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## RISK FACTORS

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*Investing in the Shares involves certain risks. You should read this Prospectus in its entirety and carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares.*

*If any of the following risks materialize, our business, results of operations, financial condition, profitability and future prospects could be materially and adversely affected. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

*In addition, we are also subject to other risks and uncertainties that are not currently known to us or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition, profitability and future prospects.*

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) Risks Related to Our Business and Industry; and (ii) Risks Related to the Global Offering. For a discussion of the information pertaining to the periods from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 and the comparability of the financial information of our Predecessor and our Group, see “Financial Information — Basis of Presentation.”

### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

**General economic conditions and other factors causing a material contraction in automotive sales and production could have a material adverse effect on our business, results of operations and financial condition.**

Our business is directly related to automotive sales and production, which are highly cyclical and depend on, among other things, general economic conditions and consumer spending. With the increased connectivity of global economies, a financial crisis, geopolitical turmoil or other significant event in one region can have an immediate and significant impact on markets around the world. While production levels in the automotive industry have generally increased since the economic downturn in 2008 and 2009, the global economy remains fragile. Further, consumer spending on vehicles can be affected by a number of factors, including employment levels, changes in discretionary income due to the pace of wage growth and changes in income tax rates, fuel costs, the availability and cost of consumer financing, vehicle replacement cycles and concerns about the global economy. As the volume of vehicle production fluctuates, the demand for our products also fluctuates. Automotive production levels in North America and Europe most notably affect us given our concentration of sales in those regions. Sales in North America accounted for 63.4% and sales in Europe accounted for 22.7% of our Predecessor’s total revenue for the period from January 1, 2010 to November 30, 2010. Sales in North America accounted for 61.8%, 65.4% and 70.9% and sales in Europe accounted for 20.2%, 20.3% and 15.2% of our total revenue for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, respectively.

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In addition, as was evident in the economic downturn in 2008 and 2009, disruptions in the financial markets can result in reduced liquidity and increased borrowing costs, which could adversely affect us, our customers and our suppliers. The ongoing sovereign debt crisis in certain European countries could further negatively affect access to, and the cost of, capital in Europe. Such factors affecting the consumer market could reduce consumer spending for automotive vehicles by reducing consumer confidence and making it more difficult for consumers to obtain financing for vehicle purchases, which would negatively affect automotive production volumes and the demand for our products. As we, our customers and our suppliers respond to rapidly changing consumer demand and preferences for vehicles and attempt to increase production volumes as the industry recovery progresses, we and they may require access to additional capital. If required capital is not available or its cost is prohibitively high, any production volume increases could be constrained and our, our customers' and our suppliers' businesses could be negatively affected. Any such negative effect on our customers or suppliers, in turn, could materially and adversely affect our business, results of operations and financial condition, either through lower sales to any of our customers that are affected or through an inability to meet our commitments (or inability to meet them without excess expense) because of our suppliers' inability to meet their obligations.

A material contraction in automotive sales and production would likewise adversely affect our customers, many of which were forced to implement unprecedented restructuring actions, including in some cases reorganization under bankruptcy laws, in response to the economic downturn in 2008 and 2009. For example, due to deteriorating economic conditions in 2009, the United States government granted GM and Chrysler government loans to assist them in obtaining the necessary capital to continue to operate. Despite these government programs, Chrysler filed for Chapter 11 bankruptcy on April 30, 2009 and GM filed for Chapter 11 bankruptcy on June 1, 2009. Chrysler and GM emerged from bankruptcy on June 10, 2009 and July 10, 2009, respectively. Further adverse conditions could materially strain our customers' ability to operate profitably, and possibly result in more significant restructuring actions or liquidation. Since certain of our suppliers also supply products directly or indirectly to our customers, they may also encounter liquidity issues if our customers are forced to take further restructuring actions or to liquidate. If a supplier's viability is challenged, it could materially and adversely affect the supplier's ability to perform as we expect and, consequently, our ability to meet our commitments.

The European financial downturn in 2012 materially impacted the automotive market in Europe. Our Group's revenue in Europe for the year ended December 31, 2012 was adversely affected and our margins in Europe declined in 2012 as compared to 2011. OEMs have continued to experience difficulties from a weakened economy and tightening credit markets, which resulted in decreased vehicle production rates and volumes in Europe from 2011 to 2012. As a result, we have experienced and may continue to experience reductions in orders from OEM customers. A continued and prolonged downturn in the European automotive industry, continued uncertainty relating to the economic conditions in Europe or a significant change in product mix due to consumer demand may continue to have an adverse effect on our business.

As a result of the above factors, further material contraction in automotive sales and production due to macroeconomic factors or otherwise could have a material adverse effect on our business, results of operations and financial condition.

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**The financial data of our Predecessor is not directly comparable to our Group's financial data, except for revenue, and the results of our Predecessor may not be indicative of the results of our Group.**

Our Predecessor came under the control of our Group on November 30, 2010 following the completion of the Acquisition. Our Predecessor's operating results are not directly comparable to the results of our Group in the following aspects:

- The assets acquired and liabilities assumed by our Group from our Predecessor were generally recorded at fair value.
- The costs charged by GM to our Predecessor for certain services and functions, may not be indicative of the costs that our Predecessor would have incurred had our Predecessor been a stand-alone entity. In addition, GM did not charge our Predecessor for all the direct costs it incurred on our Predecessor's behalf, nor did GM allocate any charges to our Predecessor for shared or common expenses.
- Engineering and product development costs for our Group are not comparable to those of our Predecessor.
- Our Predecessor only recognized obligations for defined benefit plans for which it was the legal plan sponsor.
- Our Predecessor's reported income tax amounts are presented on a separate return basis as if it were a stand-alone entity. Since certain of our Predecessor's legal entities filed a consolidated tax return with GM's legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

Accordingly, the historical results of our Predecessor may not be indicative of those of our Group, and investors should use caution when evaluating the historical results of our Predecessor. See "Financial Information — Basis of Presentation."

**Our sales are concentrated among our largest customers and the loss or consolidation of any one of these customers could reduce our revenues and have a material adverse effect on our business, results of operations and financial condition.**

For the years ended December 31, 2010 (combining revenues of our Predecessor and our Group), 2011 and 2012, sales to our five largest customers accounted for approximately 79.2%, 82.4% and 82.7% of our revenues, respectively. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our largest customer, GM, accounted for approximately 50.4%, 50.6% and 52.3% of our revenues, respectively. The automotive industry, including our customers, experienced significant disruption during the economic downturn in 2008 and 2009. For example, GM and Chrysler received United States government assistance during the economic downturn and Chrysler ultimately filed for Chapter 11 bankruptcy on April 30, 2009 and GM ultimately filed for Chapter 11 bankruptcy on June 1, 2009. The bankruptcy, loss or consolidation of any one of our customers, or a significant decrease in business from one or more of these customers, could materially and adversely affect our business, results of operations and financial condition.

