
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Historically until the Pre-IPO Investment made by Dongfeng Motors Engineering, we had been a 50-50 joint venture jointly owned by Brilliance China and Xinhua Combustion Engine, our Controlling Shareholders, through their respective subsidiaries. Our directors and senior management were nominated by the joint venture parties who shared profits and obligations as Shareholders in equal proportions. During the Track Record Period, we entered into certain sale and purchase transactions with Brilliance China and Xinhua Combustion Engine and/or their respective associates. These transactions are expected to continue after the Listing. In particular, Brilliance China and its subsidiaries have been our major customers during the Track Record Period and we expect to continue to leverage on their experience in the PRC automotive industry and on their growth to sustain our future sales revenue. However, going forward, we also plan to develop new customer relationships to broaden our customer base and reduce our reliance on our Controlling Shareholders. After Listing, we expect that our Controlling Shareholders will continue to have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval and through the right to nominate the senior management of our Group.

Furthermore, we plan to adopt new technologies to upgrade our existing product portfolio and to meet the increasingly stringent standards for fuel consumption and emission in China. We will closely follow the developments in market demands, technological trends and regulatory landscape, and, in light of those developments, develop our next generation of engines, improve our product quality, enhance the brand awareness and status of our independent brand and strengthen our engine technologies. For detailed descriptions of these and our other future plans, please refer to “Business — Our Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$733.1 million (assuming an Offer Price of HK\$2.50 per Share, being the mid-point of the Offer Price range stated in this prospectus), after deducting the underwriting commissions, the sponsor fee and estimated offering expenses payable by us in relation to the Global Offering and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering as follows:

- approximately HK\$476.5 million (or approximately 65% of the net proceeds), to fund the expansion of our production capacity, including HK\$297.2 million for upgrading existing production machineries and equipment which were relocated from the old production site to the new production site and HK\$179.3 million for the construction of four new production lines in the new production site at Mianyang High-Tech Development Zone;
- approximately HK\$175.9 million (or approximately 24% of the net proceeds), for new product development activities; and
- approximately HK\$80.6 million (or approximately 11% of the net proceeds), for the construction of the new research and development center in Chengdu.

In the event that the Offer Price is set at the high-end or low-end of the Offer Price range and the Over-allotment Option is not exercised at all, the net proceeds of the Global Offering will increase or decrease by approximately HK\$90.7 million. Under such circumstances we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis to the extent achievable.

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To the extent the net proceeds are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts with financial institutions in the PRC and/or Hong Kong.

For the construction of and relocation to the new production site located in Mianyang High-Tech Development Zone, as our PRC legal adviser, Jingtian & Gongcheng, has advised, we have obtained all the government approvals, permits or licenses which are necessary at the present stage. The construction of the research and development center in Chengdu has not started and we are in the course of obtaining the requisite government approvals. Our PRC Legal Advisers, Jingtian & Gongcheng, has advised that there are no material legal impediments in obtaining the relevant regulatory approvals for applying the proceeds from Global Offering to the above purposes.