies, wheel hubs, brake drums, chamber brackets and other components. Middle and rear axle assemblies consist of axle housings, axle differentials and reducers, brake drums, brake assemblies, wheel hubs, axle shafts, chamber brackets and other components. Suspension assemblies consist of suspensions and other components.

Upon receipt of a purchase order, we typically require one week to make minor adjustments to the design of an existing axle assembly model and up to one month to design a new axle assembly model, each tailored to our OEM customers’ specifications, with the length of time partially dependent on the correlation of the customers’ product specifications with our existing axle assembly product offerings. Our axle assembly production process fully capitalizes on our vertically integrated production model, whereby our research and development department customizes the axle assembly design. Using our in-house capabilities, we design, mould and prototype, forge, cast or cold-stamp the various axle components (as the case may be) and assemble the multiple axle components comprising the axle assembly. The average time to assemble a front, middle or rear axle assembly is one day, and the average production time for a suspension assembly is two to three days, including the production and assembly of the relevant components.

BUSINESS

Unlike many of our competitors, we self-produce most of the key components for our axle assemblies. We produce the following axle components for use in our axle assembly: cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams, which together represent over 80% of the components that make up our axle assemblies, as measured by the total axle component cost of the assembly. We believe that self-producing a majority of our axle assembly components helps us reduce our production costs, reduce our production time, control the speed with which we can provide our products to our customers, and also ensure high product quality. The remaining percentage of our axle assembly components such as tire bolts, a portion of roughcast axle housings and bearings, are purchased from our approved third-party suppliers in consideration of our efforts to increase our production efficiency. We believe our high self-production rate of the key components comprising our axle assemblies is significantly higher than the typical self-production rate for most of our independent axle assembly provider competitors. Our high self-production rate of axle components gives us the ability to market and sell our products at competitive prices.

Production Capacity

As of December 31, 2009, our total annualized production capacity was approximately 100,000 units for punched steel axle housings, 160,000 units for cast steel axle housings, 100,000 units for brake drums, 80,000 units for steering knuckles, 60,000 units for axle differentials and reducers, 160,000 units for front axle beams, 50,000 units for axle shafts, 10,000 units for suspension assemblies and 76,000 units for axle assemblies. The following table sets forth the relevant details of our production capacity and utilization rates for our production facilities, including our Sichuan Changfeng production facility which is not operational yet, for the periods as indicated.

		As of December 31, 2007			As of December 31, 2008			As of December 31, 2009			As of December 31, 2010
		Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Expected Annualized Production Capacity (units)
Fujian Changfeng . .	Cast steel axle housing	60,000	92%	63%	65,000	93%	72%	100,000	96%	82%	110,000
	Punched steel axle housing	40,000	92%	60%	40,000	95%	70%	60,000	95%	77%	75,000
	Axle differential and reductor	-	-	-	-	-	-	30,000	95%	80%	35,000
	Axle assemblies (front, middle, rear)	18,000	88%	65%	35,000	89%	67%	45,000	90%	66%	61,000
	Suspension assembly	-	-	-	-	-	-	10,000	90%	66%	12,000
	Weighted Average	-	91%	62%	-	93%	71%	-	94%	77%	-
Longyan Shengfeng . .	Cast steel axle housing	-	-	-	35,000	93%	67%	60,000	96%	81%	70,000
	Brake drum	-	-	-	-	-	-	100,000	90%	70%	300,000
	Axle shaft	-	-	-	-	-	-	50,000	91%	68%	50,000
	Front axle beam	-	-	-	-	-	-	160,000	89%	65%	180,000
	Steering Knuckle	-	-	-	-	-	-	80,000	90%	65%	100,000
	Weighted Average	-	-	-	-	93%	67%	-	91%	70%	-

BUSINESS

		As of December 31, 2007			As of December 31, 2008			As of December 31, 2009			As of December 31, 2010
		Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Annualized Production Capacity (units)	Utilization Rate in Peak Seasons	Utilization Rate in Off-peak Seasons	Expected Annualized Production Capacity (units)
Kaifeng Changfeng . .	Punched steel axle housing	-	-	-	20,000	94%	77%	40,000	93%	73%	55,000
	Axle differential and reductor	-	-	-	-	-	-	30,000	90%	60%	45,000
	Axle assemblies (front, middle, rear)	-	-	-	10,000	89%	65%	31,000	89%	67%	38,000
	Weighted Average	-	-	-	-	93%	74%	-	92%	70%	-
Sichuan Changfeng . .	Axle shaft	-	-	-	-	-	-	-	-	-	250,000
	Axle differential and reductor	-	-	-	-	-	-	-	-	-	20,000
	Axle assemblies (front, middle, rear)	-	-	-	-	-	-	-	-	-	19,000
	Weighted Average	-	-	-	-	-	-	-	-	-	-

Our annualized production capacity is based on 16 working hours per day, 25 working days per month and the design specifications of our equipment. We have calculated our annualized production capacity in the above table by multiplying our actual production capacity for the last month of the period by twelve months. We have calculated our utilization rates listed in the above table by dividing our actual production output during the period by the actual production capacity during the same period. We have calculated our weighted average utilization rates listed in the above table by dividing our total unit production output during the period by the actual total production capacity during the same period. As we often acquire new equipment or upgrade existing facilities during the year, the annualized production capacity is usually higher than the actual production capacity available during the year. As a result of high demand, our production facilities operate at full or close-to-full capacity during our peak seasons in March, April, May, October, November and December. Because of limitations on our production capacity, we have at times rejected purchase orders from customers in order to avoid bottleneck problems during production.

Based on our near-term outlook on the MDT and HDT market in China, we plan on increasing the production capacity for a number of our product lines at each of our three existing production facilities and at our anticipated Sichuan Changfeng facility in 2010 as is reflected in the above table.

We believe that upon completion of our Sichuan Changfeng facility at the end of 2010, our four production facilities in the southern, central and western parts of China will form a strategic production and distribution network. Due to our strategic production locations, we are able to and will continue to reduce transportation costs, improve our logistics and shorten production time by being in close proximity to our primary suppliers and primary OEM customers, which we believe provides us with a competitive advantage over many of our competitors.

BUSINESS

QUALITY CONTROL

We maintain strict quality control over our engineering and production of our axle components and axle assemblies. Our comprehensive internal quality control and management structure is comprised of a central quality management department, with quality management departments at each of our production facilities which are in operation. Each of our production facilities are certified under the ISO/TSI quality system.

Quality control inspections are conducted throughout the entire production process, such as testing key production processes, surveying the entire production line, testing finished goods prior to inventory storage and on a random basis prior to sale to our customers. We also designate our quality control personnel to conduct unannounced site visits and spot checks during the production process. We monitor our quality control performance by reference to certain internal and external indexes including the rates of product returns and rates of customer complaints for our products. Our quality control team also tracks each batch of products throughout the entire production process to ensure that excess raw materials can be recycled for additional use.

Our quality control system for the design, production and assembly process for several of our products, including our cast steel and punched steel axle housings, front axle beams and certain axle assemblies, have been certified by Moody International Certification GmbH as being compliant with the ISO/TS16949:2002 industry standards. We are widely recognized in the MDT and HDT market for our high quality axle products and have been awarded numerous awards by the PRC government, including the recognition of our drive-axle assembly as a “Well-Known Brand of Fujian” by the Fujian Provincial Government in October 2007. Fujian Changfeng also was recognized as a “Fujian Excellent Quality Control” company by the Fujian Quality Association and Journal of Fujian Quality Control in 2007.

RAW MATERIALS AND SUPPLIERS

Our principal raw materials include steel, such as steel sheets, pig iron, scrap steel, steel pipes and rounded steel, and, to a lesser extent, paint, sand, welding sticks and a variety of other materials. We also procure from third-party suppliers some axle components such as bearings, roughcast axle housing, brakes, tire bolts, and other components which are used in our axle assembly products.

Principal Suppliers

We use multiple suppliers for our raw materials and axle components, among whom we have had longstanding relationships with our major suppliers. We attempt to limit our supplier risk by purchasing raw materials and axle components from more than one single supplier, and lower our supplier costs by selecting suppliers who are located near our production facilities. We purchase some of our raw materials and roughcast goods from a limited number of suppliers because of their low price, although we also have other suppliers who can readily supply such raw materials and roughcast goods. We use centralized procurement arrangements, such as bulk purchases to maintain long-term business relationships with some of our key suppliers to reduce our procurement costs.

BUSINESS

During the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, purchases from our five largest suppliers represented 40.8%, 40.8%, 37.1% and 37.2% of our total cost of goods purchased, respectively, and purchases from our single largest supplier accounted for 15.0%, 14.1%, 16.3% and 11.1% of our total cost of goods purchased, respectively. A legal representative of one of the five largest suppliers, Mr. Lu Yongguang, is a cousin of Mr. Wong Kwai Mo (i.e., an associate of our Director for the purpose of [●]). Save as disclosed above, none of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers during the Track Record Period. All new suppliers of raw materials and axle components are first vetted through our qualifications evaluation process whereby we select only the most qualified suppliers on the basis of their brand, technical capabilities, production facilities, production capacity, number of production personnel, type of equipment, product quality, competitors, reliability, customer base and pricing, among other factors. Our quality control department evaluates potential suppliers' quality control processes and our technical department evaluates potential suppliers' technical qualifications. We also require our potential suppliers to submit samples of their goods for third-party and our internal quality testing. Once we have approved a particular supplier, such supplier becomes part of our qualified supplier pool. We purchase all of our raw materials and axle components from our qualified suppliers.

Our economies of scale enable us to secure price advantages in sourcing our raw materials. Because of the large volume of steel needed for the production of our products, we are able to negotiate discounts from our suppliers. In particular, we require them to sell us steel on the basis of weight, which is generally less expensive than cut-to-length steel. We believe we are a cost leader in the industry and our increasing production scale has given us more bargaining power when negotiating with suppliers, thus further reducing our overall costs of raw materials.

Terms and Conditions, Settlement Arrangements and Payment Terms

We have entered into long-term strategic cooperation agreements with 16 of our axle components suppliers and five of our steel suppliers whereby these suppliers are obliged to offer us their most favorable pricing terms at any given time in exchange for which we give them priority in supplying us with axle components or steel. Going forward, we intend to enter into similar strategic cooperation agreements with other suppliers to ensure favorable pricing terms for our raw materials and axle components.

We also enter into monthly agreements with our steel suppliers that are adjusted for price. Additionally, we enter into one-year contracts with our axle components suppliers that set a year-round price, subject to adjustment for certain market conditions. We conduct annual reviews of our approved suppliers and evaluate them on the basis of quality of goods, speed of delivery, availability of supply, and price, among other factors.

We generally pay our steel suppliers within 30 days after receipt of invoice and our axle components suppliers within 90 days after receipt of invoice. We believe that these credit terms are consistent with general current market practices in China.

BUSINESS

INVENTORY

We maintain inventories of raw materials and axle components purchased from third parties so that we can promptly fill our customers’ purchase orders. Our inventories also include work-in-progress and finished products.

We have a centralized inventory management system that is organized through our enterprise resource planning software system. Through this computerized system, we attempt to monitor our inventory and production to avoid excess inventory and enhance production efficiency. It is our policy to maintain a minimum level of inventory of raw materials and purchased axle components. Generally, the inventory aging of our raw materials is not longer than six months. We generally maintain inventories of our work-in-progress, primarily axle housings to be used for our axle assemblies, for no more than three months. We also generally maintain inventories of our finished products, primarily axle housings, for no more than three months. We maintain inventories of axle assemblies for approximately seven days because we produce axle assemblies based on our customers’ purchase orders and deliver the axle assemblies according to the purchase orders. We perform a monthly verification of our entire inventory to confirm our inventory data. We also hold quarterly and annual meetings to analyze and improve our inventory management. On occasion, when the market price of certain raw materials such as steel is low, we may maintain additional inventories of that raw material to take advantage of its lower cost. For more information on our inventory, please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Description of Certain Items of Statements of Financial Position — Inventories” in this document.

RESEARCH AND DEVELOPMENT

We have research and development capabilities which enable us to develop new products and improve existing products to anticipate and meet market demands. We maintain a technical center at Fujian Changfeng as well as technical departments at each of our Kaifeng and Longyan production facilities, which primarily focus on customizing equipment and instruments to enhance the performance of and adapt our equipment and instruments to improve our production efficiency, as well as reduce our solid waste production.

While we perform most of our research and development activities in-house, a small portion of our research and development projects are undertaken in cooperation with research institutions including the Beijing Research Institute. These projects typically involve highly specialized technical requirements, more demanding development processes and longer development completion times. By cooperating with these third parties, we are able to improve the design, engineering and production of our products, shorten our development cycles and/or reduce our overall production costs. Pursuant to our agreements with these research institutions, we usually provide the research institution with the relevant design and specification requirements for the production processes and technologies we wish to develop and are required to bear the costs of research and development at the agreed-upon amount specified in the agreement. Typically, we are required to keep confidential any technology materials prepared for and provided to us by the research institution, and the research institution is also under confidentiality obligations in cases where we provide it with our own materials and information. Under the terms of the agreements, we are permitted to use the technology and processes developed for us, but the research institution retains the right to apply for patents for such technology and processes.

BUSINESS

Through Beijing Changfeng, our Beijing research facility dedicated to research and development, in cooperation with the Beijing Research Institute and other research institutions, as well as our research and development departments at our other subsidiaries, we have developed various axle production technologies and processes that produce higher quality axle products, improve the design, engineering and production of our axle products, and reduce the overall cost of our production process. For example, we use cold-stamping composite moulding technology in the production of our punched steel axle housing products that requires less energy and results in less steel waste during the production process than the traditional heat-treating method used by many of our competitors. We also use a “V-process” moulding technology that enables us to recycle used sand during the moulding process, which lowers our cost of production by approximately 2%, as well as reduce our solid waste production. In cooperation with the Beijing Research Institute, we have also improved the forging process of our front axle beam and steering knuckle production process.

In addition, we possess in-house capabilities to design, prototype and build axle component moulds for product development. Because we do not rely on third parties to provide moulds, we control the design of our moulds and can adjust them on a more frequent basis to achieve our desired outcome. As a result, our mould-building capabilities have significantly accelerated our design and experimentation process and shortened the development cycles for the new makes and models of our products. We believe that our product development capabilities enable us to promptly develop new features for our products that meet our customers’ requirements and demands. For example, our lead-time for product development of new makes and models of punched steel axle housings and cast steel axle housings for our aftermarket customers is typically no more than one month. Additionally, in the OEM market, our in-house product development capabilities enable us to quickly customize products to fulfill our customers’ needs, and we are normally able to complete the design of axle assembly products that meet our customers’ requirements within approximately one week and finish production within approximately one month.

As of July 31, 2010, our research and development team consisted of 71 employees, of which 16 are senior engineers, 11 are engineers and 10 are assistant engineers, and 62 of our research and development employees hold bachelors’ degrees. In addition, some of our research and development engineers possess more than 20 years of experience in developing automobile and related products. Zhang Xinglu (張興祿), the head of our research and development team, joined the Group in 2008. He is a senior engineer who holds a bachelor’s degree in machinery manufacturing, technical equipment and automation, and possesses more than 20 years of experience in developing automobile and related products.

In the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our research and development expenditures amounted to RMB0.5 million, RMB3.0 million, RMB8.5 million and RMB5.9 million, respectively.

Our research and development achievements include the following:

- our subsidiary Fujian Changfeng was recognized by Fujian Provincial Department of Science and Technology, Fujian Provincial Department of Finance, Fujian Provincial Office of State Administration of Taxation and Fujian Local Taxation Bureau as a high technology enterprise in December 2008;
- our “Economical Forging Technology and Equipment for Automobile Steering Knuckle” (汽車轉向節經濟型鍛造技術與裝備), which improves steering knuckle production automation and increases raw material utilization rate to over 77%, was recognized by the China Machinery Industry Federation as an internationally advanced “Scientific Technology Achievement” in October 2009;

BUSINESS

- our “Energy-saving and Material-saving Precise Forging Technology and Equipment for Automobile Front Axle Beam” (汽車前軸節能節材型精密鍛造技術與裝備), which increases our raw material utilization rate to over 90%, was recognized by the China Machinery Industry Federation as an internationally advanced “Scientific Technology Achievement” in October 2009; and
- our subsidiary Fujian Changfeng was recognized by Fujian Province Economic and Trade Commission, Fujian Provincial Department of Science and Technology, Fujian Provincial Department of Finance, Fujian Provincial Office of State Administration of Taxation, Fujian Local Taxation Bureau, Fuzhou Customs District and Xiamen Customs District as a provincial enterprise technology center in December 2009.

PROPERTIES AND EQUIPMENT

Production facilities

As of June 30, 2010, we had three production facilities, one in Kaifeng and two in Longyan.

Kaifeng Changfeng

Our Kaifeng Changfeng production facility is dedicated to servicing our OEM customers located in the central area of China including Anhui, Hubei, Shandong and Shanxi provinces. Our Kaifeng Changfeng facility occupies a total site area of approximately 77,331 square meters and currently is used to manufacture our punched steel axle housings and axle differentials and reducers and to assemble our axle assemblies. We own the land use rights to part of the Kaifeng Changfeng facility with a site area of approximately 73,065 square meters; however, we have not yet obtained the land use rights for the remaining land with a site area of approximately 4,266 square meters nor have we obtained the building title certificate with an aggregate gross floor area of approximately 4,266 square meters located on such land, although we intend to do so by the end of 2010. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We do not possess valid title to certain properties that we occupy.” in this document for additional details.

Longyan Shengfeng

Our Longyan Shengfeng production facility is dedicated to servicing our OEM customers located in the southeast region of China including Hubei, Hunan and Guangxi provinces. Our Longyan Shengfeng facility occupies a total site area of approximately 122,242 square meters and currently is used to manufacture our cast steel axle housings, brake drums, steering knuckles, axle shafts and front axle beams. We own the land use rights for our Longyan Shengfeng facility.

Fujian Changfeng

Our Fujian Changfeng production facility is also dedicated to servicing our OEM customers located in the southeast region of China including Hubei, Hunan and Guangxi provinces. Our Fujian Changfeng facility currently is used to manufacture our cast steel and punched steel axle housings, axle differentials and reducers and to assemble our axle assemblies. We own the land use rights to part of the Fujian Changfeng facility with a site area of approximately 51,527 square meters and lease the remaining part on which the gross floor area of the leased building space is approximately 9,380 square meters from Longyan Changfeng Special Purpose Vehicle Co., Ltd. (龍岩暢豐專用汽車有限公司), an Independent Third Party as of the date of this document.

Each of our existing production facilities also service our aftermarket customers in the regions where they are located.

BUSINESS

Sichuan Changfeng

We are presently building an additional production facility in the city of Nanchong in Sichuan province which we expect to commence operations by the end of 2010. We expect our Sichuan Changfeng production facility to be dedicated to servicing our customers in the western regions of China, including the Sichuan province, and to be used to manufacture cast steel and punched steel axle housings, axle differentials and reducers and axle shafts and to assemble axle assemblies upon reaching its full operational capacity.

We have obtained the land use rights to our Sichuan Changfeng facility with a site area of approximately 210 Mu (approximately 139,700 square meters). We have primarily used internal funds and bank borrowings to fund the land acquisition and construction of this facility thus far and expect to use a portion of the [●] from the [●] to fund this project.



Other properties

We also own office premises in Xiamen with a gross floor area of approximately 499 square meters, and have a research and development facility in Beijing with a gross floor area of approximately 100 square meters which we lease from the Beijing Research Institute.

Details of our properties are set forth in the property valuation report in Appendix IV to this document. Jones Lang LaSalle Sallmanns Limited has valued our property interests as of June 30, 2010. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV to this document.

INTELLECTUAL PROPERTY

We believe that our trademark, patents, trade secrets and other intellectual property rights are critical to our success. Our axle products are developed using our proprietary technologies to produce high quality products for our customers. We rely on trademarks, patents, trade secrets and non-competition and confidentiality pledges by our executive officers and research and development personnel to protect our intellectual property rights.

We have registered our trademark, , in 17 class types with the PRC trademark authorities for a period of ten years, one of which was originally registered and owned by Yongding Changfeng. Yongding Changfeng transferred this trademark to Special Vehicle in 2003 and Special Vehicle subsequently transferred such trademark to Fujian Changfeng in 2007. We are in the process of applying for registration of our trademarks, , in three class types and our trademark, 畅丰, in two class types with the PRC trademark authorities. We have also registered our trademarks with the Hong Kong trademark authorities.

We have registered 17 patents for our production technologies in the PRC, which are generally valid for ten years with an annual renewal fee, and we are in the process of applying for registration of six other patents in the PRC.

We also license three patents from Independent Third Parties in relation to certain product technology and production techniques. These licenses range between approximately five to seven years until the expiration of such patents, after which they will be freely available for use by the public.

All of our subsidiaries have the right to use these trademarks and patents. For more information on our intellectual property, please refer to the section headed “Statutory and General Information — Information About the Business — Intellectual property rights of the Group” in Appendix VI to this document.

BUSINESS

COMPETITION

The PRC MDT and HDT axle market can be primarily divided into two categories: (1) the MDT and HDT axle aftermarket and (2) the MDT and HDT OEM and related market.

There are many small suppliers of axle components in the PRC MDT and HDT axle aftermarket, resulting in high market fragmentation. Participants in the PRC MDT and HDT axle aftermarket compete on product quality, value for money, after-sales service, brand, product line breadth and depth, and distribution capabilities. Our primary competitors in the PRC MDT and HDT axle aftermarket are other domestic local and regional axle producers. We believe we are able to compete effectively with our aftermarket competitors principally due to our following competitive strengths: most extensive nationwide aftermarket sales, marketing and services network, most diversified axle component product offerings among independent axle component providers, high quality products at competitive prices and strong brand reputation.

The PRC MDT and HDT OEM and related market primarily consists of two sub-markets: (1) the sale of axle assemblies directly to OEMs for the manufacture of new MDTs and HDTs and (2) the sale of axle components to axle assembly providers who assemble and further sell their axle assemblies to OEMs for the manufacture of new MDTs and HDTs. We primarily sell our products in the first sub-market, which generally comprises two major types of participants: (1) captive suppliers of OEMs and (2) other independent axle assembly providers such as ourselves. Captive suppliers, which are suppliers that are either subsidiaries or affiliates of an OEM with the primary purpose of supplying OEMs with particular automobile components, dominated this sub-market with over 80% of the market share in 2009. We believe that some of the major captive suppliers in this sub-market are China National Heavy Duty Truck Group Jinan Axle & Transmission Co., Ltd. (中國重汽集團濟南橋箱有限公司), FAW Automobile Co., Ltd. Axle Branch (一汽解放汽車有限公司車橋分公司) and Dongfeng Dana Axle Co., Ltd. (東風德納車橋有限公司). However, according to the Frost & Sullivan Report, OEMs have increasingly turned to independent axle assembly providers who possess adequate product development capabilities and production capacity that can meet OEMs’ product quality and delivery timing requirements at more favorable prices than their captive suppliers. Participants in the PRC MDT and HDT OEM market compete on product development and research and development capabilities, production scale, value for money and after-sales services. Our primary competitors in the PRC MDT and HDT OEM market are other domestic independent axle assembly providers. We believe we are able to compete effectively with our OEM market competitors principally due to our following competitive strengths: rapid research and development and product development capabilities, large production scale, consistently high quality products at competitive prices and strong relationships with OEM customers through our sales force and after-sales services.

To further improve our competitiveness, we plan to extend our sales, marketing and services network in terms of geographic spread and market penetration, improve our research and development capabilities, expand the breadth of our existing product lines, and increase our production management to increase our product quality while maintaining adequate cost control.

LEGAL PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition and results of operations.

BUSINESS

Our Directors, as advised by our PRC legal advisor, Jun He Law Offices, confirm that during the Track Record Period and through the Latest Practicable Date, except as disclosed in the section headed “Risk Factors” in this document, our Group has complied with all relevant PRC laws and regulations in all material respects, including obtaining all material permits and licenses required for the Group’s operation in China.

ENVIRONMENTAL COMPLIANCE

We are subject to national and local environmental protection regulations in China. Under the current PRC environmental laws, if the PRC government finds our operations to be in violation of applicable PRC environmental protection laws or regulations, we will be given a period of time to remedy the violation. Should we fail to do so, the PRC government may force a shut-down of our operations until such time as we have complied with the regulations.

We consider environmental compliance important to our operations. Under relevant PRC laws, we are not allowed to start our construction projects until we have obtained the required approvals from relevant environmental authorities and such authorities are satisfied with our environmental impact assessments. Under the Law on Environmental Impact Assessment effective from September 1, 2003, we must submit environmental impact assessment reports to the Ministry of Environmental Protection at the relevant national, provincial or local levels with respect to any environmentally sensitive projects, which, as set forth in the catalog published by the Ministry of Environmental Protection, include machinery and equipment production. For any environmentally sensitive project, we must engage an independent qualified environmental appraiser to assess the environmental impact of such project and prepare a report for submission to the relevant environmental authorities. In addition, PRC laws do not permit any environmentally sensitive project to begin construction until the government regulators are satisfied with the environmental impact assessment. Further, upon completion of the construction project, we are required to apply for inspection of the completed project with the relevant environmental protection authority. Meanwhile, we must also obtain relevant emission permits and are required to discharge pollutants according to the types and quantities specified in the emission permits.

In order to comply with applicable environmental protection laws, we have engaged qualified agencies to prepare the relevant environmental impact assessment documents, obtained the required approvals from relevant environmental protection authorities, passed relevant inspections, obtained the necessary emission permits and complied with the terms of such permits. We have complied with applicable state and local environmental protection laws and regulations, and the PRC environmental authorities have not imposed any sanctions on us for incidents of non-compliance with respect to our production and facilities during the Track Record Period. However, as disclosed in the section headed “Risk Factors — Risks Relating to Our Business — Our business, financial condition and results of operations may be materially and adversely affected if we fail to comply with present or future applicable environmental laws and regulations.” in this document, we cannot give any assurance on the impact of environmental regulations on our operations in the future.

The pollutants we discharge primarily consist of exhaust fumes, solid waste, wastewater, noise and other pollutants. We believe the volume of pollutants we discharge is relatively minor and does not have a material impact on the surrounding environment. We treat and dispose of these pollutants in accordance with applicable PRC laws and regulations such that the levels discharged are within the permitted emission standards under relevant PRC laws and regulations.

BUSINESS

We strive to reduce the environmental impact from our products and processes and have adopted a number of measures to achieve this objective. For example, in order to reduce our discharge of exhaust fumes, all painting in our production process is done in dedicated painting rooms and our existing production facilities utilize ventilation cleaning and spray processing systems. In order to reduce our discharge of solid waste and wastewater, we have implemented recycling systems to treat and reuse such waste. We also utilize particular technology and processes to reduce the impact of our activities on the environment, including using a “V-process” moulding technology that enables us to recycle used sand during the moulding process as well as the metal debris and waste oil generated during the process, thereby reducing our discharge of solid waste. We have designated staff in our administration department who are responsible for coordinating with outside agencies and environmental protection authorities and maintaining our compliance with applicable environmental protection laws and regulations. We believe the nature of our operations do not create material risks that give rise to environmental protection issues and the above-mentioned measures taken by the Group are sufficient to maintain our compliance with applicable environmental protection laws and regulations.

During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we paid nil, RMB0.1 million, RMB0.3 million and nil, respectively, in compliance costs related to environmental rules and regulations applicable to our Group. Our Directors are of the view that the expected annual cost of compliance with applicable environmental rules and regulations for the year ending December 31, 2010 will be approximately RMB0.6 million.

HEALTH AND SAFETY COMPLIANCE

Pursuant to national and local health and safety laws and regulations in China, we are required to ensure a safe production and working environment for our employees, which includes providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel, among other requirements. In addition, operators of certain of our equipment must undergo special training and obtain special work permits. In order to comply with such laws and regulations, we have developed and implemented a comprehensive safety management policy and have safety committees at each of our production facilities which are responsible for the supervision and implementation of the safety procedures in this policy. We have also provided safety training for all of our personnel and have ensured that the operators of certain equipment have undergone special training. We have complied with all applicable state and local health and safety laws and regulations in all material respects, and, save for the accident described in the below paragraph, the relevant PRC authorities have not imposed any sanctions on us for incidents of non-compliance during the Track Record Period.

Save for the accidental death of one employee in April 2010, no major accidents resulting in serious injuries or deaths of our employees have occurred during the Track Record Period and through the Latest Practicable Date. The accident was a result of the improper operation of our crane equipment by another employee in violation of our safety regulations. The total compensation paid by the Group in relation to the accidental death was approximately RMB220,000, of which RMB120,000 was recouped through the statutory work-related injury insurance fund, in exchange for the release of all claims against the Group by the deceased employee’s family. In addition, our subsidiary, Longyan Shengfeng, and the general manager of Longyan Shengfeng were fined RMB100,000 and RMB14,400, respectively, by the local Quality and Technology Supervision Bureau in relation to the accident. Our PRC legal advisor has advised us that, save as described above, there are no further claims or sanctions against us concerning this accident in accordance with the relevant PRC laws and regulations. Our Directors have confirmed that this accident has not resulted in a material adverse effect on our business, financial condition or results of operations and our Directors believe that it is not necessary for us to maintain any business interruption insurance or third party liability insurance against personal injury.

BUSINESS

In order to prevent and minimize accidents in the future, we have reinforced the training on our safety regulations to our production employees, in particular, the operators of certain special equipment such as cranes. We also have strengthened the onsite supervision and inspection of our production operations by increasing the number of production supervisors. Finally, we have strengthened the implementation and enforcement of our safety management policy by improving our equipment safety monitoring procedures to ensure that all production equipment and operating permits for our equipment operators are within current validity periods and by fining those employees who violate our safety regulations.

INSURANCE

We currently hold insurance policies that we believe are sufficient for our operations, as well as customary and standard for companies of comparable size in the MDT and HDT industry in China. For 2009, we incurred annual insurance premiums of approximately RMB20,000 for insuring our property and equipment.

We do not maintain product liability insurance or third party liability insurance for claims of personal injury or property damage arising from accidents on our property or relating to our operations or products. We do not maintain business interruption insurance. Other than the accidental death involving an employee during the operation of our equipment during production, as described in more detail in the section headed “Business — Health and Safety Compliance” in this document, no material workers’ compensation claims, third party liability claims or accident compensation claims have been filed against us in the past. There can be no assurance that such claims will not be brought against us in the future. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — The customary practice of not carrying product liability insurance in the PRC automobile parts industry may subject us to potential product liability claims.” in this document.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Upon completion of the [●], Mr. Wong Kwai Mo and his spouse, Ms. Wu Ching, will, via Changfeng BVI, indirectly and beneficially own in total 51.21% of the issued share capital of our Company and hence Mr. Wong Kwai Mo, Ms. Wu Ching and Changfeng BVI are our Controlling Shareholders. For further details, please refer to the section headed “[●]” in this document.