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**Our purchase orders with our OEM customers are generally requirements contracts, and a decline in the production requirements of any of our customers, in particular our largest customers, could materially and adversely affect our business, results of operations and financial condition.**

We supply substantially all of our products to our customers pursuant to purchase orders for specific products supplied for particular vehicles, which are governed by terms and conditions established by each OEM customer. In most instances our OEM customers agree to purchase their requirements for specific products but are not required to purchase any minimum quantity of products from us. Some OEM customers may also contract with an alternative supplier for the same vehicle platform. Our purchase orders with the majority of our customers have terms ranging from one year to the life of the model, which is generally four to seven years, although our customers often reserve the right at their discretion to terminate the contracts. Because our customers typically have no obligation to purchase a specific quantity of products, the discontinuation of, or a decrease in demand for, certain key models or group of related models sold by any of our major customers or the ability of a manufacturer to re-source and discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us. To the extent that we do not maintain our existing level of business with our largest customers because of a decline in their production requirements or because these purchase orders expire, are terminated or are not renewed, we will need to attract new customers or secure new business with existing customers. If we are not able to do so, our business, results of operations and financial condition could be materially and adversely affected.

**A drop in the market share or changes in product mix offered by our customers can affect our revenues.**

We primarily sell our products to OEMs and are dependent on the continued growth, viability and financial stability of our customers. The automotive industry is subject to rapid technological change, intense competition, short product life cycles and cyclical consumer demand patterns. When our customers are adversely affected by any of these factors, we may be adversely affected as well to the extent that our customers reduce the volume of orders for our products.

As the purchase orders with our customers are typically based on specific models, the mix of vehicle offerings by our OEM customers also affects our sales. A decrease in consumer demand for specific types of vehicles where we have traditionally provided significant content could have a material adverse effect on our business, results of operations and financial condition.

**Continued pricing pressures, OEM cost reduction initiatives and the ability of OEMs to re-source or cancel vehicle programs may result in lower than anticipated margins or losses.**

Pricing pressure in the automotive supply industry has been substantial and is likely to continue. Cost-cutting initiatives adopted by our customers can produce downward pressure on the pricing of our products. Our customers' purchase orders generally require step-downs in component pricing over the period of production, typically one to three percent per year. In addition, our customers often reserve the right in their discretion to unilaterally terminate their

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supply contracts, which enhances their ability to obtain price reductions. OEMs also have significant leverage over their suppliers, including us, because the automotive steering and driveline industries:

- are highly competitive;
- serve a limited number of customers; and
- have a high fixed cost base.

In addition, we have had excess capacity in some product lines. Based on these factors, and because our customers' product programs typically last for a number of years and are anticipated to encompass large volumes, our customers enjoy significant leverage in price negotiations and are able to negotiate favorable pricing terms. Accordingly, as a Tier 1 supplier, we are subject to substantial continuing pressure from OEMs to reduce the price of our products. It is possible that pricing pressures beyond our expectations will intensify as OEMs continue to pursue cost-cutting initiatives. For example, in February 2012, GM and PSA Peugeot Citroën formed a strategic alliance to share vehicle platforms, which strengthened their bargaining power against their suppliers, including us. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our margins and profitability may be materially and adversely affected.

**Product recalls by OEMs could negatively affect their production levels and therefore have a material adverse effect on our business, results of operations and financial condition.**

In the past, there have been significant product recalls by some of the world's largest OEMs, including our existing customers. Recalls may result in decreased production levels due to: (i) an OEM focusing its efforts on addressing the problems underlying the recall, as opposed to generating new sales volume; and (ii) consumers electing not to purchase vehicles manufactured by the OEM initiating the recall, or by OEMs in general, while such recalls persist. Any reductions in OEM production volumes, especially those OEMs which are our existing customers, could have a material adverse effect on our business, results of operations and financial condition.

Additionally, if any of our products are or are alleged to be defective, we may be required to participate in a recall involving such products. Any negative publicity arising from a recall could adversely affect our reputation and brand. In addition, each OEM has its own practices regarding product recalls relating to its suppliers. However, as suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, OEMs may look to their suppliers for contribution when faced with recalls. We generally do not maintain insurance for product recalls. Accordingly, any recall claim brought against our customers or us could have a material adverse effect on our business, results of operations and financial condition.

**We have invested substantial resources in markets and product lines where we expect growth; should such expectations not be realized, we may be unable to alter our strategies.**

Our future growth is dependent on our making the right investments at the appropriate time to support our product development initiatives and manufacturing capacity in markets and product lines where we can support our customer base. We have identified the Asia-Pacific and

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South American regions, and China in particular, as key markets likely to experience substantial growth. We have also identified EPS as a product line likely to experience growth. Accordingly, we have made and expect to continue to make substantial investments in manufacturing operations, engineering centers and other infrastructure to support anticipated growth in these markets and product lines. If these markets or product lines do not grow at the pace that we expect or at all, or if we are unable to deepen existing and develop additional customer relationships in these markets and product lines, we may fail to realize expected rates of return on our existing investments, incur losses on such investments and be unable to redeploy effectively the invested capital to take advantage of other markets and opportunities, potentially resulting in lost market share to our competitors. Our business, results of operations and financial condition may be materially and adversely affected if these markets and product lines do not grow as quickly as we anticipate or at all.

**We may incur material losses and costs as a result of warranty claims and product liability actions that may be brought against us.**

We face an inherent business risk of exposure to warranty claims and product liability actions in the event that our products fail to perform as expected and, in the case of product liability actions, such product failure results in bodily injury and/or property damage. The fabrication of the products that we manufacture is a complex and precise process. Our customers specify quality, performance and reliability standards. If flaws in either the design or manufacture of our products were to occur, we could experience a rate of failure in our products that could result in significant delays in shipment and product re-work or replacement costs. Although we engage in extensive product quality programs and processes, these may not be sufficient to avoid product failures, which could cause us to experience:

- lost net revenue;
- increased costs such as warranty expense, costs associated with customer support and legal expenses to defend against warranty and product liability claims;
- delays, cancellations or rescheduling of orders for our products;
- increased product returns or discounts; and
- damage to our reputation.

The occurrence of any of the foregoing could negatively affect our business, results of operations and financial condition.

Furthermore, depending on each OEM's practices regarding product liability actions relating to its suppliers, an OEM might look to its suppliers for indemnification or contribution when faced with product liability claims. We currently maintain insurance to cover product liability claims, but we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against potential claims. A product liability claim brought against us in excess of our available insurance coverage could have a material adverse effect on our business.

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OEMs also require their suppliers, including us, to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. Depending on the terms under which we supply products to an OEM, an OEM may attempt to hold us responsible for some or all of the repair or replacement costs of defective products under new vehicle warranties when the OEM asserts that the product supplied did not perform as warranted. We cannot assure you that the future costs of warranty claims by our customers will not be material. We maintain warranty reserves based on our estimates of amounts necessary to settle future and existing claims. We regularly evaluate the level of these reserves and adjust them when appropriate. Although we believe that our reserves are adequate to cover potential claims, we cannot assure you that we will not experience any material warranty claim losses in the future or that we will not incur significant costs to defend such claims.

