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## FINANCIAL INFORMATION

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*The following discussion should be read in conjunction with the combined financial statements of our Group for the period from November 4, 2010 to December 31, 2010, and for the years ended December 31, 2011 and 2012, together with the accompanying notes, set forth in Appendix IA to this Prospectus and the consolidated financial statements of “our Predecessor” for the period from January 1, 2010 to November 30, 2010, together with the accompanying notes, set forth in Appendix IB to this Prospectus. The financial statements included in the Accountant’s Reports in Appendices IA and IB have been prepared in accordance with IFRS. The basis of presentation of our Predecessor’s financial information is not comparable to the basis of presentation of our Group’s financial information. Accordingly, with the exception of revenue, we have not combined our Predecessor’s financial information for the period from January 1, 2010 to November 30, 2010 with our Group’s financial information for the period from November 4, 2010 to December 31, 2010. See “Basis of Presentation” below.*

*The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties some of which are beyond our control. Factors that could cause or contribute to such differences include those described in the section entitled “Risk Factors” and elsewhere in this Prospectus.*

## OVERVIEW

We are among the world’s leading steering and driveline suppliers. In 2012, in terms of revenue, we were the fifth-largest steering supplier globally with approximately 6% of total global market share, the largest steering supplier in the United States with approximately 31% of total U.S. market share and the third-largest halfshafts supplier globally with approximately 5% of total global market share, according to the IPSOS Report. Our deep understanding of system integration and technical expertise enables us to offer our customers a comprehensive product portfolio and integrated customer solutions in both steering and driveline systems. Our principal products are: (i) steering systems and components that include EPS, HPS and steering columns; and (ii) driveline systems and components that include halfshafts, intermediate drive shafts and propeller shaft joints. Our products are utilized on a broad range of vehicles from small passenger cars to full-size trucks.

We have an established global footprint. As of the Latest Practicable Date, we had 20 manufacturing plants, ten customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world’s largest automotive vehicle markets. This enables us to respond timely to business opportunities and to establish and maintain close relationships with global OEMs, as well as local OEMs in regional markets, in order to provide our customers with regional and customer-specific design, application and technical capabilities.

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## FINANCIAL INFORMATION

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We have established strong relationships with many of the world's leading OEMs as a result of our ability to offer high-quality products and customer service at competitive prices. We currently supply our products to more than 50 customers, including substantially all of the world's top ten major OEMs in terms of production volume in 2012. Through the years, we have diversified our customer base and, as of the Latest Practicable Date, our global customers included GM, Ford, Fiat, Chrysler and PSA Peugeot Citroën, as well as local OEMs in regional markets such as China and India. We have supplied our products to our largest customer, GM, for over 100 years, and we have supplied our next four largest customers for more than 20 years.

Our business has a global presence. In 2012, 70.9% of our revenues were from North America, 15.2% were from Europe, 8.4% were from China and 5.5% were from the rest of the world. One of our key strategies for growth is to increase our market share in China and other emerging markets, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. In particular, since we became a subsidiary of AVIC, we have increased our focus on opportunities in China. Through our global presence, technological expertise in EPS and strong relationships with our customers, we believe we are well-positioned to capitalize on future growth in these emerging markets.

### **BASIS OF PRESENTATION**

This Prospectus includes two Accountant's Reports set forth as Appendices IA and IB, respectively.

- Appendix IA sets forth the Accountant's Report of our Group under our current corporate structure for the period from November 4, 2010 to December 31, 2010, and for the years ended December 31, 2011 and 2012; and
- Appendix IB sets forth the Accountant's Report of our Predecessor for the period from January 1, 2010 to November 30, 2010.

Prior to November 30, 2010, our Predecessor was an indirect, wholly-owned subsidiary of GM. In connection with the Acquisition, PCM China formed PCM (Singapore) Steering and PCM (US) Steering on November 4, 2010 and November 8, 2010, respectively. On November 30, 2010, PCM China acquired our Predecessor and contributed all acquired assets and operations of our Predecessor to PCM (US) Steering and PCM (Singapore) Steering. See "Our History and Reorganization — Our History." Prior to the Acquisition, our Group was comprised of PCM (US) Steering and PCM (Singapore) Steering only and had limited business activity consisting primarily of the incurrence of expenses related to the Acquisition. Our Group principally commenced operations upon the closing of the Acquisition on November 30, 2010. Accordingly, no revenues or cost of sales and only insignificant expenses have been recognized in the combined financial statements of our Group for the period from November 4, 2010 to November 30, 2010. In March 2011, AVIC Auto, a subsidiary of AVIC, acquired a 51% equity interest in PCM China from Beijing E-Town. See "Our History and Reorganization — Our History." The acquisition by AVIC Auto of a 51% interest in PCM China (the "AVIC Auto Acquisition") is a transaction at PCM China's shareholders' level (i.e., just between AVIC Auto and Beijing E-Town) which would only be separately accounted for in AVIC Auto's and Beijing E-Town's own financial statements and is not required to be accounted for in PCM China's financial statements or our Group's financial statements. In addition, Beijing E-Town and AVIC Auto are under the common control of the PRC government and, as a result, this is a common