BACKGROUND OF MR. WONG KWAI MO AND MS. WU CHING

Both Mr. Wong Kwai Mo and Ms. Wu Ching have over 15 years of management and operations experience in the automotive parts and axle industry. Mr. Wong graduated from East China University of Political Science and Law with a bachelor’s degree in law in 1987. Ms. Wu graduated from Fujian Normal University with a bachelor’s degree in arts in 1985. In March 2001, Ms. Wu established our main operating subsidiary, Fujian Changfeng. Please refer to the sections headed “Directors, Senior Management and Employees” and “History, Reorganization and Group Structure” in this document for further information.

INDEPENDENCE TO OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates (other than our Group) after the [●] for the following reasons:

- Operational Independence – we have our own independent operation capabilities and there do not exist any continuing connected transactions between our Controlling Shareholders and their respective associates (save for Yongding Changfeng) and our Group. Details of the continuing connected transactions that will continue after [●] are set out in the section headed “Connected Transactions” in this document. Our Group’s continuing connected transactions with Yongding Changfeng have been entered into and will continue to be entered into on normal commercial terms and in our ordinary course of business. Our Directors believe that since we can produce our own roughcast axle housing and/or procure the roughcast axle housing from Independent Third Parties, we are able to operate independently of our Controlling Shareholders in this regard;
- Management Independence – we aim at establishing and maintaining a strong and independent Board, which consists of seven members (of whom only two are our Controlling Shareholders), to oversee our business and the Board’s decisions are made in a collective manner;
- Financial Independence – all loans, advances and balances due to and from our Controlling Shareholders and their respective associates have been fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective associates on our Group’s borrowing have been fully released. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing;
- Non-compete Undertakings – none of our Controlling Shareholders (and their respective associates) has any interest which competes with or is likely to compete with the business of our Group, and our Controlling Shareholders have entered into the Deed of Non-Competition in favor of our Company; and
- Holding Company – Changfeng BVI is a holding company and does not carry on any business other than holding the equity interests in our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure under [●].

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has undertaken to our Company in the Deed of Non-Competition that it/he/she will not, and will procure its/his/her associates (other than members of our Group) not to, engage in any of our business including (without limitation) the following activities:

- acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, axle components business or related investments;
- engaging, having a right or in any way having an economic interest, in the promotion or development of or investment in axle components business; or
- acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in the two paragraphs above;

except for acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in the three paragraphs above so long as their aggregate interest in any such entity is less than 5% of its equity interest.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their associates cease to hold, whether directly or indirectly, any of our Shares.

The Deed of Non-Competition also provides that:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he/she will provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the [●]; and
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to [●], our Directors, [●] and chief executive officer or those of our subsidiaries, any person who was our Director or a director of our subsidiaries within 12 months preceding the [●] Date and any of our associates will constitute a connected person. Upon the [●] of our Shares on [●], our transactions with such connected persons will constitute connected transactions under [●].

In addition, pursuant to [●], the [●] has a discretionary power to deem a person to be connected under the [●]. [●] has exercised its discretion under [●] to deem Yongding Changfeng as a connected person (as defined in the [●]) of our Company.

Yongding Changfeng is a collectively owned enterprise which is owned by the collective of the Kanshi Town of Yongding County, Fujian Province in the PRC. The principal business of Yongding Changfeng was manufacturing, processing and sale of machinery casting, manufacturing of engineering machines and the sale of engineering machines as well as components. Mr. Wong Kwai Mo, one of our executive Directors, entered into a profit sharing arrangement with Yongding Changfeng, pursuant to which Yongding Changfeng agreed to distribute 40% of annual profit to Mr. Wong Kwai Mo from 1993 to 2001. Ms. Wu Ching, one of our executive Directors, has no other relationship with Yongding Changfeng other than an employment relationship as described in the section headed “Directors, Senior Management and Employees — Executive Directors” in this document. Mr. Lu Yongguang (“**Mr. Lu**”), a cousin of Mr. Wong Kwai Mo, being one of our Controlling Shareholders, was appointed by Enterprise Management Center of Kanshi Town in Yongding County (永定縣坎市鎮企業管理站), the competent authority responsible for the supervision and the appointment of the legal representative and factory manager of Yongding Changfeng, as the legal representative and factory manager of Yongding Changfeng in 2004 in place of Mr. Wong Kwai Mo in view of Mr. Lu’s experience gained as an official of the Enterprise Management Center of Kanshi Town in Yongding County (永定縣坎市鎮企業管理站). Apart from the foregoing employment relationships, Mr. Lu has no other relationship with Yongding Changfeng. Given the importance of Mr. Wong Kwai Mo’s prior position and role at Yongding Changfeng, among others, the substantial profit sharing arrangement he was entitled to, the length of Mr. Wong’s service, and the succession of his position by his cousin, Yongding Changfeng may be substantially influenced or controlled by Mr. Lu and Mr. Wong Kwai Mo. Having considered the facts and circumstances, our Company concurred with the [●] that Yongding Changfeng should be deemed as a connected person of the Company under [●].

As such, the following transactions with Yongding Changfeng, which will continue after the [●] of our Shares on [●], will constitute continuing connected transactions for us under [●].

1. Purchase of roughcast axle housing from Yongding Changfeng

On May 29, 2010, our Company entered into a sale and purchase agreement (the “**Purchase Agreement**”) with Yongding Changfeng, pursuant to which our Company agreed to purchase or procure its subsidiaries to purchase roughcast axle housing from Yongding Changfeng for the production of our products for a term of three years commencing from January 1, 2010 to December 31, 2012.

CONNECTED TRANSACTIONS

The price for the roughcast axle housing supplied by Yongding Changfeng will be determined on the following basis in order of priority:

- the price prescribed by the State (including any price prescribed by any relevant local authorities), if applicable;
- the price recommended under the State pricing guidelines, when no State-prescribed price is available;
- the market price, when neither the State-prescribed price nor the State recommended price is available; or
- the price which is no less favourable to our Group than is available from independent third parties, when none of the above is available or applicable.

Our Group has been purchasing roughcast axle housing from Yongding Changfeng throughout the Track Record Period for the manufacture of its products. For each of the three years ended December 31, 2009 and for the six months ended June 30, 2010, the total purchases by our Group from Yongding Changfeng amounted to approximately RMB22,760,000, RMB28,709,000, RMB54,560,000 and RMB27,697,000, respectively, representing approximately 15.0%, 8.4%, 10.3% and 5.6%, respectively, of our cost of goods purchased for the three years ended December 31, 2009 and for the six months ended June 30, 2010. The increase in the amount of roughcast axle housing purchased by our Group from Yongding Changfeng in 2009 was due to significant increase in market demand for axle housing for the production of our Group in 2009 and the expansion of our business.

Our Directors estimate that the maximum amount of annual purchases by our Group from Yongding Changfeng under the Purchase Agreement for each of the three years ending December 31, 2012 will not exceed RMB50,000,000, RMB50,000,000 and RMB25,000,000, respectively. Such estimate is based on the historical amount of roughcast axle housing purchased from Yongding Changfeng, the production volume of roughcast axle housing that are expected to be produced by our new casting plant, which will commence operation by the third quarter of 2011, in the next three years and the prevailing market price for such roughcast axle housing in the open market in the PRC. As we expect that our Group will be able to produce its own roughcast axle housings by the third quarter of 2011, our Group will, starting from 2012, reduce the purchase of roughcast axle housings from Yongding Changfeng gradually in the coming years.

Mr. Lu is a cousin of Mr. Wong Kwai Mo, being one of our Controlling Shareholders. As Yongding Changfeng may be substantially influenced or controlled by Mr. Lu, who is the legal representative and the factory manager of Yongding Changfeng, and Mr. Wong Kwai Mo, who has held a prior position and role at Yongding Changfeng, Yongding Changfeng is therefore deemed as a connected person of the Company pursuant to [●].

Notwithstanding that our Group can produce our own roughcast axle housing and/or procure the roughcast axle housing from independent third parties, our Directors believe that the purchases of roughcast axle housing from Yongding Changfeng would benefit our Group for the following reasons:

- (i) our Directors consider that it is crucial for our Group to maintain the stability in supply in particular when our Group has insufficient resources to meet the production volume of roughcast axle housing that is required by our Group for production of our products or the

CONNECTED TRANSACTIONS

production of roughcast axle housing has reached its maximum capacity our Group, and quality of the roughcast axle housing for our Group’s existing and future production needs. Based on our Group’s past purchasing experience with Yongding Changfeng, our Directors are of the view that Yongding Changfeng can effectively fulfill our Group’s high requirement in supply stability as well as product quality;

- (ii) the purchases from Yongding Changfeng will be at competitive prices not less favorable than those that our Group can obtain from independent third parties;
- (iii) Yongding Changfeng is familiar with our Group’s specifications, standards and requirements and our Group is confident on the quality of the roughcast axle housing supplied by Yongding Changfeng; and
- (iv) Yongding Changfeng has provided our Group more favorable terms such as flexible and timely delivery schedule of the roughcast axle housing purchased by our Group.

Since each of the percentage ratios (other than the profits ratio) for the Purchase Agreement is expected to be more than 5%, the transactions under the Purchase Agreement constitute continuing connected transactions for our Company which are subject to the reporting, announcement and independent shareholders’ approval requirements under [●] of the [●].

2. Supply Agreement with Yongding Changfeng

On May 29, 2010, our Company entered into a supply agreement (the “**Supply Agreement**”) with Yongding Changfeng, pursuant to which our Company has agreed to supply or procure members of our Group to supply scrap steel which is steel waste created during the production of steel and expected to be disposed of or not required by our Group to Yongding Changfeng for a term of three years commencing from January 1, 2010 to December 31, 2012.

The price for the scrap steel supplied by our Group to Yongding Changfeng will be determined on the following basis in order of priority:

- the price prescribed by the State (including any price prescribed by any relevant local authorities), if applicable;
- the price recommended under the State pricing guidelines, when no State-prescribed price is available;
- the market price, when neither the State-prescribed price nor the State recommended price is available; or
- the price which is no less favorable to our Group than is available from independent third parties, when none of the above is available or applicable.

For each of the three years ended December 31, 2009 and the six months ended June 30, 2010, the total sales by our Group to Yongding Changfeng amounted to approximately RMB505,000, RMB6,564,000, RMB6,695,000 and RMB2,523,000, respectively.

CONNECTED TRANSACTIONS

Our Directors estimate that our annual revenue in respect of scrap steel supplied by our Group to Yongding Changfeng under the Supply Agreement for each of the three years ending December 31, 2012 will not exceed RMB20,000,000, RMB20,000,000 and RMB20,000,000, respectively. The estimated annual cap for the total purchases of scrap steel by Yongding Changfeng from our Group is expected to increase significantly from that in 2009. Such estimate is based on the historical transaction values between our Group and Yongding Changfeng, the anticipated increase in the production of steel of our Group, which will accordingly create more scrap steel during the production of steel, the discussion between our Group and Yongding Changfeng in respect of the estimated amount of scrap steel to be purchased by Yongding Changfeng from our Group in the next three years taking into account the anticipated increase in demand of scrap steel by Yongding Changfeng, and the prevailing market rates to such scrap steel.

Mr. Lu is a cousin of Mr. Wong Kwai Mo, being one of our Controlling Shareholders. As Yongding Changfeng may be substantially influenced or controlled by Mr. Lu, who is the legal representative and the factory manager of Yongding Changfeng, and Mr. Wong Kwai Mo, who has held a prior position and role at Yongding Changfeng, Yongding Changfeng is therefore deemed as a connected person of the Company pursuant to [●].

Our Directors believe that the entering into of the Supply Agreement would also benefit our Group as by supplying the scrap steel which is expected to be disposed of or not required by our Group to Yongding Changfeng, it would enable our Group to increase our revenue stream.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

The Board of Directors will consist of seven Directors upon the [●], of whom three are executive Directors, one is a non-executive Director and the remaining three are independent non-executive Directors. The Directors are appointed for a term of three years. The power and duties of our Directors include convening shareholders’ meetings and reporting the Board’s work at shareholders’ meetings, implementing resolutions passed at shareholders’ meetings, determining our business plans and investment plans, formulating our annual budget and final accounts, formulating our proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. The following table sets forth certain information regarding members of our Board of Directors:

Name	Age	Position
Mr. Wong Kwai Mo	47	Chairman and executive Director
Ms. Wu Ching	46	Executive Director
Mr. Lai Fengcai	34	Chief executive officer and executive Director
Ms. Dong Ying, Dorothy	39	Non-executive Director
Mr. Zhu Weizhou	45	Independent non-executive Director
Dr. Li Xiuqing	44	Independent non-executive Director
Mr. Chong Ching Hei	37	Independent non-executive Director

EXECUTIVE DIRECTORS

Mr. Wong Kwai Mo (王桂模), aged 47, was appointed as our Director on May 21, 2008 and was re-designated as our chairman and our executive Director on June 28, 2010. Mr. Wong is responsible for the overall management, business and strategic development, and major decision-making of our Group. Mr. Wong has over 15 years of management and operations experience in the automotive parts and axle industry. Mr. Wong graduated from East China University of Political Science and Law (華東政法大學) with a bachelor’s degree in law in 1987 and worked for Longyan City Public Security Bureau (龍岩市公安局) and Longyan City Administration of Industry and Commerce (龍岩市工商行政管理局) respectively until 1991. He then relocated to Hong Kong in 1992. Mr. Wong served as the factory manager of Yongding Changfeng from 1993 to 2004 during which he gained experience in management and administration. Mr. Wong joined our Group in 2001 when his spouse, Ms. Wu Ching, founded Fujian Changfeng. From 2008 onwards, he has been the director and the general manager of Fujian Changfeng. Mr. Wong has developed several patents relating to axle components.

Ms. Wu Ching (胡靜), aged 46, was appointed as our Director on May 21, 2008 and was re-designated as our executive Director on June 28, 2010. Together with Mr. Wong, Ms. Wu is responsible for overall management, business and strategic development, and major decision-making of our Group. Ms. Wu has over 15 years of management and operations experience in the automotive parts and axle industry. Ms. Wu graduated from Fujian Normal University (福建師範大學) with a bachelor’s degree in arts in 1985 and worked for Education Bureau of Longyan (龍岩市教育局) from 1986 to 1989. Ms. Wu then relocated to Hong Kong in 1989. Ms. Wu worked for Yongding Changfeng from 1993 to 2001 during which she gained experience in management. Ms. Wu founded Fujian Changfeng in March 2001. Since 2001, she has been the chairperson of Fujian Changfeng. Ms. Wu is currently the deputy chairperson of Longyan City Machinery Industry Association (龍岩市機械行業協會) and Longyan City Association of Women Entrepreneurs (龍岩市女企業家協會) and a member of Yongding County CPPCC (永定縣政協). Ms. Wu received the National Machinery Industry Outstanding Entrepreneur (全國機械工業優秀企業家) award in 2009 jointly by the China Machinery Industry Federation (中國機械工業聯合會) and the China Machinery Enterprise Management Association (中國機械工業企業管理協會).

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Lai Fengcai (賴鳳彩), aged 34, has been appointed as our chief executive officer and executive Director with effect from the [●]. Mr. Lai is responsible for overall management, business and strategic development, major decision-making, operations, sales and marketing, internal control of our Group. Mr. Lai has worked in our Group for nine years and he joined our Group as the head of the production department of Fujian Changfeng in 2001. He was promoted as the deputy general manager of Fujian Changfeng in 2003 and was respectively in charge of production, procurement, sales and marketing. From 2006 onwards, he has been the vice president of Fujian Changfeng in charge of the day-to-day operations of Fujian Changfeng. He has over nine years of experience in operation and management in the automotive parts and axle industry. Mr. Lai is currently studying in the Executive Development Program at the Guanghua School of Management of Peking University (北京大學光華管理學院).

NON-EXECUTIVE DIRECTOR

Ms. Dong Ying, Dorothy (董穎), aged 39, was appointed as our Director on August 6, 2008 and was re-designated as our non-executive Director on June 28, 2010. Ms. Dong has over 15 years of experience in investments and corporate finance. Ms. Dong is a managing director of C.V. Starr Investment Advisors (Asia) Limited and, prior to an internal restructuring, Starr International Company (Asia), Limited (together, “Starr Asia”) since 2007. Prior to joining Starr Asia, she served as a vice president at AIG Global Investment Corp. (Shanghai) Ltd., a division of American International Group, Inc, focusing on private equity in the PRC, and as a director at Anglo Chinese Corporate Finance Limited and the director of its Shanghai advisory company. Ms. Dong received a bachelor’s degree in law from Shanghai University (Fudan Sub-school) in the PRC in July 1992, and a Master of Business Administration degree from McGill University, Canada in June 1997. She was admitted as a Chartered Financial Analyst in September 1999 and is a member of the Hong Kong Society of Financial Analysts and the CFA Institute.

Ms. Dong is a representative from Starr Investments on our Board. Following our [●], Ms. Dong will be subject to the normal retirement, re-election and removal processes applicable to all other Directors as stipulated in the Articles.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Weizhou (朱偉洲), aged 45, has been appointed as our independent non-executive Director with effect from the [●]. Mr. Zhu graduated from East China University of Political Science and Law (華東政法大學) with a bachelor’s degree in law in 1987. Mr. Zhu has been the chairman of Xifu Investment Co., Ltd. (西富投資有限公司) from October 2007 onwards. Mr. Zhu was a director of Gemdale Co., Ltd. (金地集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600383), from November 2006 to April 2008. Mr. Zhu also served as an assistant to the chairman of Guangsha Holdings Venture Capital Co., Ltd. (廣廈控股創業投資有限公司), the controlling shareholder of Zhejiang Guangsha Co., Ltd. (浙江廣廈股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600052), from August 2002 to December 2008.

Dr. Li Xiuqing (李秀清), aged 44, has been appointed as our independent non-executive Director with effect from the [●]. Dr. Li received a doctor’s degree in legal history, a master’s degree in law and a bachelor’s degree in law from East China University of Political Science and Law (華東政法大學) in June 2004, June 1990 and July 1987, respectively. She is a professor of law and doctoral tutor at East China University of Political Science and Law (華東政法大學). Dr. Li is the chief editor of ECUPL Journal (華東政法大學學報). She was a visiting scholar at Oxford University from January 2003 to July 2003 and received the Shanghai Outstanding Young Jurist (上海市優秀中青年法學家) award in 2006. Dr. Li has published more than 30 articles in major law journals in the PRC.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Chong Ching Hei (莊清喜), aged 37, has been appointed as our independent non-executive Director with effect from the [●]. Mr. Chong graduated from Hong Kong Polytechnic University with a master’s degree in professional accounting in December 2005. Mr. Chong has over 12 years of experience in auditing and corporate financial services. Mr. Chong was admitted as an associate member of the Hong Kong Institute of Certified Public Accountants in October 1999 and a fellow member of the Association of International Accountants in June 2004. Mr. Chong is currently a financial controller and company secretary of China Water Property Group Limited, a company listed on the Stock Exchange (Stock Code: 2349). Mr. Chong was also the financial controller and company secretary of Coastal Rapid Transit Company Limited (濱海交通發展有限公司), the subsidiary of Tianjin Development Holdings Limited whose shares are listed on the Stock Exchange (Stock Code: 882), from April 2004 to March 2006. Mr. Chong previously worked for Deloitte Touche Tohmatsu in Hong Kong for over seven years. Mr. Chong has confirmed that he has sufficient amount of time to devote to the participation in the management of our Company as an independent non-executive Director.

SENIOR MANAGEMENT

The table below sets forth information regarding our senior management:

Name	Age	Position
Mr. Yang Jinwen	37	Vice president
Mr. Chan Wai Shing	31	Chief financial officer and company secretary

Mr. Yang Jinwen (楊金文), aged 37, is our vice president. Mr. Yang is responsible for daily operations, production, distribution and product development for our Group. Mr. Yang has worked in our Group for nine years. He has over ten years of experience in operation and management in the automotive parts and axle industry. Mr. Yang graduated from China Agricultural University (中國農業大學) with a bachelor’s degree in heat engines (熱力發動機) in 1996. He was qualified as an intermediate mechanical engineer in December 2003 by the Personnel Bureau of the city of Longyan (龍岩市人事局). He was responsible for technology management at Longyan Pump and Nozzle Plant of Longma Group of Fujian (福建龍馬集團龍岩油嘴油泵廠) from August 1996 to February 2002.

Mr. Chan Wai Shing (陳偉盛), aged 31, is our chief financial officer, company secretary and one of our authorized representatives. Mr. Chan is responsible for corporate finance, legal, auditing, accounting, investor and public relations, and administration of our Group. Mr. Chan joined our Group in September 2009. He graduated from City University of Hong Kong with a bachelor’s degree in accountancy in 2001. Mr. Chan has over eight years of experience in auditing, advisory accounting and financial management. He worked for Techtronic Industries Company Limited whose shares are listed on the Stock Exchange (Stock Code: 669) from October 2008 to August 2009. Mr. Chan worked for Ernst & Young from September 2001 to October 2008. Mr. Chan was qualified as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in September 2005 and he was admitted as a fellow of the Association of Chartered Certified Accountants in November 2009. Mr. Chan is currently studying for his master’s degree in financial analysis at the Hong Kong University of Science and Technology.

COMPANY SECRETARY

Mr. Chan Wai Shing is our company secretary for the purposes of [●]. For details of Mr. Chan’s background, please refer to the section headed “Directors, Senior Management and Employees — Senior Management.”

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMMITTEES UNDER THE BOARD OF DIRECTORS

Audit Committee

Our Company has established an audit committee with effect from the [●] with written terms of reference in compliance with [●] and [●]. The primary duties of the audit committee will be to review and supervise the financial reporting process and internal control system of our Group, review and approve connected transactions and provide advice and comments to the Board of Directors. The audit committee consists of three members, Mr. Chong Ching Hei, Mr. Zhu Weizhou and Dr. Li Xiuqing, all of whom are independent non-executive Directors of our Company. The chairman of the audit committee is Mr. Chong Ching Hei.

Remuneration Committee

Our Company has established a remuneration committee with effect from the [●] with written terms of reference in compliance [●]. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee consists of three members, comprising two of our independent non-executive Directors, Mr. Chong Ching Hei and Mr. Zhu Weizhou, and one executive Director, Mr. Wong Kwai Mo. The chairman of the remuneration committee is Mr. Zhu Weizhou.

Nomination Committee

Our Company has established a nomination committee with effect from the [●] with written terms of reference as recommended under [●]. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee consists of three members, comprising two of our independent non-executive Directors, Dr. Li Xiuqing and Mr. Zhu Weizhou, and one executive Director, Mr. Wong Kwai Mo. The chairperson of the nomination committee is Dr. Li Xiuqing.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

EMPLOYEES

Overview

As of July 31, 2010, we employed 2,216 people at our offices, production facilities and other facilities throughout China. The table below sets forth the number of our employees by function.

Function	Number of Employees
Production	1,800
Quality Control	125
Research and Development	71
Sales and Marketing	72
Management, Administration and Human Resources	77
Procurement	40
Finance	31
TOTAL	2,216

We believe that successful implementation of our growth and business strategies relies on a team of experienced, motivated and well-trained management and employees at all levels. Our management and employees have operating expertise and in-depth understanding of the axle industry. The number of our production employees fluctuates with our production requirements and alternates during our peak and off-peak seasons. This fluctuation is a result of the variable compensation that we pay most of these employees, which is based on the number of products that they produce for us. A certain number of these employees will voluntarily leave during off-peak seasons due to the lower compensation that they will receive, and we will hire additional production employees during peak seasons.

We enter into individual employment contracts with our employees to cover matters such as terms, wages, benefits, and grounds for termination. We generally formulate our employees’ remuneration to include a salary, bonus, and allowance elements. Our compensation programs are designed to remunerate our employees based on their position and their performance, as measured by performance and other objective criteria we prescribe. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies.

For the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we incurred employee costs (including directors) of RMB12.1 million, RMB32.0 million, RMB48.6 million and RMB37.5 million, respectively, representing 6.8%, 7.7%, 6.1% and 5.4% of our revenue during those respective periods.

As required by PRC regulations as well as compulsory rules of the local governments, we participate in various employee benefit plans, including medical, maternity, work-related injury, unemployment, pension and housing accumulation fund benefit plans. We are required under PRC law to make contributions to these benefit plans based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirement, up to a maximum amount specified by the relevant local governments from time to time. The total amount of contributions we made to such mandatory employee benefit plans for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, was RMB0.2 million, RMB1.9 million, RMB3.2 million and RMB2.7 million, respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

As confirmed by written confirmations obtained from relevant local government authorities, our social insurance and housing accumulation fund contributions comply with PRC laws and regulations and the policies of the local government authorities. However, our PRC legal advisor has advised us that the policies and practices adopted by the local government authorities to interpret and implement the relevant PRC labor laws and regulations may be less stringent. If the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations, we may incur additional expenses to comply with such laws and regulations which would not have a material and adverse impact on our operations. However, our PRC legal advisor has advised us that such policies and practices adopted by the local government authorities apply to all local enterprises, therefore, the chance of us incurring such additional expenses is very slim. For further details, please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may incur additional expenses if relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.” in this document.

The Group’s Relationship with its Employees

Our Group has not experienced any significant problems with its employees or disruption to its operations due to labor disputes nor has it experienced any difficulty with the recruitment and retention of experienced staff. Our employees are not a party to any collective bargaining agreements, but are represented by labor unions organized under the PRC laws and regulations. Our Directors believe that our Group maintains a good working relationship with its employees.

Share Option Scheme

We conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized under the section headed “Statutory and General Information — Other Information — Share Option Scheme” in Appendix VI to this document.

Retirement Schemes

Our employees in the PRC participate in various pension schemes organized by the relevant municipal and provincial government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management, and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees. The total amount of contributions we made for such employee pension schemes for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB0.1 million, RMB1.3 million, RMB1.9 million and RMB1.4 million, respectively.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

All Directors receive reimbursements from our Company for expenses which are necessarily and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company. The executive Directors elected by our Board, who are also employees of our Company, are entitled to receive, in their capacity as employees of our Company, compensation in the form of salaries, other allowances and benefits in kind, including our Company’s contribution to the pension scheme for our executive Directors.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB0.2 million, RMB0.2 million, RMB0.3 million and RMB0.1 million, respectively. Such remuneration is determined with reference to the Company’s business and financial performance in the relevant financial year.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid by our Group to our five highest paid individuals for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB0.5 million, RMB0.5 million, RMB0.7 million and RMB0.4 million, respectively.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the financial year ending December 31, 2010 is estimated to be no more than RMB0.4 million.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and as of June 30, 2010 and for the six months ended June 30, 2010, together with the accompanying notes set forth in the accountants’ report (the “Accountants’ Report”) included as Appendix I to this document. Our audited consolidated financial statements are prepared in conformity with HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, including the United States. Our consolidated financial information for the six months ended June 30, 2009, which was reviewed by our [●] in accordance with HKSRE 2410, has not been audited but reflects all material adjustments that our management believes are necessary for the fair presentation of such information under HKFRS. As these results have not been audited, reliance on such information should be restricted in light of the limited nature of the review procedures applied. Results for interim periods are not indicative of results for the full year. You should read the whole of the accountants’ report included as Appendix I to this document and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual results reported in future periods could differ materially from those discussed below. Factors that could cause or contribute to such differences include those discussed in the sections headed “Risk Factors” and “Business” and elsewhere in this document.

For the purpose of this section, unless the context otherwise requires, references to 2007, 2008 and 2009 refer to our financial year ended December 31 of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading independent¹ axle component provider for China’s medium duty truck and heavy duty truck aftermarket with the most diversified product offerings among independent axle component providers in China, according to the Frost & Sullivan Report. We market our axle components to our customers in the aftermarket through our sales, marketing and services network, which was the most extensive among all axle component providers in China’s MDT and HDT axle aftermarket in terms of geographic reach and market penetration.² We are also the second largest independent axle assembly provider as measured by revenue in 2009 for China’s MDT and HDT OEM market, according to the Frost & Sullivan Report. In 2009, independent axle assembly providers had approximately a 17% share of China’s MDT and HDT OEM market as measured by sales volume, according to the Frost & Sullivan Report. We believe our strong “暢豐” (Changfeng) brand associated with our high quality products and our extensive sales, marketing and services network differentiates us from our competitors. We also believe that our participation in both the aftermarket and OEM market mutually enhances our market position and branding in both markets.

Notes:

- (1) For an explanation of “independent” versus “captive” providers, please refer to the section headed “Industry Overview – Overview of Medium Duty and Heavy Duty Truck Axle Market – Medium duty and heavy duty truck OEM and related market” in this document.
- (2) As of December 31, 2009 according to the Frost & Sullivan Report.

FINANCIAL INFORMATION

Our diversified axle component product offerings include seven major categories of axle components with over 680 models. Our products cover all major axle components, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams. We also manufacture an extensive range of front, middle and rear axle assemblies and suspension assemblies in over 400 models. We use proprietary processing techniques in our production process to manufacture quality products that are characterized by their strong durability and competitive prices. Our comprehensive axle component production capabilities, vertically integrated production process and research and development abilities allow us to swiftly respond to changes in market trends and meet customer demands. According to the Frost & Sullivan Report, we had a 43% market share of the PRC MDT and HDT axle housing aftermarket based on sales volume for 2009.

We sell our axle components and a small portion of our axle assemblies in the MDT and HDT axle aftermarket primarily through our extensive sales, marketing and services network, which covers 30 provinces, municipalities and autonomous regions across China, and our revenue from the aftermarket accounted for 62.5% of our total revenue in 2009. As of December 31, 2009, this network consisted of 25 provincial-level distributors, 192 first-tier distributors and 412 second-tier distributors. As of December 31, 2009, we had 33 exclusive distributors, comprised of all 25 of our provincial-level distributors and eight of our first-tier distributors. We have continued to expand our sales, marketing and service network in 2010, including our exclusive distributors. We require our exclusive distributors to sell only our Changfeng-branded products and renovate their stores according to our Changfeng-branded design and layout requirements. This uniform branding and marketing strategy, which we pioneered in the axle aftermarket in China, helps promote brand awareness and strengthen customer confidence in our products, thereby increasing our overall sales. We are in the process of converting our existing non-exclusive first-tier distributors into exclusive first-tier distributors as we increase our production capacity and product supply.