**We could be adversely affected by a shortage of supplies causing a production disruption.**

Either we, our customers, or our suppliers may experience supply shortages of, or delays in the supply of, raw materials, parts, components or other supplies. This could be caused by a number of factors, including insufficient production line capacity or manpower or working capital constraints, weather emergencies and natural or man-made disasters affecting the accessibility of raw materials, parts or components, labor or political unrest, commercial disputes, public health concerns, acts of terrorism or other hostilities or other factors. For example, the 2008 strike at American Axle & Manufacturing Inc. resulted in 30 GM facilities in North America being idle for several months.

We use “single source suppliers” for most of the raw materials, parts and components required for our production, which means that we source all of our requirements for a particular part or component from a single source even though there are other suppliers for that part or component available in the market. Because we generally do not arrange for alternative supply sources for these raw materials, parts and components, should suppliers become unable to meet our demand or become unwilling to do so on terms that are acceptable to us, we may take time and/or incur costs to find alternative suppliers, as in some cases, there is a limited number of suppliers in the market. In addition, the raw materials, parts and components for our products are qualified for production through a rigorous evaluation process prior to their approval for use. If we were required to utilize another supplier for key raw materials, parts or components, we would need to spend significant time qualifying the raw materials, parts or components from alternative suppliers, which would take time and require substantial expense. If we are unable to find an alternative supplier willing and able to meet our needs on terms acceptable to us on a timely basis or at all, we may be required to discontinue production of the affected product. In addition, we use “sole source suppliers” for certain raw materials, parts and components, which means that the sole source supplier is the only supplier that can provide these parts or components because of the technology or process involved or because the material, part or component is patented. If any of these sole source suppliers ceases or interrupts operations, we may be faced with significant additional costs and production delays. The loss of a sole source supplier may even require us to discontinue production of the affected product.

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We have been streamlining our supply base in order to better manage and reduce the cost of purchased goods and services. Other suppliers have taken similar measures. Due to the turbulence in the automotive industry during the economic downturn in 2008 and 2009, several suppliers have ceased operations. As a result, we have a greater dependence on fewer sources of supply for certain raw materials, parts and components. For the years ended December 31, 2010 (combining purchases of our Predecessor and our Group), 2011 and 2012, our five largest suppliers accounted for approximately 18.4%, 20.7% and 19.5% of our total material purchases, respectively. Furthermore, many suppliers downsized significantly during the economic downturn in 2008 and 2009 and may face capacity constraints as the industry continues to recover. These factors could increase the possibility of a supply shortage of any particular raw material, part or component, which could materially and adversely affect our business, results of operations and financial condition.

If any of our customers experiences a material supply shortage, either directly or as a result of a supply shortage caused by us or indirectly by a supplier, that customer may halt or limit its production and may halt or limit its purchase of our products. Similarly, if we or one of our own suppliers experiences a supply shortage, we may become unable to produce the affected products if we cannot procure the raw materials, parts or components from another source. When we fail to make timely deliveries in accordance with our contractual obligations, we generally have to absorb our own costs for identifying and solving the problem as well as expeditiously producing replacement components or products. Such production interruptions could have a material adverse effect on our business, results of operations and financial condition.

Additionally, if we are the cause of a customer halting production, the customer may seek to recoup all of its losses and expenses from us, which could be significant and may include consequential losses such as lost profits and damages. Any supply chain disruption, however small, could potentially cause the complete shutdown of an assembly line of one of our customers, and any such shutdown that is due to causes that are within our control could expose us to material claims of compensation. Where a customer halts production indirectly due to our supplier's failure to deliver on time, it is unlikely that we will be fully compensated by our suppliers, if at all.

Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

**Certain of our suppliers are experiencing or may experience economic distress, which may require us to provide substantial financial support or take other measures to ensure supplies of raw materials, parts or components and could increase our costs, affect our liquidity or cause production constraints or disruptions.**

The automotive industry supply base experienced increased economic distress due to the sudden and substantial decrease in industry sales volumes beginning in 2008. As a result, some of our suppliers experiencing financial difficulties have requested direct or indirect price increases, as well as adjusted payment terms. From time to time, we have provided financial assistance to key suppliers that are financially troubled to ensure an uninterrupted supply of raw materials, parts or components, and we may be required to provide financial assistance or take other measures to ensure an uninterrupted supply in the future, which could increase our costs, affect our liquidity or cause production constraints or disruptions.



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Contech Casting, LLC (“Contech”), one of our largest suppliers and our single source supplier for certain castings parts, is currently experiencing financial difficulties and its indirect controlling parent, Revstone Industries LLC (“Revstone”), has filed for bankruptcy protection. Revstone’s restructuring agent has retained an investment banking firm to seek a third-party buyer(s) for Contech and facilitate the sale process. On June 11, 2013, Contech entered into a purchase agreement with a third-party buyer pursuant to which Contech agreed to sell its manufacturing facilities subject to several conditions. We entered into an agreement, dated as of April 29, 2013, among Contech, and Contech’s key customers including us (the “Key Customers”) pursuant to which we and the other Key Customers agreed to provide financial assistance until June 15, 2013 to Contech to enable Contech to continue its operations uninterrupted. We expect to amend the agreement to (i) extend the length of the Key Customers’ obligations to provide financial assistance to August 2, 2013 and (ii) to extend Contech’s deadline to sell its manufacturing facilities to June 28, 2013 (subject to further extension to August 2, 2013 under certain circumstances). In exchange for this financial assistance, Contech’s Key Customers received certain access rights to Contech’s manufacturing facilities upon certain events of default. While the financial assistance that Contech will require is uncertain at this time, our Directors currently estimate that our Group’s forecasted exposure related to the provision of financial assistance to Contech would be approximately US\$3.4 million. If Contech cannot be sold in the near future or if we encounter delays in completing our production at Contech’s Clarkesville, Tennessee manufacturing facility as described in “Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components — Contech,” our Directors estimate that our Group’s exposure would increase. This exposure primarily consists of cash assistance to Contech to fund its operations, including potential expenses relating to any bankruptcy of Contech, until a sale of Contech can occur or production can be obtained from another supplier. We cannot assure you that this financial assistance will be successful in enabling Contech to maintain uninterrupted operations. If Contech’s operations are interrupted or cease or Contech otherwise fails to meet its supply obligations to us and we are unable to exercise our access rights to Contech’s manufacturing facilities or obtain alternative suppliers in a timely manner, our ability to supply our customers with certain products may be disrupted. If, as a result, we cause a customer to halt production, such customer may seek to recoup all of its losses and expenses from us, which may be substantial. See “Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components — Contech.”

**We may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.**

We are required to maintain certain permits, licenses, registrations and certificates issued by relevant government agencies in jurisdictions in which we operate. For example, for our manufacturing operations in the United States, Mexico, Brazil, Poland, China and India, we are required to maintain certain business and operating licenses and permits, and are subject to applicable regulations and laws of those jurisdictions. See “— We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.” In addition, for the sale, or export of our products to, or the use of our products in, certain countries, we may be subject to certain import, product quality and vehicle emissions regulations. See “Regulations.”

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We are in the process of obtaining, renewing or rectifying certain registrations, permits, licenses, certificates, authorizations and consents for certain of our operations, which either have not been obtained, have expired or are expiring. Our inability to secure such license, or any other licenses, registrations and permits in other jurisdictions in a timely manner or at all, could result in operational delays or suspensions and/or administrative fines and penalties, which could have a material adverse effect on the manufacturing operations of our relevant facilities in those jurisdictions, as well as our overall business, results of operations and financial condition. See “Business — Regulatory Compliance and Legal Proceedings.”

In addition, we cannot assure you that we will be able to renew any other existing approvals, permits, licenses, registrations or certificates when they expire or that we will be able successfully to obtain, retain or renew future permits, licenses, registrations or certificates in a timely manner, or at all. Furthermore, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Failure to obtain or renew such permits, licenses, registrations and certificates as planned may result in delays in the sales and manufacturing of our products, which could materially and adversely affect our business, results of operations and financial condition.

### **We and our suppliers face manufacturing challenges.**

The volume and timing of sales to our customers may vary due to a number of factors, including variation in demand for our customers’ products, our customers’ attempts to manage their inventory, design changes, changes in our customers’ manufacturing strategy and acquisitions of or consolidations among customers. Accordingly, many of our customers do not commit to long-term production schedules. Our inability to forecast the level of customer orders with certainty makes it difficult for us accurately to schedule production, maximize the utilization of our manufacturing capacity and forecast our production capacity.

In addition, we rely on third-party suppliers for most of the parts and components used in our products. Our business, results of operations and financial condition could be adversely affected if our third-party suppliers do not have sufficient quality control, if there are significant changes in their operations or financial condition or if they are unable to provide sufficient products as promised. See “— We could be adversely affected by a shortage of supplies causing a production disruption.”

From time to time, we have underutilized our manufacturing lines because of a decrease in business from one or more of our customers, resulting in excess capacity and increased fixed costs per unit, which could have a material adverse effect on our margins and results of operations, particularly during economic downturns. Because many of the costs of operating these manufacturing lines are fixed, we are not able to reduce or avoid these costs.

Our failure to manage these manufacturing challenges could materially and adversely affect our business, results of operations and financial condition.

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**Our business, results of operations and financial condition could be materially and adversely affected if we fail to comply with the terms and conditions of our agreements with GM.**

In connection with the Acquisition, we entered into a number of agreements, including a Supply Agreement and an Access and Security Agreement with GM, each dated as of November 30, 2010. The Supply Agreement governs the terms and conditions pursuant to which we have agreed to manufacture and deliver certain products to GM. Our contracts with GM that are governed by the Supply Agreement and had not expired as of the Latest Practicable Date were entered into between 2005 and 2010 and are expected to expire between 2013 and 2020, assuming the applicable vehicle programs are not extended. Upon the occurrence of specified events, including our written acknowledgement that we are unable to satisfy our obligations under the Supply Agreement or certain actions by us or our creditors that result in an imminent and material interruption of production at GM's assembly operations, the Access and Security Agreement provides GM with the right to use the operating assets and occupy the real estate at our U.S. and Mexican manufacturing plants to manufacture GM products for a period of up to 24 months (the "Occupancy Period"). In addition, the Access and Security Agreement grants GM a license to use or sublicense our intellectual property that is necessary to manufacture such GM products on a royalty-free basis during the Occupancy Period. GM's invocation of its right to access under the Access and Security Agreement could have a material adverse impact on our business, results of operations and financial condition. See "Business — Customers — Relationship with GM."

**Increases in costs of the raw materials, parts, components and other supplies that we use in our products may have a negative effect on our business.**

Significant changes in the markets in which we purchase raw materials, parts, components and other supplies for the production of our products may adversely affect our profitability, particularly in the event of significant increases in demand where there is not a corresponding increase in supply, inflation or other pricing increases. In the past two years, there have been significant fluctuations in the global prices of steel, rare earth materials and plastics/resins, the principal raw materials used in our manufacturing process, which have had and may continue to have an unfavorable effect on our business, results of operations and financial condition. Market prices for steel have been generally increasing since 2004, with the exception of a temporary but significant decline in prices due to the global financial crisis and economic downturn in 2008 and 2009. The average annual base price of steel as reported by the AMM 4100 Series Index was US\$912 per ton, US\$1,117 per ton and US\$1,101 per ton in 2010, 2011 and 2012, respectively. Continuing volatility in the prices of raw materials used in the manufacture of our products may have an adverse effect on our business, results of operations and financial condition. We also face pricing pressure from our suppliers, which may from time to time threaten to stop shipments to us unless we agree to price increases. We will continue our efforts to pass certain raw materials, parts and components and supply cost increases on to our customers. However, to date, competition and market pressures have limited our ability to do so, and may prevent us from doing so in the future, because our customers have significant bargaining power in pricing negotiations and are generally not obligated to accept such price increases. See "— Continued pricing pressures, OEM cost reduction initiatives and the ability of OEMs to re-source or cancel vehicle programs may result in lower than anticipated margins or losses." Even when we are able to pass price increases on to our customers, in some cases there is a delay before we are able to do so effectively. Our inability to pass on or a delay in

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passing on price increases to our customers could adversely affect our operating margins and cash flow, resulting in lower operating income and profitability. We cannot assure you that fluctuations in our supply prices will not have a material adverse effect on our business, results of operations and financial condition, or cause significant fluctuations in our results of operations from period to period.

### **We operate in the highly competitive automotive steering and driveline industries.**

The global automotive steering and driveline industries are highly competitive. Competition is based primarily on price, technology, quality, delivery, global presence and overall customer service. We cannot assure you that our products will be able to compete successfully with those of our competitors. Furthermore, the rapidly evolving nature of the markets in which we compete may attract new entrants, particularly in low-cost countries such as China, Brazil and India. Additionally, consolidation in the automotive industry may lead to decreased product purchases from us. As a result, our sales and gross profit margins could be adversely affected by pricing pressures from OEMs and pricing actions of competitors. Some of our competitors are affiliated with OEMs or are themselves OEMs that manufacture their own steering and driveline products, and, as a result, may be able to forecast market demand more precisely than we can. In addition, some of our competitors are companies, or divisions or operating units of companies, that have greater financial and other resources than we do. Our business may also be adversely affected by competitors benefiting from affiliate relationships with OEMs or other resources that we do not possess.

Furthermore, any of our competitors may more accurately foresee the course of market developments, develop products that are superior to our products, have the ability to produce similar products at a lower cost, or adapt more quickly to new technologies or evolving customer requirements. As a result, our products may not be able to compete successfully with their products, which may materially and adversely affect the sales and profitability of our products, as well as our business, results of operations and financial condition.

### **We may be adversely affected if our competitors consolidate or enter into strategic alliances.**

Our industry is capital intensive and requires substantial investments in manufacturing, machinery, research and development, product design, engineering, technology and marketing in order to meet both consumer preferences and regulatory requirements. Large competitors are able to benefit from economies of scale by leveraging their investments and activities on a global basis across brands. If our competitors consolidate or enter into strategic alliances, they may be able to take better advantage of these economies of scale. In addition, our competitors could use consolidation or alliances as a means of enhancing their competitiveness or liquidity position. Any such consolidation or strategic alliance by our competitors could materially and adversely affect our business and prospects.