We primarily sell our axle assemblies directly to OEMs in China on a made-to-order basis to match our customers' specification requirements. As the second largest independent axle assembly provider for China's MDT and HDT OEM market, we had a 10% market share as measured by revenue in 2009 of the OEM market that was not already captured by captive axle assembly suppliers, according to the Frost & Sullivan Report. On occasion, we sell a small portion of our axle components to other axle assembly providers. Our OEM customers include OEMs such as Anhui Hualing Automobile Co., Ltd. (安徽華菱汽車股份有限公司), Zhucheng Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司諸城汽車廠), Changsha Works of Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司長沙汽車廠), Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Changde Motor Crane Branch (長沙中聯重工科技發展股份有限公司常德汽車起重機分公司), Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), Chengdu Wangpai Motor Group Co., Ltd. (成都王牌汽車集團股份有限公司) and Hubei Tri-Ring Special Truck Co., Ltd. (湖北三環專用汽車有限公司). We have a dedicated sales team assigned to service each of our OEM customers. These sales teams typically are located near such OEM customers' facilities and continually market, promote and provide after-sales services for our products on-site. We believe our strong growth in the OEM market is primarily attributable to our rapid product development and customization capabilities, the high quality of our products offered at competitive prices, our excellent after-sales services, and our good relationships with OEM customers. As OEM customers increasingly turn to independent axle assembly providers who have rapid product development and customization capabilities and offer high quality products at competitive prices to supply their axle assemblies, we believe our growth in the OEM market will continue.

FINANCIAL INFORMATION

We have experienced significant growth in sales revenue and profit in recent years. In 2007, 2008 and 2009, our revenue was RMB176.7 million, RMB417.8 million and RMB801.2 million, respectively, representing a CAGR of 112.9%. For the six months ended June 30, 2010, our revenue was RMB694.6 million, representing an increase of 109.7% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, revenue from our aftermarket segment was RMB84.0 million, RMB274.5 million and RMB500.7 million, respectively, representing a CAGR of 144.1%, and revenue from our OEM and related market segment was RMB92.7 million, RMB143.4 million and RMB300.4 million, respectively, representing a CAGR of 80.0%. For the six months ended June 30, 2010, revenue from our aftermarket segment was RMB450.6 million, representing an increase of 156.3% as compared to the corresponding period in 2009, and revenue from our OEM and related market segment was RMB244.0 million, representing an increase of 57.1% as compared to the corresponding period in 2009. In 2007, 2008 and 2009, our net profit was RMB42.3 million, RMB91.6 million and RMB162.8 million, respectively, representing a CAGR of 96.2%. For the six months ended June 30, 2010, our net profit was RMB147.5 million, representing an increase of 147.1% as compared to the corresponding period in 2009.

Basis of Presentation

Our Company was incorporated in the Cayman Islands as a company with limited liability on May 21, 2008. Pursuant to the Reorganization, our Company became the holding company of the companies now comprising the Group as of the same date. For details of the Reorganization, please refer to the section headed “History, Reorganization and Group Structure” in this document. The consolidated financial statements of our Group as of and for the three years ended December 31, 2007, 2008 and 2009 and as of and for the six months ended June 30, 2010 (“**Financial Information**”) have been prepared in accordance with HKFRS and on the basis as if our Company had always been the holding company of our Group using the principles of merger accounting. Our consolidated financial information for the six months ended June 30, 2009 (together with the Financial Information, the “**Financial Statements**”), which was reviewed by our [●] in accordance with HKSRE 2410, has not been audited but reflects all material adjustments that our management believes are necessary for the fair presentation of such information under HKFRS. As these results have not been audited, reliance on such information should be restricted in light of the limited nature of the review procedures applied.

The Financial Statements presented in the Accountants’ Report are prepared on the following basis:

- our consolidated statements of comprehensive income and consolidated statements of cash flow for each of the three years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and June 30, 2010, and our consolidated statements of changes in equity for each of the three years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 include the results, comprehensive income, changes in equity and cash flows of all companies now comprising our Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition, incorporation or establishment, whichever is a shorter period;
- our consolidated statements of financial position as of December 31, 2007, 2008 and 2009 and as of June 30, 2010 have been prepared to present the assets and liabilities of all companies now comprising our Group, as if the current structure had been in existence as at the respective end of each reporting period, or since their respective dates of acquisition, incorporation or establishment, whichever is a shorter period;
- acquisition of businesses prior to January 1, 2010 was accounted for using the purchase method and acquisitions of businesses on or after January 1, 2010 are accounted for using the acquisition method; and

FINANCIAL INFORMATION

- inter-company transactions, balances and unrealized gains on transactions between companies comprising our Group are eliminated.

For more information on the basis of presentation of the Financial Statements included herein, see Note 2 of the Accountants' Report included as Appendix I to this document.

On April 16, 2008, Fujian Changfeng entered into an agreement to acquire 90% and 10% of the equity interest in Kaifeng Changfeng from Mr. Wong Kwai Mo and Special Vehicle, respectively. The acquisition of such equity interests by Fujian Changfeng was completed on July 21, 2008. Mr. Wong Kwai Mo held 87.7% of the equity interest in, and was therefore the controlling shareholder of, Special Vehicle during the period from January 1, 2007 to February 15, 2008, and subsequently transferred his entire interest in Special Vehicle to Mr. Lai Fengcai, a member of the Board of Directors and senior management of the Group, in February 2008. As such, the effective controlling interest in Kaifeng Changfeng attributable to Mr. Wong Kwai Mo was 98.8%, 98.8% and 90% as at January 1, 2007, December 31 2007 and April 16, 2008, respectively. In addition, because Kaifeng Changfeng was still in its pre-operation stage prior to the acquisition by Fujian Changfeng, the attributable losses shared by the non-controlling interests in Kaifeng Changfeng amounted to approximately RMB94,000 for the year ended December 31, 2007 and RMB7,000 for the period from January 1, 2008 to April 16, 2008, respectively. As such, no non-controlling interests in Kaifeng Changfeng were presented in the Accountants' Report for the Track Record Period as the amounts involved were immaterial.

Factors Affecting Our Results of Operations

Our business, financial position and results of operations have been, and we expect will continue to be, significantly affected by a number of factors, many of which are not within our control. A discussion of some of these factors is set forth below.

Demand in the Axle Industry in China. Our results of operations are affected by the level of demand for our products in the axle industry in China, particularly in the aftermarket and OEM and related market. Demand for our products in both segments is primarily driven by the general demand for MDTs and HDTs in China which, in recent years has been driven by a number of factors, including growth of the PRC economy, industrialization in China, improved highway networks in China, macroeconomic policies of the PRC government and PRC automotive industry regulations. The PRC government may impose requirements that affect the sales and demands for MDTs and HDTs in China, which could, in turn, affect the demand for our products. Demand for our products to a large extent is also driven by the intensity of trucking activities in China. Trucking activities in China are largely driven by China's infrastructure development, demand for logistics services, as well as domestic commerce and import/export activities, each of which has an impact on freight transportation on China's highways. These and other factors will continue to affect the market demand for our products. Fluctuations in the demand for MDTs and HDTs in the PRC market and changes in the level of trucking activities in China will affect our results of operations and financial condition.

Production Capacity. Our results of operations have been and are expected to continue to be affected by our production capacity. The market demand for our products in the PRC MDT and HDT axle industry in both the aftermarket and OEM market has increased significantly in recent years. As a result of high demand, particularly from our aftermarket customers, our production facilities operate at full or close to full capacity during peak season, and we have encountered periods during which we had to reject purchase orders from customers that exceeded our production capacity. Therefore, we intend to increase our

FINANCIAL INFORMATION

production capacity in order to meet and take advantage of such market demand. Our expansion plans include the construction of a new production facility located in the city of Nanchong, Sichuan province which we expect to commence operations by the end of 2010, and the expansion of our existing facilities in the city of Longyan, Fujian province, and in the city of Kaifeng, Henan province. We believe that increasing our production capacity will help us to gain market share and increase our revenue, which may have a significant impact on our results of operations. However, if we over-expand our production capacity beyond the demand for our products, our results of operations may be adversely affected.

Cost of Raw Materials. The cost of raw materials, primarily steel and components, accounts for the substantial majority of our cost of sales, representing 86.1%, 83.3%, 85.7% and 83.0% of our total cost of sales in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The cost of steel purchases accounted for 65.0%, 67.0%, 68.0% and 66.2% of our total cost of sales in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The cost of steel is subject to fluctuations in both domestic and international commodities markets, and changes in steel prices will affect our results of operations. In our aftermarket, we generally are able to dictate the prices of our axle components and axle assemblies to our aftermarket customers and therefore are able to pass on significant increases in our raw material costs to them to reflect raw material cost changes in the market. In our OEM and related market, we generally are able to pass on significant increases in our raw material costs to our axle assembly provider customers, but need to negotiate any price adjustments with our OEM customers before we are able to pass on our raw material costs to them. As we increase our production in accordance with our capacity expansion plans, we expect that our demand for raw materials will increase. Although we believe that we benefit from economies of scale in our procurement efforts and can obtain favorable pricing terms from our suppliers, fluctuations in the prices of raw materials will continue to have an impact on our results of operations.

Competition. We face competition in the PRC MDT and HDT axle market primarily from our domestic competitors. We believe the factors that are critical to our competitiveness in this market include production capacity, marketing and distribution channels, breadth and quality of product offerings, competitive pricing, brand recognition, after-sales services and research and development capabilities. We believe that we have enjoyed certain competitive advantages as a result of our large production scale, extensive sales, marketing and services network, breadth and quality of our product offerings at competitive prices, strong relationships with our customers and a high level of brand recognition, among other factors. Please refer to the section headed “Business — Our Competitive Strengths” in this document for additional details. Increased competition or our inability to sustain our competitive advantage could adversely affect our results of operations.

Enterprise Income Tax. The enterprise income tax that was generally applicable in China was 33% of taxable income prior to January 1, 2008 and has been 25% since January 1, 2008. Our subsidiary Fujian Changfeng was entitled to an exemption from PRC enterprise income tax, applicable to PRC foreign-invested enterprises, for the first two years commencing in 2007, which was its first profit-making year, and is entitled to an income tax reduction by 50% for the three subsequent years pursuant to then applicable PRC national tax laws and approvals received from local tax authorities. As such, Fujian Changfeng’s enterprise income tax rate was 12.5% in 2009, and it will continue to enjoy this reduced tax rate through 2011. Without any further tax exemptions, Fujian Changfeng will be subject to a normal enterprise income tax rate of 25% commencing in 2012. Except for Fujian Changfeng, all of our other subsidiaries located in China have been subject to enterprise income tax at a rate of 25% since January 1, 2008. Any changes in the enterprise income tax rate applicable to us would have a significant impact on our results of operations.

FINANCIAL INFORMATION

Critical Accounting Policies and Estimates

Management’s discussion and analysis of our financial condition and results of operations are based upon our Financial Statements, which have been prepared in accordance with HKFRS. The preparation of these Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following critical accounting policies and estimates are most critical to an understanding of our Financial Statements because they inherently involve significant judgments and uncertainties. For a detailed discussion on the application of these and other accounting policies, refer to the notes to our Financial Statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business. Revenue from the sale of goods is recognized when the goods are delivered and title has passed. For sales of the Group’s products to aftermarket customers, which are primarily the provincial-level, first-tier and second-tier distributors within the Group’s sales, marketing and services network, such customers are required to pick up the products directly from the Group’s production facilities. Once the products leave the Group’s production facilities and risk of loss and title to the products passes to the aftermarket customer, the Group recognizes revenue from sales of these products. The Group recognizes revenue from sales of its aftermarket products only when it first sells such products to its aftermarket customers. The Group does not recognize revenue when its products are sold between its distributors (such as when provincial-level distributors sell to first-tier distributors, and first-tier distributors sell to second-tier distributors), nor does it recognize revenue when its products are ultimately sold by its distributors to end-users. As such, there is no double-counting of sales of products in the aftermarket segment. For products sold in the OEM and related market segment, revenue is recognized when the Group delivers the products to the OEM and related market customers.

Property, Plant and Equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. We estimate residual values, useful lives and related depreciation charges for property, plant and equipment (other than construction in progress) after taking into account their estimated residual values, using the straight-line method. Our management estimates the useful lives and related depreciation charges for plant, property and equipment based on our historical experience with assets similar in nature and function. Our management will increase the depreciation charge where the useful lives are expected to be shorter than estimated, or will write off or write down obsolete or non-strategic assets that have been abandoned or sold. Our management exercises judgment when estimating the useful lives of the depreciable assets and such estimates could change significantly as a result of technical innovations, changes in market conditions and competition. Changes in such estimations may have a material impact on our results.

FINANCIAL INFORMATION

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Inventories

Inventories are stated at the lower of cost and net realizable value. We determine costs by the method most appropriate to the particular class of inventory, with the majority being determined by the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

We have operational procedures in place to monitor our inventory as a significant proportion of our Group’s working capital is devoted to inventories. Our management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparing the carrying value of the aged inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, a physical count on all inventories is carried out on a periodical basis in order to determine whether allowances are necessary in respect of any obsolete and defective inventories identified. In this regard, our management is satisfied that this risk is minimal and adequate provisions for obsolete and slow-moving inventories have been made in the Financial Statements.

Impairment of Tangible Assets other than Financial Instruments

At the end of each reporting period, we review the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than the carrying amount of the asset or its cash-generating unit, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the greater of the asset’s fair value less costs to sell and its value in use. The value we use in our calculation requires our management to estimate the future cash flows expected to arise from the assets themselves or the cash-generating unit to which they belong and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Trade and Other Receivables

At the end of each reporting period, trade and other receivables are measured at amortized cost using the effective interest method, less any identified impairment loss. The carrying amount of trade receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss in the period in which such recoveries are made.

An impairment loss is recognized in profit or loss when there is objective evidence that the recoverability of trade and other receivables becomes doubtful, and is measured as the difference between the receivable’s carrying amount and the present value of future estimated cash flows, discounted at the

FINANCIAL INFORMATION

receivable's original effective interest rate (i.e., the effective interest rate computed at initial recognition). When the actual future cash flows are less than estimated, a material impairment loss may arise. If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the receivable at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

The impairment loss calculations contain uncertainties because management is required to make assumptions and to apply judgment regarding historical settlement experience, debt aging, financial status of debtors and general economic conditions. We do not believe that there will be a material change in the future estimates or assumptions which are used in the calculations of impairment loss of trade and other receivables. However, when the actual outcome or expectation in future is different from the original estimates, the carrying value of trade and other receivables and impairment loss may change.

Prepaid Lease Payments

Prepaid lease payments represent deposits made to acquire land. Such deposits are recorded as prepayments for acquisition of land before the rights to use the land are obtained, and are recorded as prepaid lease payments after the rights to use the land are obtained. Prepaid lease payments are stated at cost and amortized on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Research and Development Expenditure

Research and development expenditure is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized only if all of the following have been demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) the ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for an internally generated asset is the sum of the expenditure incurred from the date when the intangible asset first meets such recognition criteria. Subsequent to initial recognition, internally generated assets are measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately. Where no internally generated intangible asset can be recognized, research and development expenditure is charged to profit or loss in the period in which it is incurred.

Provisions for Warranty Claims

Provisions for warranty claims are made only for the Group's front, middle and rear assemblies sold to the Group's OEM customers covered under a six-month warranty period, on the basis that historically and in practice customers seldom make warranty claims on other products. Such provisions are made according to possible claims on products to be made by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the relevant period. See Note 23 to the Accountants' Report for additional information. In cases where the actual claims are greater than expected, a material increase in warranty expenses may arise and such increase would be recognized in profit or loss in the period in which such claims are made.

FINANCIAL INFORMATION

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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 it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our 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.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged as an expense or income in profit or loss.

Business Combinations

Business combinations prior to January 1, 2010

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by our Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over our Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interest’s proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

FINANCIAL INFORMATION

Business combinations on or after January 1, 2010

The acquisition of businesses is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits,” respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree’s share-based payments awards are measured in accordance with HKFRS 2 “Share-based Payment”; and
- assets that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets.

Where a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss.

Changes in the value of the previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

FINANCIAL INFORMATION

Segment Reporting

Business Segments

For management and accounting purposes, we classify our operations and sales by business segments, which are determined by the type of products we produce and the type of customers to which we sell our products.

Our aftermarket segment includes revenue generated from our manufacture and sale of axle components and axle assemblies to the market for providing after-sales services. Revenue from our aftermarket segment constituted 47.5%, 65.7%, 62.5% and 64.9% of our total revenue in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Historically, our aftermarket segment has been our fastest-growing segment, with revenue increasing from RMB84.0 million in 2007 to RMB500.7 million in 2009, representing a CAGR of 144.1%. We believe the key drivers behind our revenue growth in the aftermarket segment have included: (i) the expansion of our production capacity via our three production facilities in Fujian and Henan provinces; (ii) our extensive sales, marketing and services network, which we have consistently expanded during the Track Record Period; (iii) the improvement in our product development capabilities, which, in turn, has enabled us to offer a diverse range of product offerings and has improved our responsiveness to market demands; and (iv) the quality of our products and the price advantage we enjoy over our competitors.

Our OEM and related market segment includes revenue generated from our manufacture and sale of axle assemblies and axle components to MDT and HDT manufacturers and other axle assembly manufacturers. Revenue from our OEM and related market segment constituted 52.5%, 34.3%, 37.5% and 35.1% of our total revenue in 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Our revenue in the OEM and related market segment increased from RMB92.7 million in 2007 to RMB300.4 million in 2009, representing a CAGR of 80.0%. We believe that significant factors behind our revenue growth in this segment have included: (i) our rapid product development and customization capabilities, resulting in large part from our research and development abilities and production technologies and processes that enable us to provide fast turn-around times; (ii) the high quality of our products offered at competitive prices; and (iii) our after-sales services and good relationships with our customers in this segment.

The following table sets forth the amount of our revenue contributed by each of our business segments for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
		% of		% of		% of		% of		% of
	Revenue	Total	Revenue	Total	Revenue	Total	Revenue	Total	Revenue	Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Operating Segments:										
Aftermarket	83,995	47.5%	274,475	65.7%	500,714	62.5%	175,835	53.1%	450,567	64.9%
OEM and related market . . .	92,673	52.5%	143,355	34.3%	300,437	37.5%	155,343	46.9%	243,999	35.1%
Total	176,668	100.0%	417,830	100.0%	801,151	100.0%	331,178	100.0%	694,566	100.0%

FINANCIAL INFORMATION

Cost of Sales

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total	Cost of Sales	% of Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Operating Segments:										
Aftermarket	60,276	47.6%	194,922	65.3%	332,391	60.5%	126,399	52.3%	290,881	61.8%
OEM and related market . . .	66,275	52.4%	103,673	34.7%	216,982	39.5%	115,183	47.7%	179,564	38.2%
Total	126,551	100.0%	298,595	100.0%	549,373	100.0%	241,582	100.0%	470,445	100.0%

The following table sets forth our gross profit and gross profit margin for each our operating segments for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Operating Segments:										
Aftermarket	23,719	28.2%	79,553	29.0%	168,323	33.6%	49,436	28.1%	159,686	35.4%
OEM and related market . . .	26,398	28.5%	39,682	27.7%	83,455	27.8%	40,160	25.9%	64,435	26.4%
Total	50,117	28.4%	119,235	28.5%	251,778	31.4%	89,596	27.1%	224,121	32.3%

Description of Certain Items of Statements of Comprehensive Income

Revenue

Our revenue consists of revenue generated from the sale of our axle components and axle assembly products, net of discounts, estimated customer returns, rebates and sales related taxes.

Cost of sales

Our cost of sales consists of costs for raw materials, direct labor and manufacturing overhead. Costs of sales are recognized when the relevant products have been sold.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
							(unaudited)			
Raw materials	108,989	86.1%	248,905	83.3%	471,029	85.7%	202,330	83.8%	390,370	83.0%
Direct labor	9,724	7.7%	24,071	8.1%	35,336	6.5%	12,929	5.4%	27,700	5.9%
Manufacturing overhead . . .	7,838	6.2%	25,619	8.6%	43,008	7.8%	26,322	10.8%	52,376	11.1%
Total	126,551	100.0%	298,595	100.0%	549,373	100.0%	241,581	100.0%	470,446	100.0%

Raw materials costs primarily consist of costs of raw materials, parts and components, such as steel and scrap steel used in the manufacturing of our products. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, raw materials costs represented 86.1%, 83.3%, 85.7% and 83.0% respectively, of our total cost of sales for the same periods.

Direct labor costs primarily consist of expenses related to wages, overtime payment and various employee benefits, including social security, retirement benefits and fringe benefits. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, direct labor represented 7.7%, 8.1%, 6.5% and 5.9% respectively, of our total cost of sales for the same periods.

Manufacturing overhead costs primarily consist of depreciation of our property, plant and equipment, transportation costs for raw materials and components, fixed manufacturing costs, including utilities and maintenance costs, and costs of indirect materials used for the manufacturing of our products. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, manufacturing overhead costs represented 6.2%, 8.6%, 7.8% and 11.1% respectively, of our total cost of sales for the same periods.

Gross profit

Gross profit represents revenue less cost of sales. Our gross profit margin, therefore, depends upon a combination of factors, including the volume and price at which we sell our products, the cost of raw materials we procure and our labor and manufacturing overhead costs. The gross profit margin for our aftermarket segment increased at a faster rate as compared to the gross profit margin for our OEM and related market segment primarily due to the launch of new makes and models of our axle component products, including brake drums, axle differentials and reducers and steering knuckles, after the first half of 2009, and our strong pricing power over our aftermarket customers, which allows us to maintain a high profit margin despite fluctuations in raw material costs.

FINANCIAL INFORMATION

Other income and other gains and losses

Other income and other gains and losses primarily consist of: (i) government grants; (ii) reimbursements for defective goods we receive from our suppliers pursuant to agreements with our suppliers; and (iii) interest income, which mainly includes interest we received from our cash deposits with banks. In 2007, we also had other income from the excess of the fair value of a subsidiary acquired over the cost of acquisition, which primarily reflects gains from the acquisition of our subsidiary Longyan Shengfeng. Such income and gains are partially offset by losses we incur from our disposal of property, plant and equipment and any donations we make.

In 2007, 2008 and 2009 and the six months ended June 30, 2010, we received grants from government entities in the aggregate amounts of RMB0.6 million, RMB9.8 million, RMB0.8 million and RMB0.8 million, respectively. Each grant we received during the Track Record Period was one-off in nature or available in subsequent periods only upon our application and fulfillment of relevant eligibility criteria, and was generally made without conditions. The grants we received are also generally available to other companies in China. In 2007, we received grants in the amount of RMB0.6 million which primarily consisted of subsidies from the Longyan city government in connection with the construction of facilities for Fujian Changfeng. In 2008, our grants totaling RMB9.8 million consisted of: (i) a grant in the amount of RMB9.0 million from the Kaifeng municipal government for our investments and development in Kaifeng, and (ii) various grants totaling RMB0.8 million from the local governments of Longyan and Kaifeng for our achievement of certain production targets and as allowances and incentives to encourage scientific and technological innovations. In 2009, our grants totaling RMB0.8 million consisted of: (i) RMB0.5 million of corporate income and land use tax subsidies from the relevant government branches in Longyan, (ii) RMB0.2 million as incentives from local government branches in Longyan for our achievement of certain production and growth targets, and (iii) a RMB0.1 million grant from the local government branches in Longyan in connection with the designation of our subsidiary Fujian Changfeng as a high technology enterprise. The significant increase in government grants we received in 2008 resulted primarily from the RMB9.0 million one-time grant we received from the Kaifeng municipal government to encourage our investments in Kaifeng. For the six months ended June 30, 2010, we received grants in the amount of RMB0.8 million which consisted of: (i) RMB0.6 million of corporate income and land use tax subsidies from the relevant government branches in Longyan, (ii) RMB0.1 million as an incentive from the local government branches in Longyan for the designation of our subsidiary, Fujian Changfeng, as a high technology enterprise, and (iii) various grants totaling RMB0.1 million from the local government branches in Longyan and Kaifeng as incentives for the designation of our trademark as a famous trademark at the provincial level and to encourage scientific and technological innovations.

Selling and distribution expenses

Selling and distribution expenses primarily consist of: (i) transportation expenses relating to the distribution of our products, (ii) salaries, welfare and other benefits for our sales and marketing staff, (iii) travel and entertainment expenses incurred by our sales and marketing staff, (iv) advertisement and promotion expenses and (v) expenses relating to our product warranties.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
							(unaudited)			
Transportation	71	3.3%	4,891	63.0%	6,537	37.2%	2,642	40.5%	5,266	48.8%
Salaries, welfare and other benefits	672	31.2%	1,077	13.9%	1,576	9.0%	715	11.0%	800	7.4%
Travel and entertainment . .	1,031	47.9%	1,263	16.3%	1,535	8.7%	457	7.0%	1,016	9.4%
Advertisement and promotion	186	8.6%	282	3.6%	662	3.8%	323	4.9%	154	1.4%
Warranties	47	2.2%	–	–	6,695	38.1%	2,171	33.3%	3,255	30.1%
Office expenses and utilities .	67	3.1%	122	1.6%	293	1.7%	103	1.6%	216	2.0%
Others ⁽¹⁾	79	3.7%	129	1.6%	274	1.5%	112	1.7%	95	0.9%
Total	2,153	100.0%	7,764	100.0%	17,572	100.0%	6,523	100.0%	10,802	100.0%

Note:

(1) Include depreciation, warehouse and other expenses.

Research and development expenditure

Research and development expenditure consists of expenses to develop and produce new makes and models of our products and includes primarily raw materials costs for such new makes and models. A smaller portion of our research and development expenditure consists of salaries, welfare and other benefits for our research and development staff.

Administrative expenses

Administrative expenses consist of (i) salaries, welfare and other benefits for our administrative, management and human resources staff, (ii) office expenses and utilities, (iii) miscellaneous tax expenses such as employee pensions, stamp duty and land use taxes, (iv) travel and entertainment expenses incurred by our administrative staff, (v) accounting, legal and other professional fees, and costs associated with the [●] and Reorganization, and (vi) other administrative expenses, which primarily consist of start-up costs for our subsidiaries, including Kaifeng Changfeng and Longyan Shengfeng, and other miscellaneous expenses.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
							(unaudited)			
Salaries, welfare and other benefits	1,263	21.1%	4,544	26.2%	8,613	31.7%	3,539	38.3%	6,764	25.4%
Office expenses and utilities	520	8.7%	3,186	18.4%	3,380	12.5%	1,309	14.1%	1,710	6.4%
Miscellaneous tax	245	4.1%	1,040	6.0%	2,053	7.6%	893	9.7%	1,440	5.4%
Travel and entertainment	321	5.4%	1,910	11.0%	1,879	6.9%	618	6.7%	1,012	3.8%
Professional fees and [●] and Reorganization expenses	85	1.4%	1,622	9.4%	7,494	27.6%	1,073	11.6%	12,718	47.8%
Depreciation	192	3.2%	594	3.4%	1,167	4.3%	355	3.8%	665	2.5%
Licensing and land use rights fees	62	1.0%	285	1.6%	652	2.4%	441	4.8%	1,052	4.0%
Others ⁽¹⁾	3,306	55.1%	4,162	24.0%	1,894	7.0%	1,017	11.0%	1,244	4.7%
Total	5,994	100.0%	17,343	100.0%	27,132	100.0%	9,245	100.0%	26,605	100.0%

Note:

- (1) Include primarily start-up costs for our subsidiaries, transportation, advertising, security, insurance fees and other expenses.

Finance costs

Finance costs primarily consist of interest expenses on our bank and other borrowings, net of capitalized finance costs relating to the acquisition, construction and production of certain assets. Not all of the interest costs related to such assets can be capitalized. As a result, our finance costs may fluctuate from period to period depending on the level of interest costs that are capitalized within the reporting period as well as the amount of outstanding principal and interest rates on our bank and other borrowings.

Taxation

Taxation represents enterprise income tax payable by our subsidiaries in China. The enterprise income tax that was generally applicable in China was 33% of taxable income prior to January 1, 2008 and has been 25% commencing on January 1, 2008. Our subsidiary Fujian Changfeng has been entitled to an exemption from PRC enterprise income tax for the first two years commencing in 2007, which was its first year of profit-making, and is entitled to an income tax reduction by 50% for the three subsequent years pursuant to then applicable PRC national tax laws and approvals received from local tax authorities. As such, Fujian Changfeng's enterprise income tax rate was 12.5% in 2009, and it will continue to enjoy this reduced tax rate until 2011. Without any further tax exemptions, Fujian Changfeng will be subject to a normal enterprise income tax rate of 25% commencing in 2012. Except for the Fujian Changfeng, all of our other subsidiaries located in China have been subject to enterprise income tax at a rate of 25% commencing on January 1, 2008.

FINANCIAL INFORMATION

Our subsidiaries, Longyan Shengfeng and Kaifeng Changfeng, did not have any taxable profit in 2007. Our subsidiaries, Beijing Changfeng and Sichuan Changfeng, did not have any taxable profits during the Track Record Period. Our effective tax rates for the three years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010 were nil, 1.7%, 14.7% and 14.7%, respectively.

Results of Operations

The following table sets forth selected data from our consolidated statements of comprehensive income for the periods presented, which have been derived from, and should be read in conjunction with, our Financial Statements, including the notes thereto, included in the Accountants’ Report set forth in Appendix I to this document.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	176,668	417,830	801,151	331,178	694,566
Cost of sales	(126,551)	(298,595)	(549,373)	(241,582)	(470,445)
Gross profit	50,117	119,235	251,778	89,596	224,121
Other income and other gains and losses	3,744	9,782	5,078	1,207	2,303
Selling and distribution expenses . . .	(2,153)	(7,764)	(17,572)	(6,522)	(10,802)
Research and development expenditure ⁽¹⁾	(526)	(2,995)	(8,540)	—	(5,858)
Administrative expenses	(5,994)	(17,343)	(27,132)	(9,245)	(26,605)
Finance costs	(2,933)	(7,745)	(12,700)	(5,777)	(10,162)
Profit before tax	42,255	93,170	190,912	69,259	172,997
Taxation	—	(1,593)	(28,128)	(9,576)	(25,458)
Profit and total comprehensive income for the year/period	42,255	91,577	162,784	59,683	147,539
Profit and total comprehensive income for the year/period attributable to:					
Owners of the Company	42,250	91,577	162,784	59,683	147,539
Non-controlling interests	5	—	—	—	—
	42,255	91,577	162,784	59,683	147,539

Note:

- (1) Primarily comprises expenses and raw materials costs to develop and produce new makes and models of our products. Please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Description of Certain Items of Statements of Comprehensive Income — Research and development expenditure” for additional information.