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**We may not be able to respond quickly enough to changes in regulations, technology and technological risks, or to develop our intellectual property into commercially viable products.**

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products less attractive or obsolete. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis is crucial to our ability to remain competitive and to maintain or increase our revenues. We cannot assure you that certain of our products will not become obsolete or that we will be able to achieve the technological advances that may be necessary for us to remain competitive and maintain or increase our revenues in the future. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development or production and failure of products to operate properly. The pace of our development and introduction of new and improved products depend on our ability to successfully implement technological innovations in design, engineering and manufacturing, which requires extensive capital investment. Any capital expenditure reductions in these areas that we may implement in the future could reduce our ability to develop and implement technological innovations to enhance our current product line, which may materially reduce demand for our products.

To compete effectively in the automotive steering and driveline industries, we must be able to launch new products to meet changing consumer preferences and our customers' demands in a timely and cost-effective manner. We may not be able to respond adequately to competitive pressures or react quickly to other changes in the market, which could have a material adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will be able to install and certify the equipment needed to produce products for new product programs in time for the start of production, or that the transitioning of our manufacturing plants and resources to full production under new product programs will not affect the production rate for the program or other operational efficiency measures at our facilities. Development and manufacturing schedules are difficult to predict, and we cannot assure you that our customers will launch their new product programs on schedule or at all. Our failure to successfully launch new products on schedule or at all, or a failure by our customers to successfully launch new programs on schedule or at all, could adversely affect our business, results of operations and financial condition.

**Labor unrest experienced by us or our customers or suppliers could have a material adverse effect on our business, results of operations and financial condition.**

As of December 31, 2012, approximately 55% of our employees were represented by unions and work councils, and it is possible that our workforce will become more unionized in the future. Our collective bargaining agreements expire from time to time. For example, our collective bargaining agreement with the UAW, which represented 49% of our United States employees (21% of our total number of employees) as of December 31, 2012, will expire on September 14, 2015. See "Business — Employees." As of the Latest Practicable Date, we did not expect any material impediments to renewing our collective bargaining agreements in light of our ongoing discussions with our unions and work councils. However, we cannot assure you that we will be successful in renewing our agreements with unions and work councils upon expiry, or that our new agreements will be on terms as favorable to us as past agreements.

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## RISK FACTORS

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Failure to renew these agreements when they expire or to establish new collective bargaining agreements on terms acceptable to us and the unions and work councils could result in work stoppages or other labor disruptions, which may have a material adverse effect on our business, results of operations and financial condition.

In the future we may be subject to labor unrest. In addition, many of our direct and indirect customers and suppliers have unionized workforces and are subject to collective bargaining agreements. For example, many of our customers' employees are represented by the UAW under separate collective bargaining agreements. If any of our customers experiences a material work stoppage, either directly or as a result of a work stoppage at another supplier, that customer may halt or limit the purchase of our products. Similarly, a work stoppage at our facilities or at our suppliers could limit, delay or stop our production of the affected products. Such interruptions may materially and adversely affect our business, results of operations and financial condition. Organizations responsible for delivering our products may also be affected by strikes or labor unrest. Any interruption in the delivery of our products could reduce demand for our products and could have a material adverse effect on us.

**We may lose or fail to attract and retain management personnel, engineers and other employees with the required expertise and skills.**

Our continued success depends on our ability to attract and retain a competent management team, engineers and other employees with required expertise and skills. Our ability to do so is influenced by a variety of factors, including the structure of the compensation package that we award and the competitive market position of our overall compensation package. Our former Chief Executive Officer and President, Mr. Robert Remenar, resigned in June 2012, and our former Chief Finance Officer, Mr. William Whalen, left our Group upon the expiry of his service agreement with our Group in November 2012. Two other members of our senior management also retired in September 2012, and another member left our Group in February 2013 as part of our general restructuring plan in Australia. Our management team and skilled employees may leave us or we may terminate their employment at any time. We cannot assure you that we will be able to retain our management team and skilled employees or find suitable or comparable replacements on a timely basis or at all. Moreover, if any of our management team or skilled employees leaves us or joins a competitor, we may lose customers, suppliers and know-how. The loss of services of any of our management team and skilled employees could have a material adverse effect on our business, results of operations and financial condition.

**We were recently acquired by our Controlling Shareholder, which may give rise to complex operational and personnel-related challenges, including overcoming cultural differences and controlling unanticipated expenses related to our operations.**

We were acquired by our Controlling Shareholder, PCM China, in November 2010, which may give rise to complex operational and personnel-related challenges, including overcoming cultural differences and controlling expenses related to our operations. For instance, it may take our management more time to reach a consensus on major issues that may arise. We may not be successful in overcoming these challenges. A prolonged diversion of management's time and resources and any delays or difficulties that we encounter in connection with the Acquisition could have a material adverse effect on our business, results of operations and financial condition.

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## RISK FACTORS

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**Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of our other Shareholders.**

Immediately after the Global Offering, our Controlling Shareholders will beneficially own 70% of our Shares, or approximately 67% if the Over-allotment Option is exercised in full. As a result, by virtue of their controlling ownership of our share capital, our Controlling Shareholders will be able to exert significant influence over our business and otherwise on matters of significance to us and our other Shareholders by voting at the general meetings of Shareholders, such as election of Directors, amount and timing of dividend payments and other distributions, the acquisition of or merger with another entity, overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, and amendments to our Articles of Association. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders, and they are free to exercise their votes according to its own interests. Our Controlling Shareholders will have the power to prevent or cause a change in control of us. Without the consent of our Controlling Shareholders, we may be prevented from entering into transactions that could be beneficial to us and our other Shareholders.

**We may be unable to consummate or successfully integrate acquisitions and strategic alliances.**

We may from time to time pursue acquisitions and strategic alliances that we believe will complement our current business by expanding into new geographic areas, diversifying our customer base and enabling us to specialize, expand or enhance technological capabilities. We cannot assure you that we will be able to find suitable acquisition targets or partners with whom to form strategic alliances, and the failure to do so in a timely manner or at all may affect our ability to realize our growth objectives. In addition, there are risks and uncertainties related to these activities, including difficulty of integrating acquired operations, technology and products, diversion of our management's attention from other business concerns, potential unknown liabilities associated with an acquired company, undisclosed risks affecting an acquired company and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions could involve the incurrence of substantial additional indebtedness or dilution of the equity interests of our Shareholders. We cannot assure you that we will be able to successfully integrate any acquisitions that we undertake or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

**We may incur material costs related to plant closings, which could have a material adverse effect on our business, results of operations and financial condition.**

We continually attempt to align our production capacity with demand. As a result, between 2000 and 2011, we closed eight manufacturing plants, and we may close additional manufacturing plants in the future. If we close additional plants, the employee severance, asset retirement and other costs may be significant. In certain locations that are subject to leases, we may be required to continue to pay the rent payable under the initial lease terms. Historically, we have incurred significant costs related to the closure of our plants. We cannot assure you that costs related to the closure of our plants will not be material in the future. If we incur material costs related to plant closings in the future, our business, results of operations and financial condition may be materially and adversely affected.

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## RISK FACTORS

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### **Our significant level of indebtedness and our net current liabilities position expose us to liquidity risks.**

We have relied on cash generated from our operations and bank loans to fund our capital requirements and to finance the acquisition of the Company. We have relied on both long-term and short-term borrowings to fund a substantial portion of our capital requirements, and expect to continue to do so in the foreseeable future. Our high level of indebtedness and leverage could materially and adversely affect our liquidity. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities;
- limit our ability to incur additional debt; and
- increase our exposure to interest rate fluctuations.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced a reduction or withdrawal of credit or banking facilities by our lenders or an inability to settle our trade payables in the ordinary course of business. However, we cannot assure you that we will always be able to continue to refinance our bank loans when they become due, repay our bank loans upon maturity and/or raise the necessary funding to finance our current liabilities and our capital commitments.

In addition, we cannot assure you that we will be able to comply with all the requirements under our loan agreements, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debt or comply with the terms, conditions and covenants of our loan agreements could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

We recorded net current liabilities as of December 31, 2010 and 2011, which consisted of debt incurred to finance the Acquisition. Such debt was classified as short-term borrowings as of December 31, 2010 and 2011 because the loan was callable by the lender at any time. In November 2012, our Group obtained a term loan, the proceeds of which were used to repay the Acquisition Debt. After giving effect to such repayment, the Company no longer had net current liabilities as of the Latest Practicable Date. However, if we record net current liabilities in the future, we would be exposed to liquidity risks, which could impair our ability to make necessary capital expenditures or develop business opportunities, which could in turn materially and adversely affect our business.



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## RISK FACTORS

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### **We face risks associated with our global operations.**

Our manufacturing, customer service and engineering facilities are located in North and South America, Europe and Asia. We also sell our products to customers and purchase raw materials, parts, components and other supplies from suppliers located in many different countries around the world. Our international operations are subject to certain inherent risks, including:

- exposure to local economic, political and labor conditions;
- changes in laws, regulations, trade or monetary or fiscal policy;
- exposure to fluctuations in interest rates, foreign currency exchange rates (including, for example, the possibility that one or more countries may leave the EU and revert to using local currencies) and changes in the rate of inflation;
- social plans that prohibit or increase the cost of certain restructuring actions;
- tariffs, quotas, customs and other import or export restrictions and other trade barriers;
- expropriation and nationalization;
- difficulty of enforcing agreements, collecting receivables and protecting assets;
- reduced intellectual property protection;
- limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements;
- export and import restrictions;
- violence and civil unrest; and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

Due to the global nature of our business, we may be required to allocate appropriate staffing to monitor our ongoing compliance matters.

Additionally, our global operations may be adversely affected by political events, domestic or international terrorist events and hostilities or complications due to natural or nuclear disasters, public health or other issues. These uncertainties could have a material adverse effect on the continuity of our business, results of operations and financial condition.

Increasing our manufacturing footprint in China and other emerging markets, and our business relationships with Asian and South American automotive manufacturers are important elements of our strategy. As a result, our exposure to the risks described above may be greater in the future.

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## RISK FACTORS

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### **We are subject to governmental economic sanctions laws that could subject us to liability or impair our ability to compete internationally.**

We are subject to United States economic sanctions laws that restrict our ability to conduct transactions with certain persons, or in or with the territory of certain countries. If a transaction involves countries, individuals or entities that are the target of United States economic sanctions, the transaction may be prohibited, or licenses or other approvals from the U.S. Government may be required and may not be granted. The compliance measures that we have adopted may prove to be inadequate to ensure compliance with United States economic sanctions laws. For instance, in 2010, when our Predecessor was owned by GM, GM voluntarily self-reported to OFAC that Nexteer Automotive may have engaged in a “possible” facilitation in violation of the Iranian Transactions and Sanctions Regulations, which could result in monetary penalties being imposed against us by OFAC. See “Business — Regulatory Compliance and Legal Proceedings — Legal Proceedings — OFAC.” In addition, any change in economic sanctions regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could negatively affect our ability to export our products to existing or potential customers. Failure to obtain required export approval for our products or failure to comply with these regulations could result in penalties and restrictions on export privileges and could impair our ability to compete in international markets. In addition, we have undertaken to the Hong Kong Stock Exchange that, after the Listing, we will not engage in business activities with countries subject to sanctions administered by OFAC, which activities are determined by a competent authority to be violations under applicable laws and regulations. We are aware that the breach of such undertaking may lead to delisting of our Company.

### **Certain of our operations are conducted through joint ventures that have unique risks.**

We currently have two joint ventures in China: Nexteer Zhuozhou and Nexteer Wuhu. We hold a 60% equity interest in each of Nexteer Zhuozhou, a joint limited liability company located in Zhuozhou City, Hebei Province, China and Nexteer Wuhu, a joint limited liability company located in Wuhu City, Anhui Province, China. Both our Nexteer Zhuozhou and Nexteer Wuhu joint ventures primarily supply our OEM customers in China.

With respect to our existing joint ventures or joint ventures that we may establish in the future, we may share ownership and management responsibilities with one or more partners that may not share our goals and objectives. Operating a joint venture requires us to operate the business pursuant to the terms of the agreement into which we entered with our partners, including additional organizational formalities, as well as to share information and decision making. Additional risks associated with joint ventures include one or more partners failing to satisfy contractual obligations, conflicts arising between us and any of our partners and a dispute not being timely resolved in a manner satisfactory to us, a change in the ownership of any of our partners, or the financial insolvency or bankruptcy of any of our partners. Additionally, our ability to dispose of our interest in a joint venture may be subject to contractual and other limitations. The occurrence of any of these events could have a material adverse effect on our business, results of operations and financial condition.

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## RISK FACTORS

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**A potential impairment charge in the future could cause volatility in our reported operating results and our share price.**

Our Group's balance sheets reflect the impact of deferring qualifying engineering and product development costs. We record these costs as intangible assets in the period incurred, since they represent product development costs that can be clearly assigned to a newly developed product or process and meet the IFRS criteria for capitalization. Our balance sheet as of December 31, 2012 reflects a carrying amount of capitalized engineering and product development costs of US\$179.1 million. We expect to continue to incur a substantial amount of engineering and product development costs in the future, and expect that the carrying value of our intangible assets will continue to increase as a result. We evaluate the intangible assets for recoverability annually, or more frequently as circumstances warrant. Our evaluations in the future may result in material impairment charges that would have a significant impact on our results of operations and potentially our share price.