FINANCIAL INFORMATION

Six months ended June 30, 2010 compared to six months ended June 30, 2009

Revenue. Revenue for the six months ended June 30, 2010 was RMB694.6 million compared to RMB331.2 million for the same period in 2009, representing an increase of RMB363.4 million, or 109.7%. In general, the overall increase in our revenue for the six months ended June 30, 2010 was due to: (i) stronger demand for our products and (ii) an increase in our production capacity, particularly as a result of the completion of additional factory buildings and production lines at our Kaifeng Changfeng and Longyan Shengfeng production facilities, which were not fully completed in the first half of 2009. Revenue from our aftermarket segment increased to RMB450.6 million for the six months ended June 30, 2010 from RMB175.8 million for the same period in 2009, or by 156.3%. Such increase was primarily due to (i) the launch of new makes and models of our axle component products, including brake drums, axle differentials and reducers and steering knuckles, after the first half of 2009 upon the completion of additional factory buildings and production lines at our Kaifeng Changfeng and Longyan Shengfeng production facilities and (ii) the increase in sales of our existing products to our distributors. Revenue from our OEM and related market segment increased to RMB244.0 million for the six months ended June 30, 2010 from RMB155.3 million for the same period in 2009, or by 57.1%. Such increase was primarily due to increased demand from our existing OEM customers as well as orders from new OEM customers we developed in the first half of 2010.

Cost of sales. Cost of sales for the six months ended June 30, 2010 was RMB470.4 million compared to RMB241.6 million for the same period in 2009, representing an increase of RMB228.8 million, or 94.7%. Cost of sales for our aftermarket segment increased to RMB290.9 million for the six months ended June 30, 2010 from RMB126.4 million for the same period in 2009, or by 130.1%. Cost of sales for our OEM and related market segment increased to RMB179.6 million for the six months ended June 30, 2010 from RMB115.2 million for the same period in 2009, or by 55.9%. Such increases were in line with the corresponding increases in revenue from these segments during this period.

Gross profit. As a result of the foregoing, we recorded a gross profit of RMB224.1 million for the six months ended June 30, 2010 compared to RMB89.6 million for the same period in 2009, representing an increase of RMB134.5 million, or 150.1%. Gross profit for our aftermarket segment increased to RMB159.7 million for the six months ended June 30, 2010 from RMB49.4 million for the same period in 2009, or by 223.3%. Gross profit for our OEM and related market segment increased to RMB64.4 million for the six months ended June 30, 2010 from RMB40.2 million for the same period in 2009, or by 60.2%. Our gross profit margin for the six months ended June 30, 2010 was 32.3% compared to 27.1% for the same period in 2009. The gross profit margin for our aftermarket segment was 35.4% for the six months ended June 30, 2010 compared to 28.1% for the same period in 2009. The gross profit margin for our OEM and related market segment was 26.4% for the six months ended June 30, 2010 compared to 25.9% for the same period in 2009.

Other income and other gains and losses. Other income and other gains and losses for the six months ended June 30, 2010 were RMB2.3 million compared to RMB1.2 million for the same period in 2009, representing an increase of RMB1.1 million, or 91.7%. Such increase was primarily due to: (i) the increase of RMB0.5 million in reimbursements that we received from product defects claims that we made against certain of our suppliers, (ii) the increase of RMB0.3 million in government grants and (iii) the increase of RMB0.3 million in bank interest income, in each case, compared to the same period in 2009. This increase was partially offset by a RMB0.1 million donation.

FINANCIAL INFORMATION

Selling and distribution expenses. Selling and distribution expenses were RMB10.8 million for the six months ended June 30, 2010 compared to RMB6.5 million for the same period in 2009, representing an increase of RMB4.3 million, or 66.2%. Such increase was primarily due to: (i) a RMB2.6 million increase in transportation expenses as a result of an increase in products sold to our OEM and related market customers and (ii) a RMB1.1 million increase in expenses related to our product warranties due to an increase in sales of our front, middle and rear axle assemblies for the six months ended June 30, 2010 compared to the same period in 2009.

Research and development expenditure. Research and development expenditure for the six months ended June 30, 2010 was RMB5.9 million compared to nil for the same period in 2009. For the six months ended June 30, 2010, our research and development expenditure of RMB5.9 million primarily related to the development and production of new makes and models of axle housings, brake drums, steering knuckles, front axle beams and axle assemblies. There was no research and development expenditure for the six months ended June 30, 2009 because we did not develop any new makes or models of our products during this period.

Administrative expenses. Administrative expenses for the six months ended June 30, 2010 were RMB26.6 million compared to RMB9.2 million for the same period in 2009, representing an increase of RMB17.4 million, or 189.1%. Such increase was primarily due to: (i) a RMB11.6 million increase in professional fees, including audit and legal fees, and expenses incurred in connection with the [●] and Reorganization and (ii) a RMB3.2 million increase in salaries, welfare and other benefits for our administrative, management and human resources staff.

Finance costs. Finance costs for the six months ended June 30, 2010 were RMB10.2 million compared to RMB5.8 million for the same period in 2009, representing an increase of RMB4.4 million, or 75.9%. Such increase was primarily due to an increase in the amount of interest incurred on bank and other borrowings for the six months ended June 30, 2010, as we had higher outstanding borrowing balances for the six months ended June 30, 2010 than for the same period in 2009.

Profit before tax. As a result of the above, profit before tax for the six months ended June 30, 2010 was RMB173.0 million compared to RMB69.3 million for the same period in 2009, representing an increase of RMB103.7 million, or 149.6%.

Taxation. Taxation for the six months ended June 30, 2010 was RMB25.5 million compared to RMB9.6 million for the same period in 2009, representing an increase of RMB15.9 million as a result of our RMB103.7 million increase in profit before tax for the six months ended June 30, 2010 over the same period in 2009.

Profit and total comprehensive income for the period. As a result of the above, profit and total comprehensive income for the six months ended June 30, 2010 was RMB147.5 million compared to RMB59.7 million for the same period in 2009, representing an increase of RMB87.8 million, or 147.1%.

2009 compared to 2008

Revenue. Revenue in 2009 was RMB801.2 million compared to RMB417.8 million in 2008, representing an increase of RMB383.4 million, or 91.8%. In general, the overall increase in our revenue in 2009 was due to: (i) stronger demand for our products, which was partly caused by increased manufacturing and output of automobiles in China in 2009 as a result of the PRC government's economic

FINANCIAL INFORMATION

stimulus policies implemented in 2009, and (ii) an increase in our production capacity, particularly as a result of the completion of additional factory buildings and production lines at our Kaifeng Changfeng and Longyan Shengfeng production facilities in 2009. Revenue from our aftermarket segment increased to RMB500.7 million in 2009 from RMB274.5 million in 2008, or by 82.4%. Such increase was also primarily due to the launch of new makes and models of our axle component products, including brake drums, axle differentials and reducers and steering knuckles in 2009. Revenue from our OEM and related market segment increased to RMB300.4 million in 2009 from RMB143.4 million in 2008, or by 109.5%. Such increase was also primarily due to increased demand from our existing OEM customers due to our strengthened relationships with them as well as orders from new OEM customers we developed in 2009.

Cost of sales. Cost of sales in 2009 was RMB549.4 million compared to RMB298.6 million in 2008, representing an increase of RMB250.8 million, or 84.0%. Cost of sales for our aftermarket segment increased to RMB332.4 million in 2009 from RMB194.9 million in 2008, or by 70.5%. Cost of sales for our OEM and related market segment increased to RMB217.0 million in 2009 from RMB103.7 million in 2008, or by 109.3%. Such increases were in line with the corresponding increases in revenue from these segments during this period.

Gross profit. As a result of the foregoing, we recorded a gross profit of RMB251.8 million in 2009 compared to RMB119.2 million in 2008, representing an increase of RMB132.6 million, or 111.2%. Gross profit for our aftermarket segment increased to RMB168.3 million in 2009 from RMB79.6 million in 2008, or by 111.4%. Gross profit for our OEM and related market segment increased to RMB83.5 million in 2009 from RMB39.7 million in 2008, or by 110.3%. Our gross profit margin in 2009 was 31.4% compared to 28.5% in 2008. The gross profit margin for our aftermarket segment was 33.6% in 2009 compared to 29.0% in 2008. The gross profit margin for our OEM and related market segment was 27.8% in 2009 compared to 27.7% in 2008.

Other income and other gains and losses. Other income and other gains and losses in 2009 were RMB5.1 million compared to RMB9.8 million in 2008, representing a decrease of RMB4.7 million, or 48.0%. Such decrease was primarily due to the fact that in 2009 we received only RMB0.8 million in government grants, compared to RMB9.8 million in government grants we received in 2008. In 2009 we also had RMB3.7 million in income from reimbursements for defective goods received from our suppliers, compared to only RMB0.6 million in such income in 2008, as a result of the increased amount of goods we purchased from suppliers in 2009.

Selling and distribution expenses. Selling and distribution expenses in 2009 were RMB17.6 million in 2009 compared to RMB7.8 million in 2008, representing an increase of RMB9.8 million, or 125.6%. Such increase was primarily due to: (i) a RMB1.6 million increase in transportation expenses for products sold to our OEM and related market customers and (ii) a RMB6.7 million increase in expenses related to our product warranties. The increase in warranty expenses consisted of (a) RMB2.9 million in warranty provision and warranty reimbursements made within the warranty period for axle assemblies sold to our OEM and related market customers in 2009 due to an increase in sales of our axle assemblies in 2009, (b) RMB1.4 million for payment of a one-off warranty claim related to front axle assemblies sold to an OEM and related market customer, which was due to a misunderstanding of product specifications rather than any product quality or defect claim; and (c) RMB2.4 million in warranty reimbursements made outside of the warranty period for axle assemblies sold to two major OEM and related market customers in 2007 and 2008. The RMB2.4 million in reimbursements made outside the warranty period were paid as a gesture of goodwill in order to enhance our business relationship with such major customers, however, we do not expect to make similar payments in the future as we have strengthened the product quality of our axle assemblies and improved our bargaining power in such relationship.

FINANCIAL INFORMATION

Research and development expenditure. Research and development expenditure in 2009 was RMB8.5 million compared to RMB3.0 million in 2008, representing an increase of RMB5.5 million, or 183.3%. In 2009, our research and development expenditure of RMB8.5 million primarily related to the development and production of new makes and models of brake drums, steering knuckles and front axle beams. In 2008, our research and development expenditure of RMB3.0 million related to technological improvements we made to various product models.

Administrative expenses. Administrative expenses in 2009 were RMB27.1 million compared to RMB17.3 million in 2008, representing an increase of RMB9.8 million, or 56.6%. Such increase was primarily due to: (i) a RMB5.9 million increase in professional fees, including audit and legal fees, and expenses incurred in connection with the [●] and Reorganization and (ii) a RMB4.1 million increase in salaries, welfare and other benefits for our administrative, management and human resources staff.

Finance costs. Finance costs in 2009 were RMB12.7 million compared to RMB7.7 million in 2008, representing an increase of RMB5.0 million, or 64.9%. Such increase was primarily due to an increase in the amount of interest incurred on bank and other borrowings in 2009, as we had higher outstanding borrowing balances in 2009 than in the previous year.

Profit before tax. As a result of the above, profit before tax in 2009 was RMB190.9 million compared to RMB93.2 million in 2008, representing an increase of RMB97.7 million, or 104.8%.

Taxation. Taxation in 2009 was RMB28.1 million compared to RMB1.6 million in 2008, representing an increase of RMB26.5 million as a result of our RMB97.7 million increase in profit before tax in 2009 over 2008. Our taxation in 2009 included taxes on the assessable profits of our subsidiaries Fujian Changfeng, Kaifeng Changfeng and Longyan Shengfeng, whereas only taxes on the assessable profits of our subsidiary, Kaifeng Changfeng, were included in our taxation in 2008.

Profit for the year. As a result of the above, profit for the year in 2009 was RMB162.8 million compared to RMB91.6 million in 2008, representing an increase of RMB71.2 million, or 77.8%.

2008 compared to 2007

Revenue. Revenue in 2008 was RMB417.8 million compared to RMB176.7 million in 2007, representing an increase of RMB241.1 million, or 136.4%. In general, the overall increase in our revenue in 2008 can be attributed to the inclusion of the operating results of Kaifeng Changfeng in 2008, whereas this subsidiary was still in the pre-operation stages in 2007. Revenue from our aftermarket segment increased to RMB274.5 million in 2008 from RMB84.0 million in 2007, or by 226.8%. Such increase was also primarily due to new distributors added to our sales, marketing and services network, as well as additional makes and models of our cast steel axle housings and other products we offered in 2008. Revenue from our OEM and related market segment increased to RMB143.4 million in 2008 from RMB92.7 million in 2007, or by 54.7%. Such increase was also primarily due to new makes and models of axle assemblies we offered in 2008 and orders from new OEM customers we developed in 2008.

Cost of sales. Cost of sales in 2008 was RMB298.6 million compared to RMB126.6 million in 2007, representing an increase of RMB172.0 million, or 135.9%. Cost of sales for our aftermarket segment increased to RMB194.9 million in 2008 from RMB60.3 million in 2007, or by 223.2%. Cost of sales for our OEM and related market segment increased to RMB103.7 million in 2008 from RMB66.3 million in 2007, or by 56.4%. Such increases were in line with the corresponding increases in revenue from these segments during the same period.

FINANCIAL INFORMATION

Gross profit. As a result of the foregoing, we recorded a gross profit of RMB119.2 million in 2008 compared to RMB50.1 million in 2007, representing an increase of RMB69.1 million, or 137.9%. Gross profit for our aftermarket segment increased to RMB79.6 million in 2008 from RMB23.7 million in 2007, or by 235.9%. Gross profit for our OEM and related market segment increased to RMB39.7 million in 2008 from RMB26.4 million in 2007, or by 50.4%. Our gross profit margin in 2008 was 28.5% compared to 28.4% in 2007. The gross profit margin for our aftermarket segment was 29.0% in 2008 compared to 28.2% in 2007. The gross profit margin for our OEM and related market segment was 27.7% in 2008 compared to 28.5% in 2007.

Other income and other gains and losses. Other income and other gains and losses in 2008 were RMB9.8 million compared to RMB3.7 million in 2007, representing an increase of RMB6.1 million, or 164.9%. Such increase was primarily due to the fact that we received RMB9.8 million in government grants in 2008, compared to only RMB0.6 million in government grants we received in 2007. This increase in government grants was offset by the fact that in 2007, we had RMB2.6 million in other income from the excess of the fair value of a subsidiary acquired over the cost of acquisition, which primarily reflects gains from the acquisition of our subsidiary, Longyan Shengfeng, whereas we had no such income in 2008.

Selling and distribution expenses. Selling and distribution expenses in 2008 were RMB7.8 million compared to RMB2.2 million in 2007, representing an increase of RMB5.6 million, or 254.5%. Such increase was primarily due to: (i) a RMB4.8 million increase in transportation expenses for products sold to our OEM and related market customers as a result of increases in sales of such products in 2008 and (ii) a RMB0.4 million increase in salaries, welfare and other benefits for our sales and marketing staff. The overall increase in our selling and distribution expenses was also due to the inclusion of relevant expenses incurred by Kaifeng Changfeng in 2008, whereas this subsidiary was still in the pre-operation stages in 2007.

Research and development expenditure. Research and development expenditure in 2008 was RMB3.0 million compared to RMB0.5 million in 2007, representing an increase of RMB2.5 million. In 2008, our research and development expenditure of RMB3.0 million related to technological improvements we made to eight product models, while our research and development expenditure of RMB0.5 million in 2007 related to technological improvements we made to three product models.

Administrative expenses. Administrative expenses in 2008 were RMB17.3 million compared to RMB6.0 million in 2007, representing an increase of RMB11.3 million, or 188.3%. Such increase was primarily due to: (i) a RMB3.3 million increase in salaries, wages and other benefits for our administrative, management and human resources staff, (ii) a RMB2.7 million increase in office expenses and utilities, (iii) a RMB1.6 million increase in travel and entertainment expenses incurred by our administrative staff, (iv) a RMB1.5 million increase in professional fees, including audit and legal fees, and expenses incurred in connection with the [●] and Reorganization, and (v) a RMB0.8 million increase in miscellaneous tax expenses. The overall increase in our administrative expenses was also due to the inclusion of relevant expenses incurred by Kaifeng Changfeng in 2008, whereas this subsidiary was still in the pre-operation stages in 2007.

Finance costs. Finance costs in 2008 were RMB7.7 million compared to RMB2.9 million in 2007, representing an increase of RMB4.8 million, or 165.5%. Such increase was primarily due to an increase in the amount of interest incurred on bank and other borrowings in 2008, as we had higher outstanding borrowing balances in 2008 than in the previous year.

Profit before tax. As a result of the above, profit before tax in 2008 was RMB93.2 million compared to RMB42.3 million in 2007, representing an increase of RMB50.9 million, or 120.3%.

FINANCIAL INFORMATION

Taxation. Taxation in 2008 was RMB1.6 million compared to nil in 2007. Our taxation in 2008 primarily consisted of taxes on the assessable profits of Kaifeng Changfeng and withholding tax on the undistributable profits of our PRC subsidiaries. We had no income tax expense in 2007 because we brought forward losses from our subsidiaries Longyan Shengfeng and Kaifeng Changfeng from the previous year to offset profits generated in 2007, and because the tax assessable profits of our subsidiary Fujian Changfeng were exempted from enterprise income tax in 2007.

Profit for the year. As a result of the above, profit for the year in 2008 was RMB91.6 million compared to RMB42.3 million in 2007, representing an increase of RMB49.3 million or 116.5%.

Liquidity and Capital Resources

Our primary liquidity requirements are to finance working capital and to pay for property, plant and equipment relating to the construction, expansion and upgrade of our production facilities to expand our Group’s overall production capacity. We have historically met our working capital and other liquidity requirements principally from cash generated from our operations, bank and other borrowings and equity contributions from shareholders.

Going forward, we expect to fund our foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from our operations, bank and other borrowings and the [●] from the [●]. Taking into account our cash and cash equivalents on hand, the net cash flow from our operating activities, our available borrowing facilities (including the committed renewal or extensions of these facilities upon their expiration or their subsequent new facilities) and the estimated [●] from the [●], our Directors are satisfied that we have sufficient working capital for at least the next 12 months from the date of this document.

Cash Flows

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash (used in)/generated from					
operating activities	(42)	31,437	(60,420)	34,283	42,595
Net cash used in investing activities .	(121,538)	(131,112)	(158,803)	(72,805)	(93,970)
Net cash generated from financing					
activities	117,247	113,154	225,346	62,938	79,399
Cash and cash equivalents at end of					
the year/period	4,846	18,325	24,448	42,741	52,472

FINANCIAL INFORMATION

Six months ended June 30, 2010

Net cash generated from operating activities for the six months ended June 30, 2010 was RMB42.6 million. This amount primarily reflected our profit before tax of RMB173.0 million for the six months ended June 30, 2010, as adjusted by income statement items with non-operating cash effect of RMB21.6 million and an increase in trade and other payables of RMB48.3 million, which was primarily due to increases in our procurement of raw materials for our production activities in line with the overall expansion of our operations. The effect of these factors was partially offset by: (i) an increase in trade and other receivables in the amount of RMB90.0 million due to an increase in overall sales in the first half of 2010 from 2009, (ii) an increase in inventories of RMB85.5 million primarily due to increases in the procurement of raw materials for our production activities in line with the overall expansion of our products and (iii) income tax paid in the amount of RMB24.8 million.

Net cash used in investing activities for the six months ended June 30, 2010 was RMB94.0 million, primarily reflecting the following: (i) our payment of RMB62.0 million for the purchase of property, plant and equipment primarily to expand our production capacity, and (ii) our payment of RMB45.6 million in prepayments for the acquisition of machinery for our Sichuan Changfeng production facility.

Net cash generated from financing activities for the six months ended June 30, 2010 was RMB79.4 million, primarily reflecting new borrowings raised in the amount of RMB271.0 million, which was partially offset by (i) our repayment of borrowings in the amount of RMB186.1 million and (ii) our payment of RMB10.2 million in interest on our borrowings.

2009

Net cash used in operating activities in 2009 was RMB60.4 million. This amount primarily reflected our profit before tax of RMB190.9 million for 2009, as adjusted by income statement items with non-operating cash effect of RMB29.5 million and the following factors: (i) an increase in trade and other receivables of RMB264.5 million due to the substantial increase in our overall sales in 2009 from 2008, and (ii) an increase in inventories of RMB51.1 million. The effect of these factors was partially offset by an increase in trade and other payables of RMB43.4 million.

Net cash used in investing activities in 2009 was RMB158.8 million, primarily reflecting the following: (i) our payment of RMB91.2 million for the purchase of property, plant and equipment primarily to expand our production capacity, (ii) our payment of RMB61.1 million in prepaid lease payments primarily for our purchase of land use rights for our Kaifeng Changfeng and Sichuan Changfeng production facilities, and (iii) advance to directors of RMB3.5 million.

Net cash generated from financing activities in 2009 was RMB225.3 million, primarily reflecting the following: (i) new borrowings raised in the amount of RMB301.2 million, (ii) a capital contribution of RMB80.0 million by our shareholder, Changfeng BVI. Such contribution was funded through the issue of exchangeable notes by Changfeng BVI to Starr Investments, and (iii) advance from a director of RMB3.4 million. The effect of these factors was partially offset by (i) our repayment of borrowings in the amount of RMB146.5 million and (ii) our payment of RMB12.7 million in interest on our borrowings.

FINANCIAL INFORMATION

2008

Net cash generated from operating activities in 2008 was RMB31.4 million. This amount primarily reflected our profit before tax of RMB93.2 million for 2008, as adjusted by income statement items with non-operating cash effect of RMB15.3 million and an increase in trade and other payables of RMB53.7 million, which was primarily due to increases in our procurement of raw materials for our production activities in line with the overall expansion of our operations. The effect of these factors was partially offset by: (i) an increase in inventories of RMB85.4 million primarily due a slow down in our sales activities at the end of 2008, and (ii) an increase in trade and other receivables in the amount of RMB45.3 million due to an increase in overall sales in 2008 from 2007.

Net cash used in investing activities in 2008 was RMB131.1 million, primarily reflecting the following: (i) our payment of RMB67.5 million for the purchase of property, plant and equipment and prepayment of RMB47.3 million for machinery purchases primarily to expand our production capacity, and (ii) our payment of RMB17.2 million in prepaid lease payments in connection with our purchase of land use rights for our Kaifeng Changfeng and Longyan Shengfeng production facilities. These were partially offset by (i) a repayment of RMB4.6 million from related parties and (ii) a repayment of RMB2.8 million from directors.

Net cash generated from financing activities in 2008 was RMB113.2 million, primarily reflecting the following: (i) new bank loans raised in the amount of RMB193.1 million, and (ii) a contribution of RMB122.2 million by our shareholder Changfeng BVI. Such contribution was funded through the issue of exchangeable notes by Changfeng BVI to Starr Investments. These were partially offset by (i) the repayment of bank loans in the amount of RMB133.5 million, and (ii) a deemed dividend in the amount of RMB61.2 million to one of our Controlling Shareholders made in connection with the payment of consideration to such Controlling Shareholder for our acquisition of Kaifeng Changfeng.

2007

Net cash used in operating activities in 2007 was RMB42,000. This amount primarily reflected our profit before tax of RMB42.3 million for 2007, as adjusted by the following factors: (i) an increase in trade and other receivables in the amount of RMB41.4 million and (ii) an increase in inventories in the amount of RMB36.9 million. The effect of these factors was partially offset by an increase in trade and other payables in the amount of RMB33.5 million.

Net cash used in investing activities in 2007 was RMB121.5 million, primarily reflecting the following: (i) our payment of RMB44.7 million for purchases of property, plant and equipment, (ii) our prepayment of RMB28.6 million for machinery purchases and (iii) an increase of RMB26.4 million in advances to related parties, which primarily consisted of RMB19.2 million advanced to Special Vehicle to fund its general working capital needs in 2007.

FINANCIAL INFORMATION

Net cash generated from financing activities in 2007 was RMB117.2 million, primarily reflecting the following: (i) new bank loans raised in the amount of RMB86.5 million, and (ii) a contribution from our shareholder, Changfeng BVI in the amount of RMB60.0 million. These were partially offset by our repayment of bank loans in the amount of RMB28.0 million.

Capital Expenditures

Our capital expenditures consist primarily of expenditures to acquire land use rights and property, plant and equipment relating to the construction, expansion and upgrade of our production facilities and to expand our Group’s overall production capacity. In 2007, 2008, 2009 and for the six months ended June 30, 2010, our capital expenditures amounted to RMB78.3 million, RMB133.8 million, RMB158.4 million and RMB110.4 million, respectively. These capital expenditures were funded by bank and other borrowings, funds generated from our operating activities and contributions from our shareholders. We expect the capital expenditures for each of our production facilities through the year ended December 31, 2011 to be RMB32.0 million for our Fujian Changfeng facility, RMB69.0 million for our Longyan Shengfeng facility, RMB419.0 million for our Kaifeng Changfeng facility and RMB172.0 million for our planned Sichuan Changfeng facility. We expect to fund such capital expenditures primarily with the [●] from the [●] and net cash generated from operating activities.

FINANCIAL INFORMATION

Description of Certain Items of Statements of Financial Position

The following table sets forth selected data from our consolidated statements of financial position for the dates presented, which have been derived from, and should be read in conjunction with, our Financial Statements, including the notes thereto, included in the Accountants’ Report set forth in Appendix I to this document.

	As of December 31,			As of
	2007	2008	2009	June 30,
				2010
	RMB’000			
NON-CURRENT ASSETS				
Property, plant and equipment	83,177	177,884	282,402	308,061
Prepayment for machinery	28,636	47,306	6,120	54,550
Prepaid lease payments	4,773	26,245	87,281	89,235
Deposits paid for acquisition of land use right	5,000	1,781	–	–
Available-for-sale investments	–	–	–	1,000
	<u>121,586</u>	<u>253,216</u>	<u>375,803</u>	<u>452,846</u>
CURRENT ASSETS				
Inventories	58,190	143,572	194,718	280,264
Trade and other receivables	89,932	150,260	379,479	466,652
Prepaid lease payments	102	545	1,762	1,858
Amounts due from directors	3,052	–	345	–
Amount due from a related party	19,186	–	–	–
Pledged bank deposits	4,643	10,015	29,867	8,665
Bank balances and cash	4,846	18,325	24,448	52,472
	<u>179,951</u>	<u>322,717</u>	<u>630,619</u>	<u>809,911</u>
CURRENT LIABILITIES				
Trade and other payables	85,146	145,341	194,351	217,534
Amount due to a director	–	232	–	–
Borrowings – due within one year	71,500	136,074	245,444	330,379
Income tax payable	–	1,493	21,073	21,759
	<u>156,646</u>	<u>283,140</u>	<u>460,868</u>	<u>569,672</u>
NET CURRENT ASSETS	<u>23,305</u>	<u>39,577</u>	<u>169,751</u>	<u>240,239</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>144,891</u>	<u>292,793</u>	<u>545,554</u>	<u>693,085</u>
NON-CURRENT LIABILITIES				
Borrowings – due after one year	15,000	10,000	20,000	20,000
Deferred tax	905	905	882	874
	<u>15,905</u>	<u>10,905</u>	<u>20,882</u>	<u>20,874</u>
TOTAL ASSETS LESS TOTAL LIABILITIES	<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>
OWNERS’ EQUITY				
Share capital/paid-in capital	86,000	343	343	343
Reserves	42,986	281,545	524,329	671,868
	<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>

FINANCIAL INFORMATION

Prepaid lease payments

Our prepaid lease payments increased from RMB4.9 million as of December 31, 2007 to RMB26.8 million as of December 31, 2008 primarily as a result of RMB22.0 million in prepaid lease payments in connection with our purchase of land use rights for our Kaifeng Changfeng and Longyan Shengfeng production facilities. Our prepaid lease payments increased from RMB26.8 million as of December 31, 2008 to RMB89.0 million as of December 31, 2009 primarily as a result of RMB62.2 million in prepaid lease payments in connection with our purchase of land use rights for our Kaifeng Changfeng and Sichuan Changfeng production facilities. Our prepaid lease payments increased from RMB89.0 million as of December 31, 2009 to RMB91.1 million as of June 30, 2010 primarily due to the deed tax for land use rights in connection with our Sichuan Changfeng production facility.

Trade and other receivables

Our trade and other receivables primarily consist of trade receivables, notes receivables, advances to suppliers and other receivables. Our trade receivables primarily consist of account receivables with our customers in connection with the sale of our products. Our notes receivables mostly consist of bank notes delivered by our customers in lieu of cash payment for purchases. Advances to suppliers mostly consist of deposit payments made to suppliers for the procurement of raw materials, which we believe is consistent with general industry practice in China. Other receivables mostly consist of certain advances made to Independent Third Parties, which are non-trade in nature.

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000			
Trade receivables	44,848	102,837	316,952	408,207
Notes receivables	10,300	7,210	36,192	18,944
Advances to suppliers	13,963	30,531	15,893	24,156
Other receivables	20,050	4,518	9,127	5,436
Prepaid expenses	771	1,755	1,315	1,345
VAT — in recoverable ⁽¹⁾	—	3,409	—	8,564
Total trade and other receivables . .	89,932	150,260	379,479	466,652

Note:

- (1) Represents value-added tax (“VAT”) recoverable from customers in connection with the sale of our products. Such amount was included in our receivables as of December 31, 2008 and June 30, 2010 due to our high inventory level at the end of 2008 and June 30, 2010. We paid VAT upon the purchase of such inventory but had not yet recovered it from the sale of our products as of the end of 2008 and June 30, 2010.

FINANCIAL INFORMATION

The following table sets forth a further breakdown of our trade receivables by segment as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
Operating Segments:				
Aftermarket	18,811	72,460	266,203	311,023
OEM and related market	26,037	30,377	50,749	97,184
Total trade receivables	44,848	102,837	316,952	408,207

Our trade and notes receivables balances increased from RMB55.1 million as of December 31, 2007 to RMB110.0 million as of December 31, 2008, increased to RMB353.1 million as of December 31, 2009 and further increased to RMB427.2 million as of June 30, 2010 primarily due to increases in our overall sales volume which is in line with the expansion of our operations and increases in our production capacity during this time. Sales of our products in the aftermarket segment, which are made primarily to our provincial-level, first-tier and second-tier distributors in our sales, marketing and services network, significantly increased in 2009, particularly in the second half of 2009, partly as a result of new makes and models of axle component products we launched in the second half of 2009, the addition of distributors and the development and expansion of sales in our aftermarket operating segment. Construction and infrastructure development in China typically slows down in the summer months and resumes in the fall of each year, at which time trucking activities and the repair and maintenance frequency for MDTs and HDTs increases, which in turn usually causes an increase in demand for our aftermarket products in the second half of the year. The increased demand in the second half of 2009 was particularly high compared to the corresponding demand in the second half of the previous year due to the economic downturn in 2008 and subsequent rebound of the PRC economy in 2009.