**We depend on information technology to conduct our business. Any significant disruption could affect our business.**

Our ability to keep our business operating effectively depends on the functional and efficient operation of information technology and telecommunications systems. We rely on these systems to make a variety of day-to-day business decisions as well as to track transactions, billings, payments and inventory. Our systems, as well as those of our customers, suppliers, partners, and service providers, are susceptible to interruptions (including those caused by systems failures, malicious computer software (viruses and other malware), and other natural or man-made incidents or disasters), which may be prolonged. We are also susceptible to security breaches that may go undetected. A significant or large-scale interruption of our information technology could materially and adversely affect our ability to manage and keep our operations running smoothly. An incident that results in a wider or sustained disruption to our business could have a material adverse effect on our business, results of operations and financial condition.

**We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.**

We are subject to various environmental, occupational health and safety laws and regulations governing, among other things:

- the generation, storage, handling, use, transportation, presence of, or exposure to hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water;
- the incorporation of certain chemical substances into our products, including electronic equipment; and
- the health and safety of our employees.

We are also required to obtain permits from governmental authorities for certain operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. We have failed to obtain, or be in compliance with, certain environmental licenses or permits. If we violate or fail to comply with

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## RISK FACTORS

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these laws, regulations, licenses or permits, we could be fined or otherwise sanctioned by the relevant regulatory authorities. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage.

Certain environmental laws impose liability, sometimes regardless of fault, for investigating or cleaning up contamination on or emanating from our currently or formerly owned, leased or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to third-party disposal or treatment facilities when such facilities are found to be contaminated. Our costs or liabilities relating to these matters may be more than the amount we have reserved and the difference may be material.

In addition, environmental laws are complex, change frequently and have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with environmental laws, we cannot assure you that environmental laws will not change or become more stringent in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, results of operations and financial condition. See “Regulations” and “Business — Environmental Compliance.”

**We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have a material adverse effect on our business, results of operations and financial condition.**

We are involved in legal proceedings and commercial or contractual disputes that may, from time to time, be significant. These are typically claims that arise in the ordinary course of business, including, without limitation, commercial or contractual disputes, including warranty claims and other disputes with customers and suppliers; intellectual property matters; personal injury claims; environmental issues; tax matters; and employment matters. We cannot assure you that such proceedings and claims will not have a material adverse effect on our business, results of operations and financial condition.

**Our intellectual property portfolio exposes us to certain risks, which could have a material adverse effect on our business, results of operations and financial condition.**

We own intellectual property, including patents, trademarks, copyrights and trade secrets. In some cases, we enter into licensing agreements with respect to intellectual property. In addition, we rely on unpatented proprietary technology. Our intellectual property and unpatented proprietary technology play an important role in maintaining our competitive position in a number of the markets which we serve. Our competitors may develop technologies that are similar or superior to our proprietary technologies or design around the patents that we own or license. Further, as we expand our operations in jurisdictions where the protection of intellectual property rights is less robust, such as China, the risk of others duplicating our proprietary technologies increases, despite efforts that we undertake to protect them. In addition, on occasion, third parties may assert claims against us and our customers, alleging that our products or technology infringe upon third-party intellectual property rights. Similarly, we may assert claims against third parties who are taking actions that we believe are infringing on

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our intellectual property rights. We may also assert claims against our suppliers if third parties make claims against us alleging that the raw materials, parts or components supplied by such suppliers infringe upon third-party intellectual property rights. These claims, regardless of their merit or resolution, are typically costly to prosecute, defend or settle and divert the efforts and attention of our management and employees. In addition, such claims could harm our relationships with our customers or suppliers and might deter future customers or suppliers from doing business with us. If any such claim were to result in an adverse outcome, we could be required to take actions that may include:

- ceasing the manufacture, use or sale of the infringing products;
- paying substantial damages to third parties, including to customers to compensate them for their discontinued use or replacing infringing technology with non-infringing technology; or
- expending significant resources to develop or license non-infringing products.

In addition, as part of the Acquisition, we entered into intellectual property agreements with GM pursuant to which we share joint rights in certain intellectual property. These agreements may limit our ability to benefit commercially from some of the intellectual property that we have developed or may develop in the future and lead to costly or time-consuming disputes over rights to innovations. See “Business — Customers — Relationship with GM — IP Agreements.”

Any of the foregoing results could have a material adverse effect on our business, results of operations and financial condition.

**We may be adversely affected if our trademark applications are not allowed for registration or our registered trademarks are not maintained or enforced.**

We distribute our products under the “Nexteer” brand. While we have registered the trademarks of the “Nexteer” brand and applied for registration of such trademarks in certain jurisdictions, we cannot assure you that our applications will be granted. Third parties have opposed and may from time to time in the future oppose, our trademark applications, seek to cancel our registered trademarks, or otherwise challenge our use of the trademarks.

In the event that our trademark applications and/or registrations are successfully challenged, we could be forced to rebrand our products and services, which could result in loss of brand recognition, require us to devote resources to advertising and marketing a new brand, harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

**We are exposed to foreign currency fluctuations as a result of our substantial global operations, which may adversely affect our business, results of operations and financial condition.**

We have currency exposures related to buying, selling and financing in currencies other than the local currencies of the countries in which we operate. Our revenue is primarily denominated in U.S. dollars, the Euro and RMB. Our operating expenses are also predominantly denominated in U.S. dollars, with portions in Euros, Mexican pesos, Polish Zloty and RMB in relation to our foreign operations. Price increases caused by currency exchange rate

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fluctuations may make our products less competitive or have a material adverse effect on our margins. Currency exchange rate fluctuations may also disrupt the business of our suppliers by making their purchases of raw materials more expensive and more difficult to finance.

**The seasonality that we experience in our business may adversely affect our results of operations, cash flows and liquidity.**

Our business is seasonal. Our North American customers typically shut down vehicle production for approximately two weeks during July and for one week during December. Our customers in Europe typically shut down vehicle production during periods in July and August and for one week in December. In addition, vehicle production in certain regions is traditionally reduced in the months of July, August and December as a result of product changeover and holidays. This results in a reduction in our working capital needs, consistent with the reduced level of our revenue. Such seasonality may adversely affect our results of operations, cash flows and liquidity during the third and fourth quarters of our fiscal year.

**Business disruptions could materially and adversely affect us.**

Our business may be disrupted by a variety of events or conditions, including, but not limited to, threats to physical security, acts of terrorism, raw material shortages, natural and man-made disasters, information technology failures and public health crises. Any of these disruptions could affect our internal operations or services provided to customers, and could affect our sales, increase our expenses or otherwise materially and adversely affect our business, results of operations and financial condition.

**We may be unable to pay dividends on our Shares.**

We are a holding company with no significant operations or material assets other than the equity interests that we hold in our subsidiaries. We conduct all of our business operations through our subsidiaries. As a result, our ability to pay dividends is dependent on the generation of cash flow by our subsidiaries, and their ability to make such cash available, by dividend or otherwise.

**It may be difficult to effect service of process upon, or to enforce judgements against, our Directors or members of our senior management who reside in the PRC in connection with judgments obtained in non-PRC courts.**

Six of our Directors reside within the PRC, and the assets of our Directors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon those Directors and senior management members, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments from various jurisdictions are uncertain.