We typically grant a credit period of 90 to 120 days to our customers.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
0 to 90 days	28,063	69,940	237,594	390,427
91 to 120 days	8,946	15,622	49,097	11,890
121 to 180 days	2,691	16,275	30,261	2,466
181 to 365 days	5,148	1,000	–	3,424
Total trade receivables	44,848	102,837	316,952	408,207

With respect to our trade receivables of RMB317.0 million as of December 31, 2009, approximately RMB291.3 million had been subsequently settled by March 31, 2010.

FINANCIAL INFORMATION

The following table sets forth an aging analysis of our trade receivables which were past due but not impaired as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
91 to 120 days	8,946	15,622	33,155	8,469
121 to 180 days	2,691	16,275	30,261	2,466
181 to 365 days	5,148	1,000	–	3,424
	<u>16,785</u>	<u>32,897</u>	<u>63,416</u>	<u>14,359</u>

With respect to our trade receivables of RMB63.4 million, which were past due but not impaired for the time period of 91 to 180 days as of December 31, 2009, approximately RMB61.6 million had been subsequently settled by March 31, 2010. We continually monitor our exposure to credit risk arising from our trade receivables. In order to manage such risk, we deal only with creditworthy counterparties and consider all of our existing customers to be creditworthy. We also review the recoverable amount of our trade receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. We did not recognize any impairment losses for our trade receivables during the Track Record Period. Please refer to the sections headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Trade and Other Receivables” and “— Quantitative and Qualitative Disclosure about Market Risks — Credit risk” in this document for additional information.

The following table sets forth an aging analysis of our notes receivables as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
0 to 90 days	10,300	7,210	30,237	18,144
91 to 120 days	–	–	–	150
121 to 180 days	–	–	5,955	650
	<u>10,300</u>	<u>7,210</u>	<u>36,192</u>	<u>18,944</u>

Our notes receivables which were aged 0 to 90 days as of December 31, 2009 decreased from RMB30.2 million to RMB18.1 million as of June 30, 2010 as a result of a decrease in our customers using notes receivables to settle their trade receivables with us. With respect to our notes receivables of RMB36.2 million as of December 31, 2009, approximately RMB13.2 million had been subsequently settled by March 31, 2010.

FINANCIAL INFORMATION

The following table sets forth the average turnover days of our trade and notes receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Average turnover days of trade and notes receivables ⁽¹⁾	78.6	72.2	105.5	102.8

Note:

- (1) Derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period by revenue and multiplying this figure by 365 days. Average turnover days of trade and notes receivables for the six months ended June 30, 2010 is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period by revenue and multiplying this figure by 183 days.

Our average turnover days of trade and notes receivables decreased from 78.6 days in 2007 to 72.2 days in 2008 as a result of the lower closing balances for our trade and notes receivables as of December 31, 2008 caused by a decrease in our sales activities in the fourth quarter of 2008 due to the global economic downturn. Our average turnover days of trade and notes receivables increased from 72.2 days in 2008 to 105.5 days in 2009 as a result of our high trade and notes receivables balances as of December 31, 2009, which was primarily due to a significant increase in the sales volume of products sold in our aftermarket segment in 2009, particularly in the second half of 2009, partly as a result of new makes and models of axle component products we launched in the second half of 2009, the addition of a few new distributors and the development and expansion of sales in our aftermarket operating segment. Our average turnover days of trade and notes receivables as of June 30, 2010 remained relatively stable at 102.8 days compared to 105.5 days as of December 31, 2009.

Inventories

Our inventories consist of raw materials, work-in-progress and finished goods. We record our inventories at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventories, with the majority being valued on the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
Raw materials	39,271	32,547	75,498	141,296
Work-in-progress	4,046	21,993	83,729	81,922
Finished goods	14,873	89,032	35,491	57,046
	<u>58,190</u>	<u>143,572</u>	<u>194,718</u>	<u>280,264</u>

The increase in our raw materials from RMB32.5 million as of December 31, 2008 to RMB75.5 million as of December 31, 2009 was primarily due to a buildup of raw materials at the end of 2009 in preparation for increased sales activities during the same period. The increase in raw materials from RMB75.5 million as of December 31, 2009 to RMB141.3 million as of June 30, 2010 was primarily due to a buildup of raw materials in anticipation of sales activities for the next quarter and the purchase of additional steel for future production at prices which we believe will be lower than market prices in the future.

Our work-in-progress primarily consists of products in the process of being manufactured in our production line. The increase in work-in-progress from RMB4.0 million as of December 31, 2007 to RMB22.0 million as of December 31, 2008 was primarily due to a decrease in our sales activities at the end of 2008 as a result of the global economic downturn. The increase in work-in-progress from RMB22.0 million as of December 31, 2008 to RMB83.7 million as of December 31, 2009 was primarily due to our increased production to meet the growth in demand for our products. Our work-in-progress as of June 30, 2010 remained stable at RMB81.9 million compared to RMB83.7 million as of December 31, 2009.

Our finished goods primarily consist of products that are stored in our warehouses awaiting to be delivered. Our finished goods increased from RMB14.9 million as of December 31, 2007 to RMB89.0 million as of December 31, 2008 primarily due to a decrease in our sales activities at the end of 2008 as a result of the global economic downturn. Our finished goods decreased from RMB89.0 million as of December 31, 2008 to RMB35.5 million as of December 31, 2009 as a result of increased sales in 2009. The increase in finished goods from RMB35.5 million as of December 31, 2009 to RMB57.0 million as of June 30, 2010 was primarily as a result of customer orders placed for our products which are scheduled to be delivered in the next quarter.

FINANCIAL INFORMATION

The following table sets forth our average inventory turnover days during the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Average inventory turnover days ⁽¹⁾ . .	109.2	123.3	112.4	92.4

Note:

- (1) Derived by dividing the arithmetic mean of opening and closing inventory balances for the relevant period by cost of sales and multiplying this figure by 365 days. Average inventory turnover days for the six months ended June 30, 2010 is derived by dividing the arithmetic mean of the opening and closing balances of inventory for the relevant period by cost of sales and multiplying this figure by 183 days.

Our average inventory turnover days increased from 109.2 days in 2007 to 123.3 days in 2008 due to our higher inventory balance as of December 31, 2008, which primarily resulted from a decrease in our sales activities at the end of 2008 as a result of the global economic downturn. Our average inventory turnover days decreased from 123.3 days in 2008 to 112.4 days in 2009 as a result of our increased sales in 2009. Our average inventory turnover days further decreased from 112.4 days in 2009 to 92.4 days for the six months ended June 30, 2010 as a result of even more robust sales activities in the first half of 2010.

Trade and other payables

Our trade and other payables primarily consist of trade payables, notes payables, advances from customers, payables and accruals for property, plant and equipment, payroll and welfare payables, other accruals and other payables. Our trade payables and notes payables principally comprise amounts outstanding for the purchase of goods. The general credit period for our purchase of goods is between 30 to 90 days. Our notes payables mostly consist of amounts payable in connection with our lines of credit with banks for the settlement of our purchase invoices. Other accruals primarily consist of accrued fees in connection with the [●], rent and utility fees, accrued interest and other expenses. Other payables mostly consist of certain non-trade current accounts with various creditors, including amounts owed by us to a property development company in connection with the construction of our Kaifeng Changfeng facility, consulting fee payables and deposits received from suppliers.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
Trade payables	31,183	77,888	119,920	154,828
Notes payables	23,490	29,414	25,385	18,661
Advances from customers	8,870	2,847	3,702	5,308
Payables and accruals for property, plant and equipment	16,417	22,870	28,511	3,379
Payroll and welfare payables	1,616	3,319	4,987	9,075
Warranty accruals ⁽¹⁾	–	–	869	1,615
Other accruals	566	5,270	4,279	11,451
Other tax payables	1,103	2,158	3,559	9,963
Other payables	1,901	1,575	3,139	3,254
Total trade and other payables	85,146	145,341	194,351	217,534

Note:

- (1) At December 31, 2009 and June 30, 2010, the warranty provision represents management’s best estimate of the Group’s liability under six-month warranty granted on products, based on prior experience and industry practice for defective products.

Our trade and notes payables balances increased from RMB54.7 million as of December 31, 2007 to RMB173.5 million as of June 30, 2010, primarily due to increases in the procurement of raw materials for our production activities which is in line with the overall expansion of our operations.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
Within 30 days	13,548	41,069	71,770	76,902
31 to 60 days	4,950	8,690	22,730	33,610
61 to 90 days	2,507	15,587	14,530	18,543
91 to 180 days	4,382	8,100	10,731	20,814
181 to 365 days	5,796	4,442	159	4,960
Total trade payables	31,183	77,888	119,920	154,828

FINANCIAL INFORMATION

The following table sets forth the aging analysis of our notes payables as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	RMB'000			2010
Within 30 days	6,000	4,500	–	4,381
31 to 60 days	13,140	5,000	–	–
61 to 90 days	1,000	–	2,130	10,130
91 to 180 days	3,350	19,914	23,255	4,150
	<u>23,490</u>	<u>29,414</u>	<u>25,385</u>	<u>18,661</u>

The following table sets forth the average turnover days of our trade and notes payables for the periods indicated:

	Year ended December 31,			Six months
	2007	2008	2009	ended
				June 30,
Average turnover days of trade and				2010
notes payables ⁽¹⁾	<u>117.0</u>	<u>99.0</u>	<u>83.9</u>	<u>62.0</u>

Note:

- (1) Derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period by cost of sales and multiplying by 365 days. Average turnover days of trade and notes payables for the six months ended June 30, 2010 is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period by cost of sales and multiplying this figure by 183 days.

Our average turnover days of trade and notes payables decreased from 117.0 days in 2007 to 99.0 days in 2008, and further decreased to 83.9 days in 2009, primarily because we utilized cash from our operating activities to settle some of our trade and notes payables earlier to strengthen our relationships with our suppliers. Our average turnover days of trade and notes payables further decreased from 83.9 days in 2009 to 62.0 days for the six months ended June 30, 2010 primarily because we utilized cash generated from our operating activities to settle our trade and notes payables with our steel suppliers even earlier than we did in 2009 to further strengthen our relationships with these suppliers.

It is generally accepted by our suppliers that we use bank and commercial notes to settle trade balances upon the expiration of the credit terms. Through payment by bank and commercial notes, we obtain an additional 30 to 90 days of credit from banks, and essentially extended our payment time for the purchases. As the average trade and notes payables turnover days are calculated taking into account the actual payment time and included both trade payables and notes payables, they are generally longer than the credit terms granted to us.

FINANCIAL INFORMATION

Net current assets

As of July 31, 2010, we had net current assets of RMB264.4 million, consisting of RMB806.3 million of current assets and RMB541.9 million of current liabilities, which represented an increase of RMB24.2 million from our net current assets of RMB240.2 million as of June 30, 2010. This increase was principally driven by increases in trade and other receivables and a decrease in trade and other payables, which were partially offset by an increase in short-term borrowings and income tax payables and a decrease in bank balances and cash and pledged bank deposits.

The table below sets forth a breakdown of our net current assets as of July 31, 2010:

	As of July 31, 2010 RMB'000 (unaudited)
Current assets	
Inventories	281,347
Trade and other receivables	509,817
Other current assets	1,220
Pledged bank deposits	4,284
Bank balances and cash	9,618
	<hr/>
Total current assets	806,286
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Current liabilities	
Trade and other payables	171,381
Borrowings due within one year	342,471
Income tax payables	28,035
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Total current liabilities	541,887
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Net current assets	264,399
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FINANCIAL INFORMATION

Indebtedness, Capital Commitments, Contractual Obligations and Contingent Liabilities

Borrowings

Our borrowings primarily consist of short-term and long-term loans from commercial banks and other financial institutions and bank borrowings secured by notes receivables.

The following table sets forth our outstanding borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	2010
			RMB'000		(unaudited)
Bank borrowings	56,500	126,074	245,444	330,379	342,471
Other borrowings	30,000	20,000	20,000	20,000	20,000
	<u>86,500</u>	<u>146,074</u>	<u>265,444</u>	<u>350,379</u>	<u>362,471</u>
Unsecured	30,000	20,000	40,000	24,959	54,591
Secured	31,500	103,074	199,944	325,420	307,880
Guaranteed	25,000	23,000	25,500	—	—
	<u>86,500</u>	<u>146,074</u>	<u>265,444</u>	<u>350,379</u>	<u>362,471</u>

Our bank borrowings also include financing from commercial banks in China secured by our notes receivables. Under such financing arrangements, we raise funds equal to the discounted amount of the notes receivables pledged to the banks at the interest rate charged by the banks, and the banks will accept the money to be paid on the notes receivables as our repayment of the borrowing. We pledge these notes receivables on a recourse basis and are required to pay the banks the face amount of the notes receivables in the event the banks do not receive payment on the notes receivables on their maturity dates. As of December 31, 2008 and 2009 and June 30, 2010, the outstanding amounts of our bank borrowings secured by notes receivables amounted to RMB4.6 million, RMB62.8 million and RMB0.2 million, respectively, with average annual interest rates of 4.7%, 2.0% and 4.0%, respectively. We did not utilize this type of financing arrangement in 2007.

Our total outstanding bank and other borrowings amounted to RMB86.5 million, RMB146.1 million, RMB265.4 million, RMB350.4 million and RMB362.5 million as of December 31, 2007, 2008 and 2009, June 30, 2010 and July 31, 2010, respectively. Our total borrowing balance increased from 2007 to July 31, 2010 primarily as a result of an increase in our bank borrowings from RMB56.5 million as of December 31, 2007 to RMB342.5 million as of July 31, 2010, or by RMB286.0 million. Such increase was primarily due to increasing funding needs for the construction of our production facilities to expand our production capacity and our increased working capital needs resulting from the high growth in sales of our products.

FINANCIAL INFORMATION

The table below sets forth the maturity profiles of our bank and other borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	2010
			RMB'000		(unaudited)
Within one year	71,500	136,074	245,444	330,379	342,471
More than one year, but not exceeding two years	5,000	10,000	20,000	20,000	20,000
More than two years, but not exceeding five years	10,000	—	—	—	—
Total	<u>86,500</u>	<u>146,074</u>	<u>265,444</u>	<u>350,379</u>	<u>362,471</u>

All of our borrowings are denominated in Renminbi and carry fixed interest rates. The table below sets forth the effective annual interest rates of our borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	2010
Bank and other borrowings	6.44% – 9.00%	5.35% – 9.71%	4.37% – 9.01%	4.78% – 8.77%	4.78% – 8.79%

Our gearing ratio, as calculated by dividing our total borrowings by our total assets, was 28.7%, 25.4%, 26.4% and 27.7% as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. As of June 30, 2010, we had aggregate bank loan facilities of RMB340.4 million available, of which RMB340.2 million was utilized and RMB0.2 million remained unutilized.

As of June 30, 2010, our aggregate bank loan facilities included a RMB220.0 million loan facility obtained from the Bank of China. In order to secure such loan facility, our subsidiary Fujian Changfeng entered into share pledge agreements with the Bank of China pursuant to which it pledged its entire equity interest in three of our subsidiaries, namely Longyan Shengfeng, Kaifeng Changfeng and Sichuan Changfeng, to the Bank of China. In the event of default under such loan facility, the Bank of China may enforce its right to all of the equity interest in Longyan Shengfeng, Kaifeng Changfeng and Sichuan Changfeng pledged to it and may dispose of such interest by sale or auction, and also has the right to treat a default under other loan agreements with the Bank of China as a default under such share pledge agreements. Under the terms of the share pledge agreements, the Bank of China also has the right to accelerate the payment due dates under our other loan agreements with it or decline to extend additional credit to us in the event of default under the above-described loan facility.

FINANCIAL INFORMATION

As of December 31, 2009, an aggregate of RMB152.6 million of our borrowings was guaranteed by Mr. Wong Kwai Mo, our Chairman and executive Director, and Ms. Wu Ching, our executive Director. Of this amount, RMB100.6 million was also guaranteed by one of our suppliers. Our Directors have confirmed that all such guarantees were released prior to June 30, 2010.

As of June 30, 2010, an aggregate of RMB325.4 million of our borrowings was secured by assets of our Group including certain of our property, plant and equipment, land use rights and trade receivables. The carrying value of these assets pledged to secure such borrowings amounted to RMB177.2 million as of June 30, 2010. RMB0.2 million of our borrowings was secured by our notes receivables as of June 30, 2010. None of our borrowings will be secured by assets of a third party following the [●].

Commitments and Contractual Obligations

Operating leases

During the Track Record Period, we leased certain office premises under operating lease arrangements negotiated for one-year terms with fixed lease payments. The table below sets our operating lease payments as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
				2010
	RMB'000			
Within one year	200	200	58	116

Other commitments and contractual obligations

The following table summarizes our capital commitments for our property, plant and equipment relating to the construction of production facilities to expand our Group's operations and production capacity as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
				2010
	RMB'000			
Capital expenditures in respect of				
acquisition of plant and machinery:				
Authorized by not contracted for . .	70,000	—	—	—
Authorized for but not provided in				
Financial Statements	2,572	1,023	24,849	15,344
Total	72,572	1,023	24,849	15,344

FINANCIAL INFORMATION

In addition, under various agreements, we are obligated to make future cash payments in fixed amounts. The following table summarizes our capital commitments and contractual obligations by maturity, including interest payments calculated using contractual rates or, if floating, based on rates as of June 30, 2010:

	As of June 30, 2010				
	Payment Due by Period				
	1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000				
Bank and other borrowings . . .	340,606	20,540	–	–	361,146
Trade and other payables . . .	189,197	–	–	–	189,197
Total	529,803	20,540	–	–	550,343

Contingent liabilities

Save as disclosed above, as of July 31, 2010, we did not have any material contingent liabilities or guarantees.

Off-balance sheet arrangements

We have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

Amounts due to/from related parties

During the Track Record Period, we also had certain non-trade balances with related parties, namely Mr. Wong Kwai Mo, Ms. Wu Ching and Special Vehicle, all of which were interest-free and repayable upon demand. As of December 31, 2007, we had a total of RMB22.2 million in amounts due from related parties which primarily comprised RMB19.2 million in funds we advanced to Special Vehicle to fund its working capital needs. Our balances with related parties were minimal as of December 31, 2008 and 2009 and June 30, 2010. See Note 30 to the Accountants’ Report for additional information relating to such balances during the Track Record Period. Our Directors confirm that all of our balances with related parties will be settled prior to the [●].

Disclaimer

Save as disclosed in this section headed “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness, Capital Commitments, Contractual Obligations and Contingent Liabilities,” as of July 31, 2010 being the latest practicable date for determining indebtedness, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or any other material contingent liabilities. Our Directors confirm that there have not been any material changes in our indebtedness since July 31, 2010.

FINANCIAL INFORMATION

Quantitative and Qualitative Disclosure about Market Risks

Commodities risk

We are exposed to fluctuations in the prices of raw materials, such as steel, as well as the price of energy used in the manufacturing process, which are influenced by global as well as regional supply and demand conditions. We currently do not hedge against commodity risk, which we believe is in line with the PRC automotive industry practice. We purchase most of our raw materials and energy at market prices and such purchase costs are generally accounted for as part of the cost of sale. Accordingly, rising prices for raw materials and energy, to the extent that we cannot pass on such increases to our customers, could adversely affect our financial performance. For further details, please refer to the section headed “Risk Factors — Risks Relating to Our Business — If our suppliers fail to sell their supplies to us at our desired prices, fail to deliver their supplies to us on a timely basis or fail to meet our product quality standards, our business could be materially and adversely affected.” in this document.

Interest rate risk

Our income and operating cash flows are substantially independent of fluctuations in market interest rates as we have no significant interest-bearing assets. Our exposure to market risks for changes in interest rates with respect to our borrowings is also limited because our borrowings have fixed interest rates. However, borrowings issued at fixed rate expose us to fair value interest rate risk. Please see Note 7 to the Accountants’ Report included in Appendix I of this document for further details, including a sensitivity analysis with respect to our interest rate risks.

An increase in interest rates may also adversely affect the ability of prospective buyers or manufacturers of MDTs and HDTs to obtain financing and depress the overall demand for MDTs and HDTs in the PRC. In addition, our net profit is affected by changes in interest rates due to the impact such changes have on interest income from our bank deposits. Historically we have not used any financial instruments to hedge against interest rate risks.

Foreign exchange fluctuations

Our functional currency is Renminbi as most of our transactions are settled in Renminbi. In addition, conversion of Renminbi to foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historically exchange rates.

A depreciation in the Renminbi would adversely affect the value of any dividends we pay to our shareholders outside the PRC. An appreciation in the Renminbi, however, would adversely affect the value of the [●] we will receive from the [●] or any capital contribution in foreign currency if they are not converted to Renminbi in a timely manner. Historically we have not used any financial instruments to hedge against foreign exchange risks.

FINANCIAL INFORMATION

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash from operating activities and the availability of funding through an adequate amount of committed credit facilities. We have a policy to monitor our cash position resulting from the operations and maintain a level of cash and cash equivalents deemed adequate by our management to meet in full our financial obligations as they fall due for the foreseeable future. For further details of the maturity dates of our financial liabilities as of June 30, 2010, please see Note 7 of the Accountants’ Report included as Appendix I of this document.

Credit risk

We are exposed to credit risk primarily arising from trade receivables. Our management has policies to continuously monitor our exposure to these credit risks. We have adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. We review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The credit risk on our other financial assets, which mainly comprise bank balances, cash deposits and notes receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of each of these instructions as of the end of each reporting period. We consider our credit risk on liquid funds to be limited because the majority of the counterparties are state-owned banks.

Inflation risk

There has not been significant inflation or deflation in China in recent years, and thus neither inflation nor deflation has had a significant effect on our business during the Track Record Period. According to the National Bureau of Statistics of China, China’s overall national inflation rate, as represented by percentage increases in the general consumer price index, was 4.8%, 5.9%, -0.7% and 2.6% for 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.

DIVIDEND POLICY

Subject to the Cayman Companies Law, we, through a general meeting, may declare final dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which may be authorized for this purpose in accordance with the Cayman Companies Law.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit, calculated in accordance with PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

FINANCIAL INFORMATION

We have not declared any dividends since the incorporation of our Company and we do not intend to declare any dividends for the year ending December 31, 2010. We currently intend to pay dividends of approximately 15% to 25% of our profits available for distribution in respect of the year ending December 31, 2011 and each year thereafter. Our Directors will declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and we will pay such dividends in Hong Kong dollars. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any given year.

As of June 30, 2010, our reserves available for distribution to the Shareholders of our Company amounted to approximately RMB384.4 million.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has not been any material adverse change in our financial or trading position since June 30, 2010, being the date of our last audited accounts.

FUTURE PLANS

FUTURE PLANS

We aim to continue to grow and expand our Company as a leading independent axle component and assembly provider in China’s MDT and HDT axle industry. To accomplish this goal, we plan to implement several strategies, including expanding our production capacity at our existing three production facilities in Kaifeng, Henan province and Longyan, Fujian province, and constructing a fourth production facility in Nanchong, Sichuan province to increase our overall production capacity. We also plan to selectively acquire companies to expand our product lines and strengthen our product development and production capabilities. For detailed descriptions of these and our other future plans, please refer to the section headed “Business — Our Strategies.”

APPENDIX I

ACCOUNTANTS’ REPORT

Deloitte.
德勤

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[Draft]

The Directors
Changfeng Axle (China) Company Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Changfeng Axle (China) Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2009 and the six months ended June 30, 2010 (the “Track Record Period”) for inclusion in the document of the Company dated [●] (the “Document”) in connection with the [●]. On March 24, 2010, the Company changed its name from Changfeng Axle (China) Co., Ltd. to Changfeng Axle (China) Company Limited by a special resolution approved by the board of directors.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on May 21, 2008. Pursuant to a group reorganisation, as more fully explained in the section headed “History, Reorganization and Group Structure” to the document (the “Group Reorganisation”), the Company became the holding company of the entities comprising the Group on June 17, 2008.

As at the date of this report, the Company has the following indirectly held, unless otherwise stated, subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group				At the date of this report	Principal activities	Legal form
			As at December 31,			As at June 30, 2010			
			2007	2008	2009				
暢豐控股香港有限公司 Chang Feng Holding (Hong Kong) Limited (“Changfeng HK”)	Hong Kong February 14, 2008	HKD10,000	N/A	100% (directly)	100% (directly)	100% (directly)	100% (directly)	Investment holding	Private limited liability company
福建暢豐車橋製造有限公司** Fujian Changfeng Axle Manufacturing Co., Ltd. (“Fujian Changfeng”)	Peoples Republic of China (“PRC”) March 5, 2001	RMB236,000,000	100%	100%	100%	100%	100%	Manufacture and sale of axle and related components	Foreign-invested limited liability company

APPENDIX I

ACCOUNTANTS’ REPORT

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group				At the date of this report	Principal activities	Legal form
			As at December 31,			As at June 30, 2010			
			2007	2008	2009				
龍岩盛豐機械製造有限公司 Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("Longyan Shengfeng")	PRC March 29, 2006	RMB163,000,000	100%	100%	100%	100%	100%	Manufacture and sale of roughcast	Domestic limited liability company
永定長豐鑄造有限公司 Yongding Changfeng Axle Manufacturing Co., Ltd. ("Yongding Changfeng")*	PRC December 28, 2007	RMB3,000,000	100%	100%	N/A	N/A	N/A	Inactive/ deregistered	Domestic limited liability company
開封暢豐車橋有限公司 Kaifeng Changfeng Axle Co., Ltd. ("Kaifeng Changfeng")	PRC April 19, 2006	RMB105,000,000	100%	100%	100%	100%	100%	Manufacture and sale of axle related components	Domestic limited liability company
北京暢豐機電研究所 Changfeng Axle Beijing Research Institution Co., Ltd. ("Beijing Changfeng")	PRC July 6, 2009	RMB1,000,000	N/A	N/A	100%	100%	100%	Research and development of axle and related components	Domestic limited liability company
四川暢豐車橋有限公司 Sichuan Changfeng Axle Co., Ltd. ("Sichuan Changfeng")	PRC July 16, 2009	RMB30,000,000	N/A	N/A	100%	100%	100%	Not yet commenced business	Domestic limited liability company

* Yongding Changfeng did not carry out any business operation since its establishment and was deregistered in 2009. There is no liability of Yongding Changfeng remains outstanding for which the Group is or may be liable.

The financial year end of all the entities now comprising the Group is December 31.

No audited financial statements have been prepared for the Company as it was incorporated in jurisdiction where there is no statutory audit requirement. No audited financial statements have been prepared for Beijing Changfeng and Sichuan Changfeng as they were established for less than one year up to the latest financial year ended December 31, 2009. No audited financial statements have been prepared for Yongding Changfeng as it had not yet commenced business since its date of establishment to its date of deregistration.

APPENDIX I

ACCOUNTANTS’ REPORT

The statutory financial statements of Changfeng HK, Fujian Changfeng, Longyan Shengfeng and Kaifeng Changfeng for the period/year ended December 31, 2007, 2008 and 2009, or since their respective dates of incorporation or establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by the following certified public accountants registered in their jurisdictions.

<u>Name of subsidiary</u>	<u>Financial year</u>	<u>Name of auditors</u>
Changfeng HK	From February 14, 2008 (the date of incorporation) to December 31, 2008 and year ended December 31, 2009	Deloitte Touche Tohmatsu
Fujian Changfeng	Three years ended December 31, 2007, 2008 and 2009	龍岩弘業有限責任會計師事務所
Longyan Shengfeng	Three years ended December 31, 2007, 2008 and 2009	龍岩弘業有限責任會計師事務所
Kaifeng Changfeng	Three years ended December 31, 2007, 2008 and 2009	河南立誠意會計師事務所

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Track Record Period (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the [●] as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 2 to the Financial Information. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

APPENDIX I

ACCOUNTANTS’ REPORT

In our opinion, on the basis of presentation set out in Note 2 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2007, 2008 and 2009 and June 30, 2010 and of the Company as at December 31, 2008 and 2009 and June 30, 2010 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended June 30, 2009 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “June 2009 Financial Information”) and were prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the June 2009 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

APPENDIX I

ACCOUNTANTS’ REPORT

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	8	176,668	417,830	801,151	331,178	694,566
Cost of sales		(126,551)	(298,595)	(549,373)	(241,582)	(470,445)
Gross profit		50,117	119,235	251,778	89,596	224,121
Other income and other gains and losses	9	3,744	9,782	5,078	1,207	2,303
Selling and distribution expenses		(2,153)	(7,764)	(17,572)	(6,522)	(10,802)
Research and development expenditure		(526)	(2,995)	(8,540)	–	(5,858)
Administrative expenses . .		(5,994)	(17,343)	(27,132)	(9,245)	(26,605)
Finance costs	10	(2,933)	(7,745)	(12,700)	(5,777)	(10,162)
Profit before tax	11	42,255	93,170	190,912	69,259	172,997
Taxation	12	–	(1,593)	(28,128)	(9,576)	(25,458)
Profit and total comprehensive income for the year/period		<u>42,255</u>	<u>91,577</u>	<u>162,784</u>	<u>59,683</u>	<u>147,539</u>
Profit and total comprehensive income for the year/period attributable to:						
Owners of the Company		42,250	91,577	162,784	59,683	147,539
Non-controlling interests		<u>5</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>42,255</u>	<u>91,577</u>	<u>162,784</u>	<u>59,683</u>	<u>147,539</u>
Earning per share – Basic (RMB)	15	<u>0.07</u>	<u>0.15</u>	<u>0.27</u>	<u>0.10</u>	<u>0.25</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At December 31,			At June 30,
		2007	2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	83,177	177,884	282,402	308,061
Prepayment for acquisition of machinery		28,636	47,306	6,120	54,550
Prepaid lease payments	17	4,773	26,245	87,281	89,235
Deposits paid for acquisition of land use right		5,000	1,781	—	—
Available-for-sale investments	19	—	—	—	1,000
		<u>121,586</u>	<u>253,216</u>	<u>375,803</u>	<u>452,846</u>
CURRENT ASSETS					
Inventories	20	58,190	143,572	194,718	280,264
Trade and other receivables	21	89,932	150,260	379,479	466,652
Prepaid lease payments	17	102	545	1,762	1,858
Amounts due from directors	30(a)	3,052	—	345	—
Amount due from a related party . . .	30(c)	19,186	—	—	—
Pledged bank deposits	22	4,643	10,015	29,867	8,665
Bank balances and cash	22	4,846	18,325	24,448	52,472
		<u>179,951</u>	<u>322,717</u>	<u>630,619</u>	<u>809,911</u>
CURRENT LIABILITIES					
Trade and other payables	23	85,146	145,341	194,351	217,534
Amount due to a director	30(b)	—	232	—	—
Borrowings – due within one year . .	24	71,500	136,074	245,444	330,379
Income tax payable		—	1,493	21,073	21,759
		<u>156,646</u>	<u>283,140</u>	<u>460,868</u>	<u>569,672</u>
NET CURRENT ASSETS		<u>23,305</u>	<u>39,577</u>	<u>169,751</u>	<u>240,239</u>
Total assets less current liabilities . .		<u>144,891</u>	<u>292,793</u>	<u>545,554</u>	<u>693,085</u>
NON-CURRENT LIABILITIES					
Borrowings – due after one year . . .	24	15,000	10,000	20,000	20,000
Deferred tax	25	905	905	882	874
		<u>15,905</u>	<u>10,905</u>	<u>20,882</u>	<u>20,874</u>
		<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>
OWNERS' EQUITY					
Share capital/paid-in capital	26	86,000	343	343	343
Reserves		42,986	281,545	524,329	671,868
		<u>128,986</u>	<u>281,888</u>	<u>524,672</u>	<u>672,211</u>

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION

		At December 31,		At June 30,
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSET				
Investment in a subsidiary	18	158,497	238,497	238,497
CURRENT ASSET				
Bank balance	22	—	9	205
CURRENT LIABILITIES				
Other payables	23	—	2,859	8,858
Amount due to a director	30	—	2,622	7,562
		—	5,481	16,420
NET CURRENT LIABILITIES		—	(5,472)	(16,215)
Total assets less current liabilities		158,497	233,025	222,282
OWNERS' EQUITY				
Share capital	26	343	343	343
Reserves		158,154	232,682	221,939
		158,497	233,025	222,282

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital/ paid-in capital RMB'000	Reserves				Attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
		Capital reserves RMB'000	Surplus reserves RMB'000 (note e)	Special reserves RMB'000	(Accumulated deficits) retained earnings RMB'000			
At January 1, 2007								
(note 26)	26,000	–	–	–	(86)	25,914	–	25,914
Profit and total comprehensive income for the year	–	–	–	–	42,250	42,250	5	42,255
Acquisition of a subsidiary (note 27)	–	–	–	–	–	–	2,737	2,737
Capital contribution from non-controlling interests . . .	–	–	–	–	–	–	1,680	1,680
Acquisition of additional interest in a subsidiary (note 27)	–	–	–	822	–	822	(4,422)	(3,600)
Capital contribution	60,000	–	–	–	–	60,000	–	60,000
Appropriations	–	–	8,358	–	(8,358)	–	–	–
At December 31, 2007 and January 1, 2008	86,000	–	8,358	822	33,806	128,986	–	128,986
Profit and total comprehensive income for the year	–	–	–	–	91,577	91,577	–	91,577
Deemed distribution arising from Group Reorganisation (note a)	–	(97,172)	–	–	–	(97,172)	–	(97,172)
Transfer upon Group Reorganisation (note b) . . .	(86,000)	86,000	–	–	–	–	–	–
Issue of shares	343	–	–	–	–	343	–	343
Deemed contribution from shareholders (note c)	–	158,154	–	–	–	158,154	–	158,154
Appropriations	–	–	17,949	–	(17,949)	–	–	–
At December 31, 2008 and January 1, 2009	343	146,982	26,307	822	107,434	281,888	–	281,888
Profit and total comprehensive income for the year	–	–	–	–	162,784	162,784	–	162,784
Deemed contribution from a shareholder (note d)	–	80,000	–	–	–	80,000	–	80,000
Appropriations	–	–	33,340	–	(33,340)	–	–	–
At December 31, 2009	343	226,982	59,647	822	236,878	524,672	–	524,672
Profit and total comprehensive income for the period.	–	–	–	–	147,539	147,539	–	147,539
At June 30, 2010.	<u>343</u>	<u>226,982</u>	<u>59,647</u>	<u>822</u>	<u>384,417</u>	<u>672,211</u>	<u>–</u>	<u>672,211</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Share capital/ paid-in capital RMB'000	Reserves				Attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
		Capital reserves RMB'000	Surplus reserves RMB'000 (note e)	Special reserves RMB'000	(Accumulated deficits) retained earnings RMB'000			
At January 1, 2009	343	146,982	26,307	822	107,434	281,888	–	281,888
Profit and total comprehensive income for the period.	–	–	–	–	59,683	59,683	–	59,683
Deemed contribution from a shareholder (note d).	–	80,000	–	–	–	80,000	–	80,000
At June 30, 2009 (unaudited) .	<u>343</u>	<u>226,982</u>	<u>26,307</u>	<u>822</u>	<u>167,117</u>	<u>421,571</u>	<u>–</u>	<u>421,571</u>

Notes:

- (a) As part of the Group Reorganisation set out in note 2:
- on April 16, 2008, Fujian Changfeng acquired 100% interest in Kaifeng Changfeng from the controlling shareholder with a consideration of approximately RMB61,172,000. The amount paid by Fujian Changfeng to its then shareholder is regarded as a deemed distribution to shareholder under merger accounting.
 - on May 5, 2008, Changfeng HK acquired 100% interest in Fujian Changfeng from the controlling shareholder of the Company, with a consideration of RMB36 million. The amount payable by Changfeng HK to its then shareholder is regarded as a deemed distribution to a shareholder under merger accounting.
- (b) As part of the Group Reorganisation set out in note 2, on June 17, 2008, the Company became the holding company of Fujian Changfeng. The paid-in capital of Fujian Changfeng and Kaifeng Changfeng was transferred to capital reserves upon the Group Reorganisation.
- (c) In August 2008, the Company received approximately RMB122,154,000 from its immediate holding company, Changfeng Axle Holdings Ltd. During the year ended December 31, 2008, Ms. Wu Ching agreed to waive the payment obligation of Changfeng HK of RMB36 million as disclosed in note (a) above. Such amounts are recorded in capital reserve as deemed contribution from shareholders.
- (d) In March 2009, the Company received RMB80,000,000 from its immediate holding company, Changfeng Axle Holdings Ltd. Such amount is recorded in capital reserve as deemed contribution from a shareholder.
- (e) The balance comprising statutory surplus reserve and discretionary surplus reserve, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the PRC and by the board of directors of the PRC subsidiaries in accordance with the Article of Associate of the subsidiaries. Statutory surplus reserve can be used to make up for previous year’s losses or convert into additional capital of the PRC subsidiaries of the Company. Discretionary surplus reserve can be used to expand the existing operations of the Company’s PRC subsidiaries.

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserves	Accumulated deficits	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At May 21, 2008 (date of incorporation) . .	343	–	–	343
Deemed contribution from shareholders . .	–	158,154	–	158,154
Profit and total comprehensive income for the period	–	–	–	–
At December 31, 2008 and January 1, 2009	343	158,154	–	158,497
Deemed contribution from a shareholder . .	–	80,000	–	80,000
Loss and total comprehensive expense for the year	–	–	(5,472)	(5,472)
At December 31, 2009 and January 1, 2010.	343	238,154	(5,472)	233,025
Loss and total comprehensive expense for the period	–	–	(10,743)	(10,743)
At June 30, 2010	<u>343</u>	<u>238,154</u>	<u>(16,215)</u>	<u>222,282</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,			Six months ended June 30,	
	Note	2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES						
Profit before tax		42,255	93,170	190,912	69,259	172,997
Adjustments for:						
Finance costs		2,933	7,745	12,700	5,777	10,162
Interest income		(189)	(211)	(615)	(203)	(490)
Depreciation of property, plant and equipment		2,333	6,984	16,784	7,757	11,215
Release of prepaid lease payments . .		62	285	652	471	713
(Gain) loss on disposal of property, plant and equipment		(2)	472	—	—	—
Excess of the fair value of a subsidiary acquired over the cost of acquisition		(2,586)	—	—	—	—
Operating cash flows before movements in working capital . .		44,806	108,445	220,433	83,061	194,597
(Increase) decrease in inventories . .		(36,907)	(85,382)	(51,146)	8,715	(85,546)
Increase in trade and other receivables		(41,414)	(45,268)	(264,505)	(182,321)	(89,991)
Increase in trade and other payables		33,473	53,742	43,369	125,763	48,315
Cash (used in) generated from operations		(42)	31,537	(51,849)	35,218	67,375
Income tax paid.		—	(100)	(8,571)	(935)	(24,780)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(42)	31,437	(60,420)	34,283	42,595
INVESTING ACTIVITIES						
Interest received		189	211	615	203	490
(Increase) decrease in pledged bank deposits		(4,643)	(5,372)	(19,852)	(5,641)	21,202
Purchase of available-for-sale investments		—	—	—	—	(1,000)
Proceeds from disposal of property, plant and equipment		135	434	—	—	—
Purchases of property, plant and equipment		(44,704)	(67,508)	(91,158)	(58,672)	(62,006)
(Prepayment for) repayment of prepayment for acquisition of machinery		(28,636)	(47,306)	16,183	(8,695)	(45,612)
(Advance to) repayment from directors		(3,052)	2,820	(3,467)	—	(4,281)
(Advance to) repayment from a related party		(26,352)	4,590	—	—	—
Deposits for acquisition of land use right		(5,000)	(1,781)	—	—	—
Acquisition of a subsidiary	27	(5,875)	—	—	—	—
Acquisition of additional interest in a subsidiary	27	(3,600)	—	—	—	—
Payment of prepaid lease payments . .		—	(17,200)	(61,124)	—	(2,763)
NET CASH USED IN INVESTING ACTIVITIES		(121,538)	(131,112)	(158,803)	(72,805)	(93,970)

APPENDIX I

ACCOUNTANTS’ REPORT

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
FINANCING ACTIVITIES					
Interest paid	(2,933)	(7,745)	(12,700)	(5,777)	(10,162)
Advance from a director	–	–	3,390	–	4,626
New borrowings raised	86,500	193,074	301,156	31,426	270,992
Repayment of borrowings	(28,000)	(133,500)	(146,500)	(42,711)	(186,057)
Capital contribution from a shareholder	60,000	122,154	80,000	80,000	–
Capital contribution from non-controlling interests	1,680	–	–	–	–
Issue of shares	–	343	–	–	–
Deemed distribution to shareholder upon Group Reorganisation	–	(61,172)	–	–	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	117,247	113,154	225,346	62,938	79,399
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,333)	13,479	6,123	24,416	28,024
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	9,179	4,846	18,325	18,325	24,448
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD, represented by Bank balances and cash	4,846	18,325	24,448	42,741	52,472

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law (2007 Revision) Chapter 22 of the Cayman Islands on May 21, 2008. Its immediate holding company is Changfeng Axle Holdings Ltd. (incorporated in the BVI) and its ultimate controlling shareholders are Mr. Wong Kwai Mo and Ms. Wu Ching, who are husband and wife. The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The principal activities of the Group are the manufacture and sale of axle and related components.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Fujian Changfeng, the holding company of Longyan Shengfeng and Yongding Changfeng, was established on March 5, 2001 and was owned and controlled by Ms. Wu Ching, prior to the Group Reorganisation. Fujian Changfeng acquired 90% and 10% equity interest in Kaifeng Changfeng, a company controlled by Mr. Wong Kwai Mo who held effective controlling interest of 98.8%, 98.8% and 90% in Kaifeng Changfeng as at January 1, 2007, December 31, 2007 and on the date of acquisition respectively, from Mr. Wong Kwai Mo and a related party and became the holding company of Kaifeng Changfeng on April 16, 2008.

Changfeng HK was incorporated on February 14, 2008 by Mr. Wong Kwai Mo and Ms. Wu Ching. Changfeng HK acquired 100% equity interest in Fujian Changfeng and became the holding company of Fujian Changfeng on May 5, 2008.

On May 21, 2008, the Company was incorporated by Changfeng Axle Holdings Ltd., in which Mr. Wong Kwai Mo and Ms. Wu Ching are the ultimate shareholders. On June 17, 2008, Mr. Wong Kwai Mo and Ms. Wu Ching transferred their entire interest in Changfeng HK to the Company and the Company became the holding company of Changfeng HK.

The Group resulting from the Group Reorganisation continued to be under common controlled by Mr. Wong Kwai Mo and Ms. Wu Ching. For accounting purpose, the Group is regarded as a continuing entity.

Accordingly, the Financial Information of the Group has been prepared as if the Company had always been the holding company of the Group. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended December 31, 2007 and 2008 have been prepared as if the group structure as at June 17, 2008 had been in existence during these two periods, or since the respective dates of incorporation/establishment of the relevant entities comprising the Group where this is a shorter period, except for the change of effective interest in the Longyan Shengfeng during the year ended December 31, 2007.

The consolidated statement of financial position of the Group as at December 31, 2007 has been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at that date, or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted the relevant Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretations (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “new and revised HKFRSs”), which are effective for the Group’s financial year beginning on January 1, 2010.

HKFRS 3 (2008) *Business Combinations* has been applied prospectively to business combinations for which the acquisition date is on or after January 1, 2010. HKFRS 3 (2004) *Business Combinations* has been applied to business combinations for which the acquisition date is before January 1, 2010.

HKAS 27 (2008) *Consolidated and Separate Financial Statements* has been applied consistently throughout the Track Record Period with the following exceptions which have been applied prospectively from January 1, 2010:

- (i) total comprehensive income is attributed to the owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance; and
- (ii) changes of the Group’s ownership interest in a subsidiary are accounted for as equity transactions.

APPENDIX I

ACCOUNTANTS’ REPORT

Other HKFRSs have been applied consistently throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations which are not yet effective. The Group has not early adopted these standard, amendments and interpretations in the preparation of the Financial Information for the Track Record Period.

- | | |
|----------------------------------|---|
| • HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 ⁽ⁱ⁾ |
| • HKAS 24 (Revised) | Related Party Disclosures ⁽ⁱⁱ⁾ |
| • HKAS 32 (Amendment) | Classification of Rights Issues ⁽ⁱⁱⁱ⁾ |
| • HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 Disclosures for First-time Adopters ^(v) |
| • HKFRS 9 | Financial Instruments ^(iv) |
| • HK(IFRIC) – Int 14 (Amendment) | Prepayment of a Minimum Funding Requirement ⁽ⁱⁱ⁾ |
| • HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments ^(v) |

(i) Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

(ii) Effective for annual periods beginning on or after January 1, 2011

(iii) Effective for annual periods beginning on or after February 1, 2010

(iv) Effective for annual periods beginning on or after January 1, 2013

(v) Effective for annual periods beginning on or after July 1, 2010

The directors of the Company anticipate that the application of above new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below and in accordance with the following accounting policies which conform to HKFRSs. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing [●].

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired, other than business combinations involving entities under common control, during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary’s equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Starting from January 1, 2010, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

APPENDIX I

ACCOUNTANTS’ REPORT

Changes in the Group’s ownership interests in existing subsidiaries

Changes in the Group’s ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combinations involving entities under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

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

Business combinations other than involving entities under common control

Business combinations prior to January 1, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest’s proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Business combinations on or after January 1, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

APPENDIX I

ACCOUNTANTS’ REPORT

- liabilities or equity instruments related to the replacement by the Group of an acquiree’s share-based payment awards are measured in accordance with HKFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Investment in a subsidiary

Investment in a subsidiary is included in the Company’s statements of financial position at cost less any identified impairment losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

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

Leasing

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.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally classified as finance lease. To the extent the allocation of the lease payments can be made reliably, leasehold land is classified as finance leases if substantially all the risk and rewards incidental to ownership of the land element is transferred to the Group. In other cases, leasehold land is classified as operating leases.

APPENDIX I

ACCOUNTANTS’ REPORT

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments made to state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the current tax charge and the movement in deferred tax.

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 it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

APPENDIX I

ACCOUNTANTS’ REPORT

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Prepaid lease payments

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortised on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

APPENDIX I

ACCOUNTANTS’ REPORT

Impairment of non-current assets other than financial assets

At the end of reporting period, the Group reviews the carrying amounts of its non-current assets other than financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at 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. Where 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 is material).

Financial instruments

The Group’s financial assets and liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities of fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group’s financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period, receivables (including trade receivables, notes receivable, other receivables, amounts due from directors/a related party, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loan and receivables or held-to-maturity investments.

APPENDIX I

ACCOUNTANTS’ REPORT

Available-for-sale financial assets are measured at fair value at the end of the reporting period subsequent to initial recognition. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where 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 an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently 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, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows, discounted at the financial assets’ 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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of 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.

APPENDIX I

ACCOUNTANTS’ REPORT

Interest expense is recognised on an effective interest basis.

The Group’s financial liabilities, which include trade and other payables, amount due to a director and borrowings, are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire; or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, the 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 differ from these estimates.

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

Key sources of estimation uncertainty

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

(a) Useful lives and impairment of property, plant and equipment

The Group’s management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group.

(b) Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2007, 2008 and 2009 and June 30, 2010, the carrying amount of trade receivable is RMB44,848,000, RMB102,837,000, RMB316,952,000 and RMB408,207,000, respectively. No allowance for doubtful debts is recognised as at December 31, 2007, 2008, 2009 and June 30, 2010.

APPENDIX I

ACCOUNTANTS’ REPORT

(c) Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisation value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group’s of working capital is devoted to inventories. Procedure-wise, the management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. Although the Group carried periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sales was concluded.

(d) Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the Track Record Period. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. There is no balance of warranty accrual as at December 31, 2007 and 2008 and carrying amount of approximately RMB869,000 and RMB1,615,000 at December 31, 2009 and June 30, 2010, respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through optimization of the debt and equity balance. The Group’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debts (which include bank and other borrowings), cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, capital and special reserves, surplus reserves, and retained earnings.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

APPENDIX I

ACCOUNTANTS’ REPORT

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

THE GROUP

		Carrying amount at December 31,			Carrying amount at June 30,
	Financial instrument classification	2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>					
Trade and other receivables	Loans and receivables	75,198	114,565	362,271	432,587
Amounts due from directors	Loans and receivables	3,052	–	345	–
Amount due from a related party	Loans and receivables	19,186	–	–	–
Pledged bank deposits	Loans and receivables	4,643	10,015	29,867	8,665
Bank balances and cash	Loans and receivables	4,846	18,325	24,448	52,472
Available-for-sale investments	Available-for-sale financial assets	–	–	–	1,000
		106,925	142,905	416,931	494,724
<i>Financial liabilities</i>					
Trade and other payables*	At amortised cost	68,350	120,626	181,942	189,197
Amount due to a director	At amortised cost	–	232	–	–
Borrowings					
– due within one year	At amortised cost	71,500	136,074	245,444	330,379
Borrowings					
– due after one year	At amortised cost	15,000	10,000	20,000	20,000
		154,850	266,932	447,386	539,576

THE COMPANY

		Carrying amount at December 31,		Carrying amount at June 30,
	Financial instrument classification	2008	2009	2010
		RMB'000	RMB'000	RMB'000
<i>Financial asset</i>				
Bank balance	Loans and receivables	–	9	205
<i>Financial liabilities</i>				
Other payables*	At amortised cost	–	70	–
Amount due to a director	At amortised cost	–	2,622	7,562
		–	2,692	7,562

* Excluded advances from customers, accruals for property, plant and equipment, other tax payables and accruals.

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Interest rate risk

Interest rate risk is 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 is exposed to cash flow interest rate risk on the variable rate of interest earned on the pledged bank deposits and bank balances. The Group’s borrowings have fixed interest rates and therefore, are not subject to interest rate fluctuations. A 25 basis point higher/lower in the interest rate would result in an increase/decrease in the Group’s profit before tax of approximately RMB24,000, RMB70,000, RMB136,000, RMB76,500 for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 taking into account the fact that the interest rate is dropped to 0% for those bank balances with interest rate 0.15% per annum for the Track Record Period.

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(d) Other price risk

The Group is exposed to other price risk through its investment in an investment fund (as disclosed in note 19) as at June 30, 2010. If the price of investment fund had been 5% higher/lower, the Group’s investment valuation reserve would increase/decrease by approximately RMB50,000 for the six months ended June 30, 2010 as a result of the changes in fair value of investment fund.

(e) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. At December 31, 2007 and June 30, 2010, the Group had concentration of credit risk on trade receivables as 60.7% and 26.1% of total trade receivables were due from 5 customers, respectively. At December 31, 2008 and 2009, the Group had no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Group manages this risk by reviewing the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as trade receivables and notes receivable comprise various debtors which are located in PRC during the Track Record Period.

The credit risk on liquid funds is limited because the majority of counterparties are state-owned banks located in the PRC.

Other than the concentration of the credit risk on trade receivables, notes receivable, amounts due from directors/a related party and bank balances and pledged bank deposits, the Group does not have any other significant concentration of credit risk.

(f) Liquidity risk

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to meet in full its financial obligations as they fall due for the foreseeable future. The management monitors the utilisation of bank and other borrowings.

The following table details the Group’s and the Company’s remaining contractual maturity for its financial liabilities as at December 31, 2007, 2008 and 2009 and June 30, 2010. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

APPENDIX I

ACCOUNTANTS’ REPORT

Liquidity and interest risk tables

THE GROUP

	Weighted average interest rate	Within 3 months	3 months to 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at December 31, 2007							
Trade and other payables	–	65,000	3,350	–	–	68,350	68,350
Borrowings – due within one year	7.95%	1,421	73,453	–	–	74,874	71,500
Borrowings – due after one year	9.00%	338	1,013	6,212	10,302	17,865	15,000
		<u>66,759</u>	<u>77,816</u>	<u>6,212</u>	<u>10,302</u>	<u>161,089</u>	<u>154,850</u>

As at December 31, 2008							
Trade and other payables	–	93,993	26,633	–	–	120,626	120,626
Amount due to a director	–	232	–	–	–	232	232
Borrowings – due within one year	7.04%	32,078	110,484	–	–	142,562	136,074
Borrowings – due after one year	9.00%	225	675	10,302	–	11,202	10,000
		<u>126,528</u>	<u>137,792</u>	<u>10,302</u>	<u>–</u>	<u>274,622</u>	<u>266,932</u>

As at December 31, 2009							
Trade and other payables	–	178,929	3,013	–	–	181,942	181,942
Borrowings – due within one year	5.63%	124,147	126,626	–	–	250,773	245,444
Borrowings – due after one year	5.40%	266	814	21,080	–	22,160	20,000
		<u>303,342</u>	<u>130,453</u>	<u>21,080</u>	<u>–</u>	<u>454,875</u>	<u>447,386</u>

As at June 30, 2010							
Trade and other payables .	–	159,261	29,936	–	–	189,197	189,197
Borrowings – due within one year	5.33%	39,743	299,783	–	–	339,526	330,379
Borrowings – due after one year	5.40%	266	814	20,540	–	21,620	20,000
		<u>199,270</u>	<u>330,533</u>	<u>20,540</u>	<u>–</u>	<u>550,343</u>	<u>539,576</u>

THE COMPANY

As at December 31, 2009							
Other payables	–	70	–	–	–	70	70
Amount due to a director.	–	2,622	–	–	–	2,622	2,622
		<u>2,692</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,692</u>	<u>2,692</u>

As at June 30, 2010							
Amount due to a director.	–	7,562	–	–	–	7,562	7,562
		<u>7,562</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,562</u>	<u>7,562</u>

APPENDIX I

ACCOUNTANTS’ REPORT

(g) Fair value

The fair value of financial assets and financial liabilities (excluding available-for-sale investments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

For available-for-sale investments, the fair value is determined with reference to price quoted by the bank, which is determined by reference to the net assets of the fund.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

Fair value measurements recognised in the consolidated statements of financial position

The following table 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).

	At year ended December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Available-for-sale investments				
Level 3	–	–	–	1,000

8. REVENUE AND SEGMENT INFORMATION

(a) Products within each operating segment

The segment information reported was analysed on the basis of the markets related to the Group’s operating divisions, which is consistent with the internal information that are regularly reviewed by the directors, who are the chief operating decision makers of the Group, for the purposes of resource allocation and assessment of performance.

The Group has two operating segments as follows:

- OEM and related market – manufacturing and selling of axle assemblies and axle components to heavy duty truck and middle duty truck manufacturers and other assembly manufacturers.
- Aftermarket – manufacturing and selling of axle components and axle assemblies to the market for providing after-sales services.

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Segment revenue and segment results

	Segment revenue					Segment results				
	Year ended December 31,			Six months ended June 30,		Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000 (unaudited)	RMB’000
OEM and related market	92,673	143,355	300,437	155,343	243,999	26,398	39,682	83,455	40,160	64,435
Aftermarket	83,995	274,475	500,714	175,835	450,567	23,719	79,553	168,323	49,436	159,686
External revenue/ segment result	176,668	417,830	801,151	331,178	694,566	50,117	119,235	251,778	89,596	224,121
Other income and other gains and losses						3,744	9,782	5,078	1,207	2,303
Selling and distribution expenses						(2,153)	(7,764)	(17,572)	(6,522)	(10,802)
Research and development expenditure						(526)	(2,995)	(8,540)	–	(5,858)
Administrative expenses						(5,994)	(17,343)	(27,132)	(9,245)	(26,605)
Finance costs						(2,933)	(7,745)	(12,700)	(5,777)	(10,162)
Profit before tax						42,255	93,170	190,912	69,259	172,997
Taxation						–	(1,593)	(28,128)	(9,576)	(25,458)
Profit and total comprehensive income for the year/period						42,255	91,577	162,784	59,683	147,539

Revenue reported above represents revenue generated from external customers. There was no inter-segment revenue during the Track Record Period.

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to the directors of the Company for the purposes of resources allocation and performance assessment.

(c) Segment assets

	Assets			
	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
OEM and related market	26,037	30,377	50,749	97,184
Aftermarket	18,811	72,460	266,203	311,023
Total of all segments	44,848	102,837	316,952	408,207
Unallocated	256,689	473,096	689,470	854,550
Consolidated	301,537	575,933	1,006,422	1,262,757

Segment assets represent trade receivables.

Segment liabilities are not presented as liabilities are generally incurred for all operating segments and not presented to the directors.

APPENDIX I

ACCOUNTANTS’ REPORT

(d) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). No non-current assets of the Group are located outside the PRC.

All of the Group’s revenue from external customers is attributed to the group entities’ countries of domicile (i.e. the PRC).

(e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group’s revenue are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
OEM and related market					
– Company A	33,960	N/A*	N/A*	N/A*	N/A*
Aftermarket – Company B	23,084	N/A*	N/A*	40,284	70,986

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Gain (loss) on disposal of property, plant and equipment	2	(472)	–	–	–
Bank interest income	189	211	615	203	490
Government grant (note 1)	600	9,771	804	502	799
Excess of the fair value of the subsidiary acquired over the cost of acquisition (note 2)	2,586	–	–	–	–
Net foreign exchange loss	(14)	(56)	(66)	(59)	(3)
Income from suppliers on defects claim	–	568	3,712	528	1,023
Donation	(110)	(267)	(17)	–	(100)
Others	491	27	30	33	94
	3,744	9,782	5,078	1,207	2,303

Notes:

- The amounts primarily represented incentives granted by local authorities to the Group’s subsidiaries located in the PRC for encouragement of the Group’s investment in the PRC and refund of various taxes paid. There are no unfulfilled conditions and other contingencies attached to such grants.
- The amount represented the excess of the fair value of the identifiable assets and liabilities of the subsidiary, Longyan Shengfeng, acquired over the cost of acquisition. Details of which are set out in note 27.

APPENDIX I

ACCOUNTANTS’ REPORT

10. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Interest on:					
Bank borrowings wholly repayable within five years	2,820	7,609	10,900	4,877	9,619
Other borrowings wholly repayable within five years . . .	820	1,800	1,800	900	543
Less: Amounts capitalised in property, plant and equipment	(707)	(1,664)	–	–	–
	<u>2,933</u>	<u>7,745</u>	<u>12,700</u>	<u>5,777</u>	<u>10,162</u>

Finance costs of RMB707,000 and RMB1,664,000 capitalised for the year ended December 31, 2007 and 2008, respectively arose on general borrowings and capitalised by applying a capitalisation rate of 7.49% and 7.65% per annum, respectively, to expenditure on qualifying assets.

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Employee benefits expenses (including directors):					
– salaries and other benefits	11,952	30,697	46,725	14,774	36,155
– retirement benefit scheme contributions	145	1,264	1,856	546	1,374
Total staff costs	<u>12,097</u>	<u>31,961</u>	<u>48,581</u>	<u>15,320</u>	<u>37,529</u>
Depreciation of property, plant and equipment	2,333	6,984	16,784	7,757	11,215
Release of prepaid lease payments .	62	285	652	471	713
Auditors’ remuneration	63	1,145	991	141	416
【●】 expenses (included in administrative expenses)	–	–	4,500	–	10,549
Cost of inventories recognised as expenses (included in cost of sales and research and development expenditure)	<u>127,059</u>	<u>301,543</u>	<u>556,600</u>	<u>241,582</u>	<u>474,186</u>

APPENDIX I

ACCOUNTANTS’ REPORT

12. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Tax expense comprises:					
Current tax expense	–	1,593	27,840	9,588	25,035
Underprovision in prior year	–	–	311	–	431
Deferred tax expense (<i>note 25</i>) . .	–	–	(23)	(12)	(8)
	–	1,593	28,128	9,576	25,458

The income tax expense of the Track Record Period represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

Changfeng HK was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax since its incorporation.

The Group’s PRC enterprise income tax is calculated at 33% of the taxable income for the year ended December 31, 2007.

On March 16, 2007, the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Tax Law”) by Order No. 63 of the President of the People’s Republic of China. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law. Under the New Tax Law and Implementation Regulations, the enterprise income tax rate of the Group’s subsidiaries in the PRC was reduced from 33% to 25% from January 1, 2008 onwards.

Fujian Changfeng is a wholly foreign invested entity of manufacturing nature. In accordance with Foreign Enterprise Income Tax (“FEIT”) Laws in PRC, Fujian Changfeng was approved to be exempted from FEIT for two years starting from its first profit making year since its incorporation and followed by a 50% tax relief for the next three years. Fujian Changfeng was therefore exempted from FEIT for the years ended December 31, 2007 and 2008 and subject to 12.5% tax rate for the year ended December 31, 2009 and the six months ended June 30, 2010.