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**Under the EIT Law and other PRC tax laws, we may be classified as a “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders.**

Under the EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise,” meaning that it can be treated as a Chinese enterprise for PRC enterprise income tax purposes. The implementation rules of the EIT Law define “de facto management bodies” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Pursuant to the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in Accordance with Their De Facto Management Bodies, which was issued by the SAT on April 22, 2009 and became effective on January 1, 2008, an enterprise controlled by Chinese enterprises or enterprises groups and registered outside China will be regarded as a PRC resident enterprise with “de facto management bodies” located in China (hereinafter referred to as an offshore-registered resident enterprise), provided that all of the following criteria are satisfied: (i) the senior management personnel responsible for the execution of the daily management and operation of production and business of the enterprise and the relevant senior personnel departments performing such duties are mainly located within China; (ii) the decisions of the enterprise in terms of finance (e.g., borrowing, lending, financing, financial risk controls, etc.) and personnel (e.g., appointment, dismissal and remuneration, etc.) matters are made by or subject to approval of organization(s) or individual(s) located in China; (iii) the main properties, accounting ledger, corporate seal, minutes of the board meetings and shareholders’ meetings, etc., of the enterprise are situated or kept in China; and (iv) 50% or more of directors with voting rights or senior management personnel of the enterprise ordinarily reside in China. Moreover, whether or not a Chinese-controlled offshore enterprise is an offshore-registered resident enterprise is subject to preliminary review by the local tax bureau where the “de facto management body” of the Chinese-controlled offshore enterprise or its controller is based and is subject to final confirmation by the SAT.

Pursuant to the above-mentioned laws and regulations, we are of the view that we are not an offshore-registered resident enterprise because our “de facto management bodies” are outside the PRC, but it is possible that the PRC tax authorities will determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes. If we are determined to be a “resident enterprise,” we would be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. By comparison, there is no taxation on such income in the Cayman Islands. In addition, if we are treated as a PRC “resident enterprise” under PRC law, our foreign corporate Shareholders may be subject to PRC income tax on the capital gains realized from the sale of our Shares, and dividends paid to non-PRC residents with respect to our Shares may be subject to PRC withholding tax as such income may be regarded as income from “sources within the PRC.” In each case, our foreign corporate Shareholders may be subject to a 10% income tax rate under the EIT Law, unless any such foreign corporate shareholder is qualified for a preferential tax rate under an applicable tax treaty.

**The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.**

Since 2008, our PRC subsidiaries Nexteer Wuhu and Nexteer Suzhou have been entitled to a two-year tax exemption, followed by a three-year tax reduction of 50%. However, this preferential tax treatment will terminate after 2013.

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Pursuant to the EIT Law, with respect to a high and new technology enterprise, the tax levied on its income will be at a rate of 15% after obtaining the High-tech Certificate and completing the filing with the competent tax authorities. On May 28, 2010, Nexteer Wuhu obtained the High-tech Certificate, which expired on May 27, 2013. On March 20, 2013, Nexteer Wuhu filed an application to the administrative authority for determination of high and new technology enterprises of Anhui Province to renew the High-tech Certificate. Nexteer Wuhu will have a preferential tax rate of 15% after completing the filing with the competent tax authorities. However, we cannot assure you that Nexteer Wuhu will be able to complete the tax reduction and exemption filing with the competent tax authorities. On August 6, 2012, Nexteer Suzhou obtained the High-tech Certificate, which will expire on August 5, 2015. Pursuant to the relevant PRC tax laws, Nexteer Suzhou is currently entitled to a preferential tax rate of 15% for the period from 2013 to 2015.

On November 10, 2010, Nexteer Zhuozhou also obtained the High-tech Certificate, which will expire on November 9, 2013. In order to maintain this status as a high technology enterprise, the three subsidiaries mentioned above need to file an application with the competent authorities for their review and determination of the subsidiaries as high and new technology enterprises within three months prior to the expiration of the applicable High-tech Certificate. After passing the review, the three subsidiaries are still required to complete the tax reduction and exemption filing with the competent tax authorities to continue to have a preferential tax rate of 15%. We cannot assure you that the three subsidiaries mentioned above will be able to pass this review and to complete the tax reduction and exemption filing with the competent tax authorities in order to maintain the preferential tax rate.

### **RISKS RELATED TO THE GLOBAL OFFERING**

**There is no existing market for our Shares, which may trade at a discount from the initial offering price.**

Prior to the Global Offering, there has not been a public market for our Shares and we cannot predict the extent of investor interest in us. The Offer Price of our Shares will be determined by negotiations between us and the Joint Global Coordinators (on behalf of the Underwriters) and may not be indicative of prices that will prevail in the open market following the Global Offering. Consequently, you may not be able to sell our Shares at prices equal to or higher than the Offer Price.

**An active and liquid trading market for our Shares may not develop.**

Prior to the Global Offering, our Shares were not traded on any market. An active and liquid trading market for our Shares may not develop or be maintained after the Global Offering. Liquid and active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your investment in our Shares.



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**The market price and trading volume of our Shares may be volatile, which could result in rapid and substantial losses for our shareholders.**

The market price of our Shares may be highly volatile and could be subject to significant fluctuations. In addition, the trading volume of our Shares may fluctuate, which may cause significant price variations. Some of the factors that could negatively affect the price of our Shares, or result in fluctuations in the price or trading volume of our Shares include:

- variations in our operating results;
- failure to meet the market's earnings expectations;
- departures of key personnel;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation and governmental investigations; and
- general market and economic conditions.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK\$2.17 per Share (assuming an Offer Price of HK\$3.02, being the mid-point of the Offer Price range of HK\$2.54 to HK\$3.50 per Share). If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

**Sale, or perceived sale, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.**

We cannot assure you that our Controlling Shareholders will not dispose of any Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

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## RISK FACTORS

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**The availability of Shares for sale in the future could reduce the market price of our Shares.**

In the future, we may issue additional securities to raise capital. We may also acquire interests in other companies by using a combination of cash and our Shares or just our Shares. We may also issue securities convertible into our Shares. Any of these events may dilute your ownership interest in our Company and have an adverse effect on the price of our Shares. In addition, sales of a substantial amount of our Shares in the public market, or the perception that these sales may occur, could reduce the market price of our shares. This could also impair our ability to raise additional capital through the sale of our securities.

**You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and, under Cayman Islands law, protection to minority shareholders may differ from those established under the laws of Hong Kong and other jurisdictions.**

Our corporate affairs are governed by our Memorandum of Association and the Articles and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those which they would have under the laws of Hong Kong or other jurisdictions. See “Appendix IV — Summary of the Constitution of our Company and Cayman Islands Companies Law.”

**Investors should read this entire Prospectus carefully, and we cannot assure you that any information contained in press articles or other media regarding us and the Global Offering is appropriate, accurate, complete or reliable. You should not consider any particular statements in this Prospectus or in published media reports without carefully considering the risks and other information contained in this Prospectus.**

Prior to the date of this Prospectus, there has been press information and media coverage regarding us and the Global Offering that was not disclosed in this Prospectus. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information disseminated in the media, and we do not accept any responsibility for the accuracy or completeness of any financial information or forward-looking statements contained therein. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this Prospectus, we disclaim it.