Longyan Shengfeng and Kaifeng Changfeng did not have any taxable income during the year ended December 31, 2007 and subject to 25% tax rate starting from the year ended December 31, 2008.

Beijing Changfeng and Sichuan Changfeng did not have any taxable income during the Track Record Period.

APPENDIX I

ACCOUNTANTS’ REPORT

The tax charge for the Track Record Period can be reconciled to the profit before tax per consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Profit before tax	42,255	93,170	190,912	69,259	172,997
Tax at 33% for the year ended December 31, 2007 and at 25% for the years ended December 31, 2008 and December 31, 2009 and the six months ended June 30, 2010	13,944	23,293	47,728	17,315	43,249
Tax effect of expenses not deductible for tax purpose	17	796	2,236	450	3,011
Tax effect of tax losses not recognised	309	–	240	–	343
Utilisation of tax losses previously not recognised	(52)	(327)	–	–	–
Underprovision in prior year	–	–	311	–	431
Effect of tax exemptions/concessions granted to a PRC subsidiary	(14,218)	(22,169)	(22,387)	(8,189)	(21,576)
	–	1,593	28,128	9,576	25,458

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately RMB73,576,000, RMB209,734,000 and RMB368,806,000 at December 31, 2008 and 2009 and June 30, 2010, respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

13. DIRECTORS’ AND EMPLOYEES’ REMUNERATION

(a) Directors’ emoluments

Details of the emoluments paid to the directors of the Company for the Track Record Period are as follow:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Directors’					
– fees	–	–	–	–	–
– salaries and other benefits	160	170	220	62	110
– discretionary bonus	60	70	80	–	–
– retirement benefits scheme contributions	–	–	–	–	–
	220	240	300	62	110

APPENDIX I

ACCOUNTANTS’ REPORT

The emoluments of the directors on a named basis are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Mr. Wong Kwai Mo	110	120	150	31	55
Ms. Wu Ching	110	120	150	31	55
Ms. Dong Ying, Dorothy	N/A	–	–	–	–
	220	240	300	62	110

(b) Employees’ emoluments

The five highest paid individuals of the Group for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 included 2 directors. The remunerations of the 5 individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Employees					
– salaries and other benefits	336	367	524	151	402
– discretionary bonus	124	141	142	–	–
– contributions to retirement benefits scheme	5	5	7	3	8
	465	513	673	154	410

Their emoluments were within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Nil to HKD1,000,000 (equivalents to approximately Nil to RMB877,000)	5	5	5	5	5

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the Track Record Period.

14. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

15. EARNING PER SHARE

The calculation of the basic earning per share for the Track Record Period is based on the profit attributable to owners of the Company and 600,000,000 ordinary shares of the Company on the assumption that the Group Reorganisation had been effective on January 1, 2007 and with retrospective adjustment for the [●] as described more fully in the paragraph headed “Change in share capital” in Appendix VI to the document.

No diluted earning per share is presented for the Track Record Period as there was no potential dilutive ordinary share in issue.

APPENDIX I

ACCOUNTANTS’ REPORT

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	Motor vehicles	Furniture, fixture and equipment	Machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2007 . . .	12,893	247	212	10,488	–	23,840
Additions	8,188	–	237	4,060	35,745	48,230
Acquisitions of a subsidiary	8,213	–	190	4,294	6,180	18,877
Disposal	–	–	–	(140)	–	(140)
At December 31, 2007 and January 1, 2008 . .	29,294	247	639	18,702	41,925	90,807
Additions	11,984	565	883	57,617	31,548	102,597
Transfer	22,383	–	–	25,325	(47,708)	–
Disposal	–	–	–	(1,208)	–	(1,208)
At December 31, 2008 and January 1, 2009 . .	63,661	812	1,522	100,436	25,765	192,196
Additions	24,040	144	842	66,507	29,769	121,302
Transfer	30,651	–	–	7,960	(38,611)	–
At December 31, 2009 and January 1, 2010 . .	118,352	956	2,364	174,903	16,923	313,498
Additions	54	–	420	7,270	29,130	36,874
Transfer	6,415	–	–	5,971	(12,386)	–
At June 30, 2010	124,821	956	2,784	188,144	33,667	350,372
ACCUMULATED DEPRECIATION						
At January 1, 2007 . . .	2,370	76	121	2,737	–	5,304
Provided for the year . .	948	45	55	1,285	–	2,333
Eliminated on disposals .	–	–	–	(7)	–	(7)
At December 31, 2007 and January 1, 2008 . .	3,318	121	176	4,015	–	7,630
Provided for the year . .	2,010	89	174	4,711	–	6,984
Eliminated on disposals .	–	–	–	(302)	–	(302)
At December 31, 2008 and January 1, 2009 . .	5,328	210	350	8,424	–	14,312
Provided for the year . .	4,889	111	302	11,482	–	16,784
At December 31, 2009 and January 1, 2010 . .	10,217	321	652	19,906	–	31,096
Provided for the period .	2,499	62	230	8,424	–	11,215
At June 30, 2010	12,716	383	882	28,330	–	42,311
CARRYING VALUES						
At December 31, 2007 . .	25,976	126	463	14,687	41,925	83,177
At December 31, 2008 . .	58,333	602	1,172	92,012	25,765	177,884
At December 31, 2009 . .	108,135	635	1,712	154,997	16,923	282,402
At June 30, 2010	112,105	573	1,902	159,814	33,667	308,061

APPENDIX I

ACCOUNTANTS’ REPORT

The above items of property, plant and equipment, other than construction in progress, are depreciated on straight-line basis at the following rates after taking into account residual values:

Buildings	4.5%
Motor vehicles	18%
Furniture, fixture and equipment	18%
Machinery	9%

17. PREPAID LEASE PAYMENTS

THE GROUP

	RMB’000
At January 1, 2007	2,093
Acquisition of a subsidiary	2,844
Released to profit and loss	(62)
	<u>4,875</u>
At December 31, 2007 and January 1, 2008	4,875
Additions	22,200
Released to profit and loss	(285)
	<u>26,790</u>
At December 31, 2008 and January 1, 2009	26,790
Additions	62,905
Released to profit and loss	(652)
	<u>89,043</u>
At December 31, 2009 and January 1, 2010	89,043
Additions	2,763
Released to profit and loss	(713)
	<u>91,093</u>
At June 30, 2010	<u><u>91,093</u></u>

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Analysed for reporting purpose:				
Current assets	102	545	1,762	1,858
Non-current assets	4,773	26,245	87,281	89,235
	<u>4,875</u>	<u>26,790</u>	<u>89,043</u>	<u>91,093</u>

At June 30, 2010, the Group’s prepaid lease payments comprise medium-term lease leasehold land located in PRC.

Prepaid lease payments are released to profit or loss over the lease terms ranging from 45 to 50 years.

18. INVESTMENT IN A SUBSIDIARY

THE COMPANY

	At December 31,		At June 30,
	2008	2009	2010
	RMB’000	RMB’000	RMB’000
Unlisted equity investment, at cost	9,202	9,202	9,202
Capital contribution	149,295	229,295	229,295
	<u>158,497</u>	<u>238,497</u>	<u>238,497</u>

APPENDIX I

ACCOUNTANTS’ REPORT

19. AVAILABLE-FOR-SALE INVESTMENTS

THE GROUP

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Investment fund.	—	—	—	1,000

The fair value of the above investment is determined based on the price quoted by a bank, the fund issuer.

20. INVENTORIES

THE GROUP

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Raw materials	39,271	32,547	75,498	141,296
Work-in-progress	4,046	21,993	83,729	81,922
Finished goods	14,873	89,032	35,491	57,046
	58,190	143,572	194,718	280,264

21. TRADE AND OTHER RECEIVABLES

THE GROUP

Trade and other receivables comprise the following:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	44,848	102,837	316,952	408,207
Less: allowance for doubtful debts . . .	—	—	—	—
	44,848	102,837	316,952	408,207
Notes receivable	10,300	7,210	36,192	18,944
Other receivables	20,050	4,518	9,127	5,436
Advances to suppliers	13,963	30,531	15,893	24,156
Prepaid expenses	771	1,755	1,315	1,345
VAT-in recoverable	—	3,409	—	8,564
	89,932	150,260	379,479	466,652

The Group allows an average credit period of 90-120 days to its trade customers. The ageing analysis of trade receivables and notes receivable is presented based on the invoice date at the end of the reporting date.

APPENDIX I

ACCOUNTANTS’ REPORT

The ageing of trade receivables is as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
0 to 90 days	28,063	69,940	237,594	390,427
91 to 120 days	8,946	15,622	49,097	11,890
121 to 180 days	2,691	16,275	30,261	2,466
181 to 365 days	5,148	1,000	–	3,424
	<u>44,848</u>	<u>102,837</u>	<u>316,952</u>	<u>408,207</u>

The ageing of notes receivable is as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
0 to 90 days	10,300	7,210	30,237	18,144
91 to 120 days	–	–	–	150
121 to 180 days	–	–	5,955	650
	<u>10,300</u>	<u>7,210</u>	<u>36,192</u>	<u>18,944</u>

Before accepting any new customers, the Group has assessed the potential customer’s credit quality and defined credit limit of each customer. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period and no impairment is necessary for those balances which are not past due.

Included in the Group’s trade receivables balances are debtors with aggregate carrying amount of approximately RMB16,785,000, RMB32,897,000, RMB63,416,000 and RMB14,359,000 at December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
91 to 120 days	8,946	15,622	33,155	8,469
121 to 180 days	2,691	16,275	30,261	2,466
181 to 365 days	5,148	1,000	–	3,424
	<u>16,785</u>	<u>32,897</u>	<u>63,416</u>	<u>14,359</u>

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Pledged bank deposits and bank balances carry interest rates ranging from 0.15% to 3.78% per annum for the Track Record Period.

Pledged bank deposits represent amounts deposited with banks as security for the banks accepted notes issued by the Group to its suppliers for the purchase of raw materials.

APPENDIX I

ACCOUNTANTS’ REPORT

23. TRADE AND OTHER PAYABLES

THE GROUP

Trade and other payables comprise the following:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	31,183	77,888	119,920	154,828
Notes payable	23,490	29,414	25,385	18,661
	54,673	107,302	145,305	173,489
Advances from customers	8,870	2,847	3,702	5,308
Payables and accruals for property, plant and equipment	16,417	22,870	28,511	3,379
Payroll and welfare payables	1,616	3,319	4,987	9,075
Warranty accrual (<i>Note</i>)	–	–	869	1,615
Other accruals	566	5,270	4,279	11,451
Other tax payable	1,103	2,158	3,559	9,963
Other payables	1,901	1,575	3,139	3,254
	85,146	145,341	194,351	217,534

Note: At December 31, 2009 and June 30, 2010, the warranty provision represents management’s best estimate of the Group’s liability under 6-month warranty granted on products, based on prior experience and industry practice for defective products.

The following is an ageing analysis of trade payables, presented based on invoice date, at the end of each reporting period:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Within 30 days	13,548	41,069	71,770	76,902
31 to 60 days	4,950	8,690	22,730	33,610
61 to 90 days	2,507	15,587	14,530	18,543
91 to 180 days	4,382	8,100	10,731	20,813
181 to 365 days	5,796	4,442	159	4,960
	31,183	77,888	119,920	154,828

The following is an ageing analysis of notes payable, presented based on issuance date, at the end of each reporting period:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Within 30 days	6,000	4,500	–	4,381
31 to 60 days	13,140	5,000	–	–
61 to 90 days	1,000	–	2,130	10,130
91 to 180 days	3,350	19,914	23,255	4,150
	23,490	29,414	25,385	18,661

APPENDIX I

ACCOUNTANTS’ REPORT

Trade payables and notes payable principally comprise amounts outstanding for purchase of goods. The credit period for purchase of goods is between 30 to 90 days.

THE COMPANY

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Payroll payables	N/A	–	70	–
Other accruals	N/A	–	2,789	8,858
	N/A	–	2,859	8,858

24. BORROWINGS

THE GROUP

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings	56,500	126,074	245,444	330,379
Other borrowings	30,000	20,000	20,000	20,000
	86,500	146,074	265,444	350,379
Unsecured	30,000	20,000	40,000	24,959
Guaranteed	25,000	23,000	25,500	–
Secured	31,500	103,074	199,944	325,420
	86,500	146,074	265,444	350,379

All borrowings are denominated in RMB and carrying fixed interest rates. The contractual maturity dates are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	71,500	136,074	245,444	330,379
More than one year, but not exceeding two years	5,000	10,000	20,000	20,000
More than two years, but not exceeding five years	10,000	–	–	–
	86,500	146,074	265,444	350,379
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(71,500)	(136,074)	(245,444)	(330,379)
Amounts due for settlement after 12 months	15,000	10,000	20,000	20,000

APPENDIX I

ACCOUNTANTS’ REPORT

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group’s borrowings other than notes discounted are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
Fixed-rate borrowings	6.44% – 9.00%	5.35% – 9.71%	4.37% – 9.01%	4.78% – 8.77%
	per annum	per annum	per annum	per annum

The borrowings are guaranteed and/or secured by the following:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Type A	11,000	12,000	25,500	–
Type B	–	34,500	42,000	–
Type C	–	10,000	10,000	–
Type D	–	25,000	75,100	–
Type E	–	29,000	10,000	325,270
Type F	–	11,000	–	–
Type G	4,000	–	–	–
Type H	10,000	–	–	–
Type I	19,500	–	–	–
Type J	12,000	–	–	–
Type K	–	4,574	62,844	150
	56,500	126,074	225,444	325,420

- Type A: Borrowings were guaranteed by Ms. Wu Ching and Mr. Wong Kwai Mo and guaranteed by third parties.
- Type B: Borrowings were guaranteed by Ms. Wu Ching and Mr. Wong Kwai Mo and secured by assets of the Group (*note 1*).
- Type C: Borrowings were guaranteed by Ms. Wu Ching and Mr. Wong Kwai Mo and secured by assets of a third party.
- Type D: Borrowings were guaranteed by Ms. Wu Ching, Mr. Wong Kwai Mo and third parties and secured by assets of the Group (*note 1*).
- Type E: Borrowings were secured by certain assets of the Group (*note 1*).
- Type F: Borrowings were guaranteed by Ms. Wu Ching and guaranteed by third parties.
- Type G: Borrowings were guaranteed by third parties and a related party.
- Type H: Borrowings were guaranteed by Ms. Wu Ching and Mr. Wong Kwai Mo.
- Type I: Borrowings were guaranteed by Ms. Wu Ching and Mr. Wong Kwai Mo, guaranteed by third parties and a related party and secured by assets of the Group (*note 1*).
- Type J: Borrowings were guaranteed by a third party and secured by assets of the Group (*note 1*).
- Type K: Borrowings were secured by notes receivable (*note 2*).

Note 1: The Group has pledged certain assets to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Property, plant and equipment	28,969	53,879	84,451	80,479
Land use right	2,869	2,809	13,721	13,558
Trade receivables	8,118	29,396	49,173	83,169
	39,956	86,084	147,345	177,206

APPENDIX I

ACCOUNTANTS’ REPORT

At December 31, 2009 and June 30, 2010, the Group has pledged the equity shares of certain PRC subsidiaries as collateral to secure bank borrowings amounting to RMB70,100,000 and RMB219,870,000, respectively.

Note 2: The balances represents banks accepted notes discounted to banks with recourse at average interest rates of 4.7%, 2% and 4.0% per annum at December 31, 2008 and 2009 and June 30, 2010, respectively, which were not due at the end of each reporting period.

The guarantees provided as mentioned in Type A to Type D and Type F to Type J had been released upon repayment of borrowings.

25. DEFERRED TAX

The following are the major deferred tax liabilities recognised and movement thereon during the Track Record Period:

	Revaluation of identifiable assets and liabilities RMB’000
Acquisition of a subsidiary (<i>note 27</i>)	905
Charged to profit or loss	—
At December 31, 2008 and January 1, 2009	905
Charged to profit or loss	(23)
At December 31, 2009 and January 1, 2010	882
Charged to profit or loss	(8)
At June 30, 2010	<u>874</u>

The revaluation of the identifiable assets and liabilities was arisen from the acquisition of a subsidiary, Longyan Shengfeng. Details of which are set out in note 27.

The tax losses are principally attributable to subsidiaries in the PRC with no deferred tax asset has been recognised in respect of the tax losses, due to the unpredictability of future profits streams. The tax losses of the PRC subsidiaries can be carried forward for five years. The Group has no other significant unprovided deferred tax for the Track Record Period or at the end of each reporting period.

The Group had unrecognised tax losses as follows:

	RMB’000	Expiry date
At January 1, 2007	527	
Addition	936	
Utilised during the year	<u>(158)</u>	
At December 31, 2007 and January 1, 2008	1,305	2011-2012
Utilised during the year	<u>(1,305)</u>	
At December 31, 2008 and January 1, 2009	—	N/A
Addition	<u>958</u>	
At December 31, 2009 and January 1, 2010	958	2014
Addition	<u>1,372</u>	
At June 30, 2010	<u>2,330</u>	2014-2015

APPENDIX I

ACCOUNTANTS’ REPORT

26. SHARE CAPITAL/PAID-IN CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <u>US\$’000</u>
Ordinary shares of		
US\$1 each at incorporation, December 31, 2008 and 2009		
US\$0.01 each at June 30, 2010		
<i>Authorised:</i>		
At incorporation, December 31, 2008 and 2009	50,000	50
Subdivision	4,950,000	–
Addition.	<u>4,995,000,000</u>	<u>49,950</u>
At June 30, 2010	<u><u>5,000,000,000</u></u>	<u><u>50,000</u></u>
<i>Issued & fully paid:</i>		
At incorporation, December 31, 2008 and 2009	50,000	50
Subdivision	<u>4,950,000</u>	<u>–</u>
At June 30, 2010	<u><u>5,000,000</u></u>	<u><u>50</u></u>
		RMB’000
Shown on the consolidated statements of financial position		<u><u>343</u></u>

Notes:

- (1) The Company was incorporated on May 21, 2008 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (2) At the time of incorporation, 50,000 shares were issued at par to the subscriber to provide the initial capital to the Company.

On June 28, 2010, shareholders’ resolutions of the Company were passed to approve:

- All the issued and unissued shares of the Company with par value of US\$1.00 each were subdivided into 100 shares of US\$0.01 each. On the same date, the Company increased its authorized share capital to US\$50,000,000 divided into 5,000,000,000 shares, with a par value of US\$0.01 each. Such additional shares to rank pari passu in all aspects with the existing shares.
- [●]

The amount of share capital/paid-in capital as of January 1, 2007 and December 31, 2007 represented the registered capital of two subsidiaries of the Company, Fujian Changfeng and Kaifeng Changfeng.

APPENDIX I

ACCOUNTANTS’ REPORT

27. ACQUISITION OF A SUBSIDIARY

Particulars of the subsidiary acquired during the year ended December 31, 2007 were as follows:

<u>Acquired company</u>	<u>Principal activities</u>	<u>Acquisition date</u>	<u>Equity interest acquired</u>	<u>Consideration RMB’000</u>
Longyan Shengfeng	Manufacture and sale of roughcast (raw material of axle)	September 6, 2007 December 19, 2007	76% 24%	6,080 3,600

The Group assumed control over Longyan Shengfeng, the acquiree, with effect from September 6, 2007, when the share transfer agreement was signed with and consideration was paid to the ex-shareholders of Longyan Shengfeng. This acquisition has been accounted for using the purchase method.

The net assets acquired and the gains arising from acquisition of 76% equity interest in Longyan Shengfeng, are as follows:

	<u>Acquiree’s carrying amount RMB’000</u>	<u>Fair value adjustments RMB’000</u>	<u>Fair value RMB’000</u>
Net assets acquired:			
Property, plant and equipment	16,916	1,961	18,877
Prepaid lease payments	824	2,020	2,844
Other receivables	3,713	–	3,713
Inventories	3,904	(157)	3,747
Bank balances and cash	205	–	205
Trade payables	(1,711)	–	(1,711)
Other payables	(8,333)	–	(8,333)
Other tax liabilities	(34)	–	(34)
Bank loans	(7,000)	–	(7,000)
Deferred tax liabilities	–	(905)	(905)
	<u>8,484</u>	<u>2,919</u>	<u>11,403</u>
Non-controlling interests			(2,737)
Gains arising on acquisition recognised in profit and loss . .			<u>(2,586)</u>
Total consideration, satisfied by cash			<u>6,080</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			6,080
Less: Bank balances and cash acquired			<u>(205)</u>
			<u>5,875</u>

Longyan Shengfeng contributed no revenue and a profit of approximately RMB72,000 to the Group’s result for the period between the date of acquisition and December 31, 2007.

If the acquisition of Longyan Shenfeng had been completed on January 1, 2007, total Group’s revenue for the year ended December 31, 2007 would have been approximately RMB176,668,000 and profit for the year ended December 31, 2007 would have been approximately RMB41,814,000.

The above information is for illustrative purposes only and is not necessarily the indicative results of the Group that actually would have been achieved had the acquisition been completed on January 1, 2007, nor is it intended to be a projection of future results.

APPENDIX I

ACCOUNTANTS’ REPORT

On December 19, 2007, the Group acquired the remaining 24% interests in Longyan Shengfeng from the non-controlling interests for a consideration of RMB3,600,000 which was settled by cash in 2007. The carrying amount of additional equity interests acquired approximated to RMB4,422,000. Thereafter, Longyan Shengfeng became a 100% owned subsidiary of the Group.

28. OPERATING LEASE

THE GROUP

Minimum lease payments paid under operating leases in respect of office premises amounted to nil, RMB200,000, RMB200,000 and RMB142,000 for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

At the end of each reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	200	200	58	116

Operating lease payments represent rental payable by the Group for certain office premises. Leases are negotiated for a term of 1 year with fixed rate.

29. OTHER COMMITMENTS

THE GROUP

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of plant and machinery				
– Authorised but not contracted	70,000	–	–	–
– Contracted for but not provided in the consolidated financial statements	2,572	1,023	24,849	15,344
	72,572	1,023	24,849	15,344

The capital expenditure is related to the construction of production facilities for expansion of the Group’s operation.

APPENDIX I

ACCOUNTANTS’ REPORT

30. RELATED PARTY DISCLOSURES

THE GROUP

Other than those transactions disclosed in notes 2 and 24, the Group had the following transactions with related parties:

- (a) Particulars of the amounts due from directors pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Mr. Wong Kwai Mo (<i>note 1</i>) . . .	3,027	–	–	–
Ms. Wu Ching (<i>note 2</i>)	25	–	345	–
	<u>3,052</u>	<u>–</u>	<u>345</u>	<u>–</u>

Notes:

- Maximum amount outstanding during the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB5,629,000, RMB3,760,000, nil and nil, respectively.
- Maximum amount outstanding during the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB2,953,000, RMB1,193,000, RMB3,467,000 and RMB7,748,000, respectively.

- (b) Details of balances of amount due to a director are set out in the Consolidated Statements of Financial Position on page I-6.

All amounts due from/to directors as at December 31, 2007, 2008 and 2009 and June 30, 2010 are interest free, unsecured and repayable on demand. At the date of this report, the balances have been fully settled.

- (c) At the end of the each reporting period, the Group has the following amount due from a related party:

	At December 31,			At June 30,
	2007	2008	2009	2010
	Non-trade	Non-trade	Non-trade	Non-trade
	RMB’000	RMB’000	RMB’000	RMB’000
龍岩暢豐專用汽車有限公司 Longyan Changfeng Special Vehicle Co., Ltd. (“Special Vehicle”)	<u>19,186</u>	<u>–</u>	<u>–</u>	<u>–</u>

Special Vehicle was controlled by a senior management personnel of the Group in 2007 and was no longer a related party to the Group after the top management disposed of all of his interest in Special Vehicle to a third party in June 2008. The amount was interest free, unsecured and repayable on demand.

APPENDIX I

ACCOUNTANTS’ REPORT

- (d) During the Track Record Period, other than those transactions disclosed in notes 2 and 24, the Group entered into the following significant transaction with a related party:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(unaudited)				
Purchase of buildings					
Ms. Wu Ching	—	—	10,000,000	—	—

The transaction was arrived at after negotiations between Ms. Wu Ching and the Company on the basis of a valuation carried out on the purchase date by Jones Lang LaSalle Sallmanns Limited, an independent qualified professional valuer not connected with the Group. The buildings were acquired for premises used for operation.

- (e) Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period were as follows:

	THE GROUP			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(unaudited)				
Short-term benefits	410	449	666	151	402
Post-employment benefits	4	4	7	3	8
	414	453	673	154	410

THE COMPANY

At the end of the respective reporting period, the Company has the following amount due to a director:

	At December 31,		At June 30,
	2008	2009	2010
	Non-trade	Non-trade	Non-trade
	RMB’000	RMB’000	RMB’000
Ms. Wu Ching	—	2,622	7,562

31. RETIREMENT BENEFIT PLAN

The employees of the Group are members of state-managed retirement benefit scheme operated by the PRC government. The Company’s subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

B. DIRECTORS’ REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company’s directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangement presently in force, the aggregate amount of the directors’ fees and other emolument excluding bonus payable, if any, for the year ending December 31, 2010 will approximately be RMB313,500.

APPENDIX I

ACCOUNTANTS’ REPORT

C. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to June 30, 2010.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any financial period subsequent to June 30, 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 June 2010 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
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Licence No: C-030171

[●] 2010

The Board of Directors
Changfeng Axle (China) Company Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Changfeng Axle (China) Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 June 2010 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

We have valued the property interests of property no. 1 in Group I by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the property in the PRC, there are no market sales comparables readily available, the property interests of property nos. 2 to 4 in Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

APPENDIX IV

PROPERTY VALUATION

In valuing the property interest in Group II which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with [●]; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Jun He Law Office, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

APPENDIX IV

PROPERTY VALUATION

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years’ experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom as well as relevant experience in the Asia-Pacific region.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2010
		RMB
1.	Unit 2303 on level 23 Li Xin Plaza No. 90 Hubin South Road Siming District Xiamen City Fujian Province The PRC	10,000,000
2.	3 parcels of land, 17 buildings and various structures located at Lianhua Industrial Park Yongding County Longyan City Fujian Province The PRC	58,040,000
3.	A parcel of land, 8 buildings and various structures located at Dongxiao Town Economic Zone Wangbon Village Xinluo District Longyan City Fujian Province The PRC	33,460,000
4.	3 parcels of land, 7 buildings and various structures located at southern side of Zhoutian Road and eastern side of Erhao Road Bianxixin District Kaifeng City Henan Province The PRC	45,540,000
Sub-total:		147,040,000

APPENDIX IV

PROPERTY VALUATION

Group II – Property interest held under development by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2010
		RMB
5.	A parcel of land located at southern side of Chunjiang Road Jialing District Nanchong City Sichuan Province The PRC	55,400,000
		Sub-total: 55,400,000

Group III – Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2010
		RMB
6.	Unit 109 on level 2 No. 18 Xueqing Road Haidian District Beijing The PRC	No commercial value
7.	3 buildings located at Dongxiao Town Economic Zone Wangbon Village Xinluo District Longyan City Fujian Province The PRC	No commercial value
		Sub-total: Nil
		Grand total: 202,440,000

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
1.	Unit 2303 on level 23 Li Xin Plaza No. 90 Hubin South Road Siming District Xiamen City Fujian Province The PRC	The property comprises an office unit on the level 23 of a 28-storey commercial building completed in about 2006. The property has a gross floor area of approximately 498.68 sq.m. The land use rights of the Property is for a term commencing from 20 October 2004 and expiring on 19 October 2054.	The property is currently occupied by the Group for office purpose.	10,000,000 100% interest attributable to the Group: RMB10,000,000

Notes:

1. Fujian Changfeng Axle Manufacturing Co., Ltd. (“Fujian Changfeng”) (福建暢豐車橋製造有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to a Xiamen City Property Sale & Purchase Contract (廈門市房地產買賣合同) dated 20 November 2009, a unit with a gross floor area of approximately 498.68 sq.m. of the property was contracted to be sold to the Group at a consideration of RMB10,000,000.
3. Pursuant to a Real Estate Title Certificate – Xia Guo Tu Fang Zheng Di No. 00742933 dated 11 January 2010, a Real Estate Title Certificate has been granted to Fujian Changfeng for office use.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Fujian Changfeng has obtained the building ownership certificate;
 - b. Fujian Changfeng is the sole owner of the property with legal protection under the PRC laws; and
 - c. Fujian Changfeng has the right to occupy, use, mortgage, lease, transfer or otherwise dispose of the property.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
2.	3 parcels of land 17 buildings and various structures located at Lianhua Industrial Park Yongding County Longyan City Fujian Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 122,241.7 sq.m. and 17 buildings and various ancillary structures erected thereon which were completed in various stages between 2007-2009.</p> <p>The buildings have a total gross floor area of approximately 58,290.35 sq.m.</p> <p>The buildings mainly include 8 industrial buildings, 2 office buildings, a dormitory and canteen and 6 buildings for ancillary uses.</p> <p>The structures mainly include boundary fences, roads and gates.</p> <p>The land use rights of the property have been granted for a various terms with the expiry date between 6 July 2056 and 30 June 2057 for industrial use.</p>	<p>The property is currently occupied by the Group for industrial an ancillary purposes.</p>	<p>58,040,000</p> <p>100% interest attributable to the Group: RMB58,040,000</p>

Notes:

1. Longyan Shengfeng Machinery Manufacturing Co., Ltd. (“Longyan Shengfeng”) (龍岩盛豐機械製造有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to 3 State-owned Land Use Rights Certificates – Yong Guo Yong (2006) Di No. 10352, Yong Guo Yong (2008) Di No. 10439 and Yong Guo Yong (2009) Di No. T278 the land use rights of 3 parcels of land with a total site area of approximately 122,241.7 sq.m. have been granted for a various terms with the expiry date between 6 July 2056 and 30 June 2057 for industrial use.
3. Pursuant to 11 Building Ownership Certificates – Yong Fang Quan Zheng Gao Zi Di Nos. 13840, 16865, Yong Fang Quan Zheng 2010 Zi Di Nos. 00319, 00320, 00321, 00322, 00323, 00324, 00325, 00326 and 00327, 17 buildings with total gross floor area of approximately 58,290.35 sq.m. are owned by Longyan Shengfeng.
4. Pursuant to a Mortgage Contract of Maximum Amount – 2008 Jian Yan – Gao Di Zi No. 2 dated 31 October 2008, a parcel of land under the State-owned Land Use Rights Certificate – Yong Guo Yong (2008) Di No. 10439 and buildings under Building Ownership Certificate – Yong Fang Quan Zheng Gao Zi Di No. 16865 are subject to a mortgage in favour of Longyan Branch – Industrial and Commercial Bank of China Limited, as security to guarantee the principal obligation under a series of contracts for a maximum amount of RMB16,000,000.
5. Pursuant to a Mortgage Contract of Maximum Amount – 2009 Yan Ren Gao Di Zi No. 302001 dated 13 August 2009, a parcel of land under the State-owned Land Use Rights Certificate – Long Guo Yong (2006) Di No. 10352 and buildings under Building Ownership Certificate – Yong Fang Quan Zheng Gao Zi Di No. 13840 are subject to mortgage in favor of Longyan Branch – Bank of China Limited, as security to guarantee the principal obligation under a series of contracts for a maximum amount of RMB20,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Longyan Shengfeng has obtained the building ownership certificates and land use rights certificates;
 - b. Longyan Shengfeng is the sole owner of the property with legal protection under the PRC laws;
 - c. Subject to aforesaid mortgages, Longyan Shengfeng has the rights to occupy, use, mortgage, lease or otherwise dispose of the property; and
 - d. For the land use rights and ownership rights which are subject to mortgages mentioned above, the Group should obtain prior written consent from the mortgagee when transferring, re-mortgaging or otherwise disposing of land and buildings.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
3.	A parcel of land, 8 buildings and various structures located at Dongxiao Town Economic Zone Wangbon Village Xinluo District Longyan City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 51,527.1 sq.m. and 8 buildings and various ancillary structures erected thereon which were completed in various stages between 2001 and 2003.</p> <p>The buildings have a total gross floor area of approximately 29,899.74 sq.m.</p> <p>The buildings mainly include 6 industrial buildings, an office building, a dormitory and canteen.</p> <p>The structures mainly include boundary fences, roads and gates.</p> <p>The land use rights of the property have been granted for a term expiring on 9 December 2049 for industrial use.</p>	<p>The property is currently occupied by the Group for industrial and ancillary purpose.</p> <p>100% interest attributable to the Group:</p>	<p>33,460,000</p> <p>RMB33,460,000</p>

Notes:

1. Fujian Changfeng Axle Manufacturing Co., Ltd. (“Fujian Changfeng”) (福建暢豐車橋製造有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Long Guo Yong (2009) Di No. 200156, the land use rights of a parcel of land with a site area of approximately 51,527.1 sq.m. have been granted for a term expiring on 9 December 2049 for industrial use.
3. Pursuant to 5 Building Ownership Certificates – Long Fang Quan Zheng Zi Di Nos. 20077837, 20077838, 20077839, 20077840 and 20077841, 8 buildings with a total gross floor area of approximately 29,899.74 sq.m. are owned by Fujian Changfeng.
4. Pursuant to a Mortgage Contract of Maximum Amount – 2009 Yan Ren Gao Di Zi No. 183001-1 dated 13 August 2009, a parcel of land under the State-owned Land Use Rights Certificate – Long Guo Yong (2009) No. 200156 and buildings under Building Ownership Certificates – Long Fang Quan Zheng Zi Di Nos. 20077837, 20077838, 20077839, 20077840 and 20077841 are subject to a mortgage in favour of Longyan Branch – Bank of China Limited, as security to guarantee the principal obligation under a series of contracts for a total maximum amount of RMB37,300,000.
5. Pursuant to a Mortgage Contract of Maximum Amount – 2010 Yan Ren Gao Di Zi No. 183001 dated 14 January 2010, a parcel of land under the State-owned Land Use Rights Certificate – Long Guo Yong (2009) No. 200156 and building under Building Ownership Certificates – Long Fang Quan Zheng Zi Di Nos. 20077837, 20077838, 20077839, 20077840 and 20077841 are subject to a mortgage in favour of Longyan Branch – Bank of China Limited, as security to guarantee the credit line for a maximum amount of RMB220,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Fujian Changfeng has obtained the building ownership certificates and land use rights certificates;
 - b. Fujian Changfeng is the sole owner of the property with legal protection under the PRC laws; and
 - c. Except for the aforesaid mortgage, the property subject to note 4, Fujian Changfeng has the right to occupy, use, mortgage, lease, transfer or otherwise dispose of the property.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
4.	3 parcels of land, 7 buildings and various structures located at southern side of Zhoutian Road and eastern side of Erhao Road Bianxixin District Kaifeng City Henan Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 77,331.4 sq.m. and 7 buildings and various ancillary structures erected thereon which were completed in about 2009.</p> <p>The buildings have a total gross floor area of approximately 31,839.11 sq.m.</p> <p>The buildings mainly include 3 industrial buildings, an office building, a dormitory and canteen.</p> <p>The structures mainly include boundary fences, roads and gates.</p> <p>The land use rights of the property with site area 73,065.16 sq.m. has been granted for various terms with expiry dates on 18 September 2058 and 22 October 2059 respectively for industrial use.</p>	<p>The property is currently occupied by the Group for industrial and ancillary purpose.</p> <p>100% interest attributable to the Group:</p>	<p>45,540,000</p> <p>RMB45,540,000</p>

Notes:

1. Kaifeng Changfeng Axle Co., Ltd. (“Kaifeng Changfeng”) (開封暢豐車橋有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to 2 Real Estate Title Certificates – Bian Fang Di Quan Zheng Zi Di Nos. 240485 and 240598, the land use rights of 2 parcels of land with a site area of approximately 73,065.16 sq.m. and 5 buildings with a total gross floor area of approximately 27,572.87 sq.m. have been granted to Kaifeng Changfeng for various terms with expiry dates on 18 September 2058 and 22 October 2059 respectively for industrial use. The total land premium was RMB18,353,941.
3. As advised by the Company for the remaining parcel of land with area of approximately 4,266.24 sq.m. and 2 buildings with gross floor area of approximately 4,266.24 sq.m., we have attributed no commercial value which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the land and buildings as at the date of valuation would be RMB4,490,000 assuming all relevant title certificates have been obtained and the land and buildings could be freely transferred.
4. Pursuant to a Mortgage Contract of Maximum Amount – 2009 Yan Ren Gao Di Zi No. 183001-2 dated 1 August 2009, land and buildings under Real Estate Title Certificate – Bian Fang Di Quan Zheng Zi Di No. 240485 are subject to a mortgage in favour of Longyan Branch – Bank of China Limited, as security to guarantee the principal obligation under a series of contracts for a total maximum amount of RMB37,300,000.
5. Pursuant to a Mortgage Contract of Maximum Amount – 2010 Yan Ren Gao Di Zi No. 183001-2 dated 14 January 2010, land and building under Real Estate Title Certificate – Bian Fang Di Quan Zheng Zi Di No. 240485 are subject to a mortgage in favour of Longyan Branch – Bank of China Limited, as security to guarantee the credit line for a maximum amount of RMB220,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Kaifeng Changfeng has obtained the building ownership certificates and land use rights certificates except in note 3;
 - b. Kaifeng Changfeng is the sole owner of the property with legal protection under the PRC laws;
 - c. Subject to aforesaid mortgages, Kaifeng Changfeng has the rights to occupy, use, mortgage, lease or otherwise dispose of the property; and
 - d. For the property without title documents, it may has risks to be demolished, confiscated and the Group is liable to be fined.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group II – Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
5.	A parcel of land located at southern side of Chunjiang Road Jialing District Nanchong City Sichuan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 139,700.27 sq.m which is planned to be developed into industrial building.</p> <p>The proposed development is scheduled to be completed by end of 2010. Upon completion, the proposed development will have a total gross floor area of approximately 36,000 sq.m.</p> <p>The total construction cost is estimated to be approximately RMB25,000,000, of which RMB21,200,000 (excluding finance and other indirect costs) has been paid as at the date of valuation.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 25 January 2060 for industrial use.</p>	The property is under construction.	55,400,000

Notes:

1. Sichuan Changfeng Axle Co., Ltd (“Sichuan Changfeng”) (四川暢豐車橋有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Grant Contract dated 18 January 2010 (between Sichuan Changfeng and State-owned Land Resources Bureau of Nanchong City), the land use rights of the property were contracted to be granted to Sichuan Changfeng for a term expiring on 25 January 2060 for industrial use. The land premium was RMB52,750,000.
3. Pursuant to a State-owned Land Use Rights Certificate – Nanchong Shi Guo Yong (2010) Di No. 000308 dated 3 February 2010, the land use rights of a parcel of land with a site area of approximately 139,700.27 sq.m. were granted to Sichuan Changfeng for a term of 50 years expiring on 25 January 2060 for industrial use.
4. Pursuant to a Construction Work Planning Permit – Jian Zi Di (2010) Jia Zi No. 008 in favour of Sichuan Changfeng, buildings with a total gross floor area of approximately 36,000 sq.m. have been approved for construction.
5. Pursuant to a Construction Work Commencement Permit – No. 512900201002100101 in favour of Sichuan Changfeng, permission by the relevant local authorities was given to commence the construction work.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. Sichuan Changfeng has obtained the relevant construction approvals from relevant government authorities regarding planning and construction work commencement.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group III – Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
				RMB
6.	Unit 109 on level 2 No. 18 Xueqing Road Haidian District Beijing The PRC	<p>The property comprises a unit on level 2 of a 12-storey commercial building completed in about 2000’s.</p> <p>The property has a lease area of approximately 100 sq.m.</p> <p>Pursuant to a Tenancy Agreement made between Fujian Changfeng Axle Manufacturing Co., Ltd. (“Fujian Changfeng”) as Lessee and Beijing Research Institute of Mechanical and Electrical Technology (北京機電研究所) as Lessor, an independent third party, the property is leased by the Group for a term commencing from 19 June 2009 and expiring on 18 June 2011 at nil consideration.</p> <p>Pursuant to a Sub-Lease Agreement made between Beijing Changfeng Axle Research Institution Co., Ltd. (“Beijing Changfeng”) as Sub-lessee and Fujian Changfeng Axle Manufacturing Co., Ltd. as Sub-lessor, the property is leased by the Group for a term commencing from 19 July 2009 and expiring on 19 June 2011 at nil consideration.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Fujian Changfeng is a wholly-owned subsidiary of the Company.
2. Beijing Changfeng is a wholly-owned subsidiary of the Company.
3. The consent of sub-leasing has been granted by Lessor.
4. We have been provided with a legal opinion on the legality of the tenancy and sub-tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The contents and formality of the Tenancy Agreement are lawful, valid and legally binded for both parties in accordance with the PRC laws;
 - b. Fujian Changfeng has the rights to use the leased property according to the terms stipulated in the Tenancy Agreement that is legally protected by the PRC laws;
 - c. The Tenancy Agreement has not been registered with relevant government authorities, therefore it cannot be enforced another innocent third-party lessee in the event of a tenancy dispute and Fujian Changfeng may be required rectify the situation and could be subject to a fine of RMB200 to RMB500; and
 - d. The Sub-Lease Agreement has not been registered with relevant government authorities, therefore it cannot be enforced another innocent third-party lessee in the event of a tenancy dispute and Fujian Changfeng and Beijing Changfeng may be required rectify the situation and could be subject to a fine of RMB200 to RMB500.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2010
RMB				
7.	3 buildings located at Dongxiao Town Economic Zone Wangbon Village Xinluo District Longyan City Fujian Province The PRC	<p>The property comprises 3 industrial buildings which were completed in about 2006.</p> <p>The buildings have a total lease area of approximately 9,379.83 sq.m.</p> <p>Pursuant to a Tenancy Agreement made between Fujian Changfeng Axle Manufacturing Co., Ltd. (“Fujian Changfeng”) as Lessee and Longyan Changfeng Special Purpose Vehicle Co., Ltd. (龍岩暢豐專用汽車有限公司) as Lessor, an independent third party, the property is leased by the Group for a term expiring on 31 December 2010 at a rental of RMB200,000 per annum exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for industrial and ancillary purpose.	No commercial value

Notes:

1. Fujian Changfeng is a wholly-owned subsidiary of the Company.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The contents and formality of the Tenancy Agreements are lawful, valid, and legally binded for both parties in accordance with the PRC laws;
 - b. Fujian Changfeng has the rights to use the leased property according to the terms stipulated in the Tenancy Agreement that is legally protected by the PRC laws; and
 - c. The Tenancy Agreement has been certified by Longyan City Real Estate Service Centre.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 21, 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Memorandum of Association (the "**Memorandum**") and the Articles of Association (the "**Articles**") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 28, 2010. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the [●] or [●] of the [●];
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from June 8, 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(q) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the [●]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on May 21, 2008 and was registered in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on May 20, 2010. We have established a place of business in Hong Kong at Suite 2008, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. Chan Wai Shing who resides at Flat A, 4/F, Block 5, Belvedere Garden, Phase 2, 620 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution comprising the Memorandum of Association and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix V to this document.

2. Change in share capital

Our authorized share capital as at the date of our incorporation was US\$50,000 divided into 50,000 shares of US\$1.00 each. On May 21, 2008, one subscriber share of US\$1.00 par value was transferred to Changfeng BVI. On the same date, 49,999 shares of US\$1.00 par value each were allotted and issued to Changfeng BVI.

On June 28, 2010, our Company subdivided all its issued and unissued shares with par value of US\$1.00 each into 100 Shares of US\$0.01 each. On the same date, our Company increased its authorized share capital to US\$50,000,000 divided into 5,000,000,000 Shares, with a par value of US\$0.01 each. We allotted and issued an aggregate of 595,000,000 Shares to our then existing shareholders.

Pursuant to the resolutions in writing of the shareholders of our Company passed on June 28, 2010 below, the authorized share capital of our Company was increased from US\$50,000 to US\$50,000,000 by the creation of an additional 4,995,000,000 Shares.

Save for the aforesaid and as mentioned in the sub-section headed “Resolutions in writing of the shareholders of our Company passed on June 28, 2010” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of the shareholders of our Company passed on June 28, 2010

Pursuant to the written resolutions passed by the shareholders of our Company on June 28, 2010:

- (a) we approved and conditionally adopted the Memorandum of Association and the Articles of Association;
- (b) the authorized share capital of our Company was increased from US\$50,000 to US\$50,000,000 by the creation of an additional 4,995,000,000 Shares;

[●]

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

4. Corporate reorganization

For information relating to the Reorganization, please refer to the section headed “History, Reorganization and Group Structure” in this document.

5. Changes in share capital of subsidiaries

Our Company’s subsidiaries are referred to in the Accountants’ Report in Appendix I to this document. The following sets out the changes to the share capital made by the subsidiaries of our Company during the two years preceding the date of this document:

- (a) The registered capital of Fujian Changfeng was increased from RMB36,000,000 to RMB156,000,000 on September 2, 2008, and on March 24, 2009, the registered capital of Fujian Changfeng was further increased to RMB236,000,000;
- (b) The registered capital of Longyan Shengfeng was increased from RMB15,000,000 to RMB21,500,000 on September 24, 2008, which was fully paid-up. On January 19, 2009, April 2, 2009, April 9, 2009, April 14, 2009 and May 13, 2009, the registered capital of Longyan Shengfeng was increased to RMB40,000,000, RMB80,000,000, RMB103,000,000, RMB128,000,000 and RMB163,000,000, respectively; and
- (c) The registered capital of Kaifeng Changfeng was increased from RMB50,000,000 to RMB75,000,000 and RMB105,000,000 on April 24, 2009 and May 11, 2009, respectively.

Save for the subsidiaries mentioned in the Accountants’ Report in Appendix I to this document, our Company has no other subsidiaries.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

6. Particulars of our subsidiaries in the PRC

Set out below is a summary of the corporate information of our subsidiaries established in the PRC:

- (a) ***Fujian Changfeng Axle Manufacturing Co., Ltd.*** (福建暢豐車橋製造有限公司)
(formerly known as ***Longyan Changfeng Mechanical Factory Co., Ltd.***
(龍岩暢豐機械製造有限公司))

Date of Establishment:	March 5, 2001
Place of Establishment:	PRC
Nature:	Limited liability company
Registered Capital:	RMB236,000,000
Shareholder(s):	Changfeng Hong Kong (100%)

- (b) ***Longyan Shengfeng Machinery Manufacturing Co., Ltd.*** (龍岩盛豐機械製造有限公司)

Date of Establishment:	March 29, 2006
Place of Establishment:	PRC
Nature:	Limited liability company
Registered Capital:	RMB163,000,000
Shareholder(s):	Fujian Changfeng (100%)

- (c) ***Kaifeng Changfeng Axle Co., Ltd.*** (開封暢豐車橋有限公司)

Date of Establishment:	April 19, 2006
Place of Establishment:	PRC
Nature:	Limited liability company
Registered Capital:	RMB105,000,000
Shareholder(s):	Fujian Changfeng (100%)

- (d) ***Sichuan Changfeng Axle Co., Ltd.*** (四川暢豐車橋有限公司)

Date of Establishment:	July 16, 2009
Place of Establishment:	PRC
Nature:	Limited liability company
Registered Capital:	RMB30,000,000
Shareholder(s):	Fujian Changfeng (100%)

- (e) ***Beijing Changfeng Axle Research Institution Co., Ltd.***
(北京市暢豐車橋技術研究所有限公司)

Date of Establishment:	July 6, 2009
Place of Establishment:	PRC
Nature:	Limited liability company
Registered Capital:	RMB1,000,000
Shareholder(s):	Fujian Changfeng (100%)

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

7. [●]

B. INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) the deed of indemnity dated June 28, 2010 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of its present subsidiaries) in respect of, amongst others, taxation and property matters referred to in the paragraph headed “Tax and other indemnities” in this Appendix;
- (b) the deed of non-competition dated June 28, 2010 entered into by our Controlling Shareholders in favor of our Company as detailed in the paragraph headed “Relationship with our Controlling Shareholders — Non-competition Undertakings” of this document;
- (c) [●]
- (d) [●]

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

2. Intellectual property rights of the Group

(a) Patents

As of the Latest Practicable Date, our Group was the registered proprietor of the following patents:

Patent	Patent No.	Type	Name of Registered Proprietor	Place of Registration	Date of Application	Expiry Date
Combined brake drum (組合式制動鼓)	ZL 01247869.5	Utility Patent	Fujian Changfeng	PRC	October 11, 2001	October 10, 2011
Hoop brake drum (加箍制動鼓)	ZL 200420039405.8	Utility Patent	Fujian Changfeng	PRC	March 19, 2004	March 18, 2014
Combined brake drum (without nails) (無釘組合式制動鼓)	ZL 200420040147.5	Utility Patent	Fujian Changfeng	PRC	April 20, 2004	April 19, 2014
Bimetallic brake drum (雙金屬制動鼓)	ZL 200420040148.X	Utility Patent	Fujian Changfeng	PRC	April 20, 2004	April 19, 2014
Hybrid public buses main reductor (混合動力公交車主減速器)	ZL 200820145210.X	Utility Patent	Fujian Changfeng	PRC	August 12, 2008	August 11, 2018
Casing end flange shaft (套管式端頭法蘭軸)	ZL 200820145212.9	Utility Patent	Fujian Changfeng	PRC	August 12, 2008	August 11, 2018
Combined cast steel semitrailer axle housing (組合式鑄鋼半掛車橋殼體)	ZL 200820145211.4	Utility Patent	Fujian Changfeng	PRC	August 12, 2008	August 11, 2018
Hemispherical test ring of differential gear (差速器殼半球面檢驗環規)	ZL 200820146048.3	Utility Patent	Fujian Changfeng	PRC	October 24, 2008	October 23, 2018
Casting modeling fireproof device (鑄造造型防跑火裝置)	ZL 200820146049.8	Utility Patent	Fujian Changfeng	PRC	October 24, 2008	October 23, 2018
Improved rear axle housing (改進型後橋殼)	ZL 200920136946.5	Utility Patent	Fujian Changfeng	PRC	March 2, 2009	March 1, 2019

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Patent	Patent No.	Type	Name of Registered Proprietor	Place of Registration	Date of Application	Expiry Date
Axle housing left-right up thrust bar base centrum space detector for fire engine (消防車橋殼左右上推力桿座中心距檢測裝置)	ZL 200920136947.X	Utility Patent	Fujian Changfeng	PRC	March 2, 2009	March 1, 2019
Axle housing suspension base welding distressing device (橋殼懸掛座焊接去應力裝置)	ZL 200920136948.4	Utility Patent	Fujian Changfeng	PRC	March 2, 2009	March 1, 2019
Front axle beam leaf spring hole processing tool (前軸板簧孔加工設備)	ZL 200920137976.8	Utility Patent	Fujian Changfeng	PRC	April 27, 2009	April 26, 2019
Front axle beam anchor pin hole processing clamp (前軸主銷孔加工夾具)	ZL 200920137974.9	Utility Patent	Fujian Changfeng	PRC	April 27, 2009	April 26, 2019
Front axle beam leaf spring surface milling machine (前軸板簧面專用銑床)	ZL 200920137975.3	Utility Patent	Fujian Changfeng	PRC	April 27, 2009	April 26, 2019
Wheel-side speed reduction axle housing for use in Dongfeng vehicles (用於東風汽車的輪邊減速橋殼)	ZL 200920173573.9	Utility Patent	Fujian Changfeng	PRC	August 17, 2009	August 16, 2019
A model of rear axle housing (一種汽車後橋殼)	ZL 200920173576.2	Utility Patent	Fujian Changfeng	PRC	August 17, 2009	August 16, 2019

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

As of the Latest Practicable Date, our Group had applied for the registration of the following patents:

Patent	Application Number	Type	Name of Applicant	Place of Application	Date of Application
Enhanced rear axle housing (改進型後橋殼)	200920181468.X	Utility Patent	Fujian Changfeng	PRC	November 10, 2009
Enhanced mid-rear axle housing (改進型中後橋殼)	200920181466.0	Utility Patent	Fujian Changfeng	PRC	November 10, 2009
Automobile front axle beam forge compound die (汽車前軸鍛造復合模)	200920181781.3	Utility Patent	Fujian Changfeng	PRC	December 11, 2009
Automobile front axle beam finish turning and boring machine (汽車前軸精車精鏜組合專機)	200920181780.9	Utility Patent	Fujian Changfeng	PRC	December 11, 2009
Automobile brake drum turning and boring machine (汽車制動鼓鏜車專用機床)	200920181783.2	Utility Patent	Fujian Changfeng	PRC	December 11, 2009
Automobile steering knuckle integrated forge mould (汽車轉向節集成化鍛造模具)	200920181782.8	Utility Patent	Fujian Changfeng	PRC	December 11, 2009

As of the Latest Practicable Date, the following patents were licensed to our Group:

Patent	Patent No.	Type	Name of Registered Owner	Place of Registration	Validity Period
Inner-breath piston spring braking air chamber (內呼吸活塞式彈簧制動氣室)	ZL200420055081.7	Utility Patent	Yang Yurong	PRC	August 19, 2008 to December 22, 2014
A process for the production of hollow step axle forgings using tube precision diameter reducing method (一種管坯精密縮徑製造中空階梯軸類鍛件工藝)	ZL97104038.9	Utility Patent	Beijing Research Institute of Mechanical and Electrical Technology	PRC	September 5, 2008 to April 20, 2017
Enhanced rear axle housing structure (改進型後橋結構)	200620137285.4	Utility Patent	Xia Hailong	PRC	September 30, 2009 to September 29, 2015

APPENDIX VI

STATUTORY AND GENERAL INFORMATION





(b) Trademarks

As of the Latest Practicable Date, our Group was the registered proprietor of the following trademarks:






Trademark	Registration No.	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	6359933	37	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359931	40	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359929	1	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359928	2	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359926	4	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359925	6	Fujian Changfeng	PRC	February 28, 2010	February 27, 2020
	6359924	7	Fujian Changfeng	PRC	February 28, 2010	February 27, 2020
	6359921	17	Fujian Changfeng	PRC	March 21, 2010	March 20, 2020
	6395199	8	Fujian Changfeng	PRC	March 28, 2010	March 27, 2020
	6359923	9	Fujian Changfeng	PRC	April 21, 2010	April 20, 2020
	6359922	11	Fujian Changfeng	PRC	April 21, 2010	April 20, 2020
	6359930	43	Fujian Changfeng	PRC	May 7, 2010	May 6, 2020

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Trademark	Registration No.	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	1499134	12	Fujian Changfeng	PRC	December 28, 2000	December 27, 2010
	3476453	12	Fujian Changfeng	PRC	September 7, 2004	September 6, 2014
	6359934	35	Fujian Changfeng	PRC	June 28, 2010	June 27, 2020
	6359936	27	Fujian Changfeng	PRC	June 14, 2010	June 13, 2020
	6359932	39	Fujian Changfeng	PRC	July 7, 2010	July 6, 2020
	6359935	28	Fujian Changfeng	PRC	July 7, 2010	July 6, 2020
	301498492	12	Company	Hong Kong	December 14, 2009	December 13, 2019
	301498500	12	Company	Hong Kong	December 14, 2009	December 13, 2019
	301498519	12	Company	Hong Kong	December 14, 2009	December 13, 2019

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks:

Trademark	Application Number	Class	Name of Applicant	Place of Application	Date of Application
	7973870	11	Fujian Changfeng	PRC	January 6, 2010
	7973833	12	Fujian Changfeng	PRC	January 6, 2010
	7985570	9	Fujian Changfeng	PRC	January 11, 2010
	7973824	12	Fujian Changfeng	PRC	January 6, 2010
	7985489	22	Fujian Changfeng	PRC	January 11, 2010

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(c) *Domain names*

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain name:

Domain Name	Name of Proprietor	Date of Registration	Expiry Date
www.fjchangfeng.com	Fujian Changfeng	September 25, 2006	September 25, 2010
www.changfengaxle.com.hk	our Company	June 3, 2010	June 3, 2011

C. [●]

1. [●]

(b) *Particulars of service contracts*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the [●], which may be terminated by not less than three months’ notice in writing served by either party on the other.

(c) *Directors’ remuneration*

Each of Wu Ching and Wong Kwai Mo, our executive Directors, is entitled to a director’s fee and shall be paid a remuneration on the basis of a twelve-month year. The current annual director’s fees and remuneration of Wu Ching and Wong Kwai Mo for the year ending December 31, 2010 (excluding any discretionary bonuses which may be paid to our executive Directors) are as follows:

Name	Annual Director’s Fee (RMB)
Wu Ching	110,000
Wong Kwai Mo	110,000

No director’s fee will be paid to Lai Fengcai, our executive Director, but he will be entitled to remuneration for acting as the chief executive officer of our Company.

Our non-executive Director and the independent non-executive Directors have been appointed for a term of three years. No director’s fee will be paid to our non-executive Director. We intend to pay a director’s fee of HK\$102,000, HK\$102,000 and HK\$102,000 per annum to each of Zhu Weizhou, Chong Ching Hei and Li Xiuqing, our independent non-executive Directors, respectively.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to the Directors for the year ending December 31, 2010 will be approximately RMB0.4 million.

Further details of the terms of the abovementioned service contracts are set out in the paragraph headed “Directors” in this Appendix.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

2. [●]

[●]

3. Agency fees or commissions received

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this document.

4. Disclaimers

Save as disclosed herein:

(a) [●];

(b) [●];

(c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

(d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) [●];

(f) [●]; and

(g) save as disclosed in this document, so far as is known to our Directors, none of our Directors, their respective associates (as defined under the [●]) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on June 28, 2010.

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with [●] and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “Eligible Participants”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisors, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of [●] on [●] or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(c) Acceptance of an offer of Options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of [●] on [●] or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an Option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent [●] on [●] for the time being, by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Exercise Price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of the Shares so allotted.

The exercise of any Option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the [●] (assuming the [●] is not exercised), being 80,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the [●] from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under [●] and the disclaimer required under [●].

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Notwithstanding the foregoing and subject to paragraph (r) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under [●] and the disclaimer required under [●]; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the [●] from time to time with such Eligible Participant and his associates (as defined in the [●]) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
 - (aa) the Eligible Participant's name, address and occupation;
 - (bb) the date on which an Option is offered to an Eligible Participant which must be a date on which [●] is open for the business [●];
 - (cc) the date upon which an offer for an Option must be accepted;
 - (dd) the date upon which an Option is deemed to be granted and accepted in accordance with paragraph (c);
 - (ee) the number of Shares in respect of which the Option is offered;
 - (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the Option;

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(gg) the date of the notice given by the grantee in respect of the exercise of the Option; and

(hh) the method of acceptance of the Option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) Price of Shares

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

(i) [●];

(ii) [●]; and

(iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a director, chief executive or [●] (as defined in the [●]) of our Company or any of their respective associates (as defined in the [●]) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the [●]) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) [●]; and

(ii) [●],

such further grant of options will be subject to the issue of a circular by our Company and the approval of the shareholders in general meeting on a poll at which all connected persons (as defined in the [●]) of our Company shall abstain from voting in favor, and/or such other requirements prescribed under the [●] from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

The circular to be issued by our Company to the shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the shareholders’ meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under [●] and the disclaimer required under [●] of the [●]; and
- (iv) the information required under [●].

(h) Restrictions on the times of grant of Options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the [●]. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to [●] in accordance with the [●]) for the approval of our Company’s annual results half-year, quarterly or other interim period (whether or not required under the [●]); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the [●])

and ending on the date of actual publication of the results announcement, and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(i) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(n) Rights on takeover

If a general offer is made to all the shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(q) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with [●] and the note thereto and the supplementary guidance issued by [●] on September 5, 2005 and any future guidance and interpretation of the [●] issued by [●] from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrations and their certificate shall, in absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

that he or she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his or her integrity or honesty, or in relation to an employee of the Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee’s service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

- (vi) the date on which the Board shall exercise our Company’s right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in [●]; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees’ approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with [●] and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(u) Cancellation of Options

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (m).

(v) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

(x) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) [●];
- (ii) [●];
- (iii) [●].

If the conditions in paragraph (x) above are not satisfied within two calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the [●] in force from time to time.

(z) Present status of the Share Option Scheme

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

2. Tax and other indemnities

Changfeng BVI, Wong Kwai Mo and Wu Ching have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (a) of the sub-section headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the [●] becomes unconditional.

3. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

4. [●]

[●]

5. [●]

[●]

6. [●]

[●]

7. [●]

[●]

8. [●]

[●]

9. [●]

[●]

10. [●]

[●]

11. [●]

[●]

12. [●]

[●]

13. **Miscellaneous**

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

- (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in this document, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since June 30, 2010 (being the date to which the latest audited combined financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (e) [●]
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (g) our Directors have been advised that under the Companies Law the use of a Chinese name by our Company does not contravene the Companies Law; and
- (h) save as disclosed in this document, our Company has no outstanding convertible debt securities or debentures.