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## FINANCIAL INFORMATION

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control transaction that is scoped out in IFRS 3 “Business Combinations” based on the guidance in IFRS 3 paragraph 2(c). As a result, the AVIC Auto Acquisition should not be accounted for and did not affect the combined financial information of our Group presented in the Accountant’s Report as set out in Appendix IA of the Prospectus.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2012. Pursuant to the Reorganization, we became the holding company of the companies now comprising our Group on January 30, 2013. See “Our History and Reorganization.” The Reorganization involved business combinations under common control because our principal businesses were under the control of PCM China, both before and after the Reorganization. Accordingly, the financial information of our Group has been prepared using the principles of merger accounting, under which (i) our Group’s combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows have been prepared to include the results of operations, changes in equity and cash flows, respectively, of the companies comprising our Group as if our Group’s current group structure had been in existence since November 4, 2010 or, with respect to companies incorporated or acquired by our Group after November 4, 2010, since their respective dates of incorporation or acquisition and, with respect to companies disposed of by us prior to December 31, 2012, up to their respective dates of disposal; and (ii) our combined balance sheets as of December 31, 2010, 2011 and 2012 have been prepared to present the assets and liabilities of the companies comprising our Group as of the respective dates as if the current group structure had been in existence on those dates, taking into account those companies incorporated, acquired or disposed of during the Track Record Period. All material intra-group transactions and balances have been eliminated upon consolidation. Since our Group did not constitute a separate legal group in the past, our Group’s combined historical financial statements have been prepared on a basis that combines the results and assets and liabilities of each of the companies constituting our Group. See Note 1 in “Appendix IA — Accountant’s Report on the Financial Information of the Group” and Note 2 in “Appendix IB — Accountant’s Report on the Financial Information of Our Predecessor.”

Our Predecessor came under the control of our Group on November 30, 2010. The financial information for our Predecessor for the period from January 1, 2010 to November 30, 2010 is set forth in separate financial statements in Appendix IB to this Prospectus. Our Predecessor’s operating results are not directly comparable to the results of our Group in the following aspects:

- In relation to the Acquisition, we engaged a third party appraiser to assist in applying the purchase method of accounting (as in accordance with IFRS 3) in valuing the assets acquired and liabilities assumed in the Acquisition. Our management considered all identified tangible and intangible assets acquired in the Acquisition in completing this valuation exercise. In connection with the Acquisition, the assets acquired and liabilities assumed by our Group from our Predecessor were generally recorded at fair value in accordance with IFRS acquisition accounting standards. IFRS 3 requires that assets acquired and liabilities assumed in a business combination be recognized at their fair value. Any difference between the value of the consideration paid and the fair value of the assets acquired and liabilities assumed is recognized as goodwill. When estimating the value of the customer relationships and other intangible assets, our management considered an income approach called the excess earnings method. This method is

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## FINANCIAL INFORMATION

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commonly used to value intangible assets of this nature. The estimated earnings used in this approach represent the best estimate of the cash flows a market participant would expect our Predecessor to generate considering the economic conditions of the business at the Acquisition and the uncertainty arising from the adverse impact of GM's ownership on our Predecessor's ability to expand its customer base. While the Company acquired a business with numerous contracts and customer relationships, at the time of the Acquisition the earnings that were expected to be generated from those contracts and customer relationships were only sufficient to provide a return on the acquired working capital (i.e., inventory, account receivables and so forth) and tangible assets of the business. As a result, there is no indication of material value being attributable to any intangible assets acquired in the business combination. Based on the above, management noted the excess earnings approach indicated no material value was attributable to the customer relationships or other intangible assets.

Had value been assigned to the intangible assets, this would have resulted in either: (i) a bargain purchase; or (ii) a reduction in the values assigned to other identifiable tangible assets. In IFRS 3 paragraph 34, a bargain purchase is a business combination in which the amount of identifiable assets/liabilities exceeds the aggregate of the consideration amounts, and might happen in a forced sale in which the seller is acting under compulsion. Bargain purchases should rarely be recognized if the valuations inherent in the accounting for a business combination are properly performed and all of the acquiree's identifiable liabilities and contingent liabilities have been properly identified and recognized. As the Acquisition was subject to normal market forces with a third party and was not under compulsion, our management concluded the Acquisition was not a bargain purchase. The fair value of all identifiable tangible assets and liabilities equaled the consideration, indicating that no amount of consideration should be assigned to any intangible asset. Had any value been ascribed to intangible assets, the value of other tangible assets recognized would have to be reduced to an amount below their fair values in order to avoid a bargain purchase gain. Our management concluded this corroborated their conclusion that the value of the acquired intangible assets was immaterial, thus no amount for intangible assets was recognized upon the Acquisition.

- For the period from January 1, 2010 to November 30, 2010, our Predecessor was a wholly-owned subsidiary of GM. During this period, GM and its subsidiaries provided certain services and functions to our Predecessor, particularly for its U.S. entities and employees. These services included payroll management, tax filing, treasury and financing, legal, human resources and executive management. While the costs for some of these services were charged to our Predecessor and are included in our Predecessor's consolidated financial statements, the costs charged by GM to our Predecessor for these services 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

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## FINANCIAL INFORMATION

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shared or common expenses. Accordingly, no expense or provision has been included in our Predecessor's consolidated financial statements for the following:

- salaries for certain management employees, including the Chief Financial Officer and Chief Legal Officer;
- payroll administration for our Predecessor's U.S. employees;
- risk management and insurance costs;
- external audit and tax consulting;
- U.S. banking fees;
- certain legal services and other corporate governance costs; and
- U.S. defined benefit plan obligation and certain other employee benefit costs related to programs that were maintained by GM.

Subsequent to the Acquisition, our Group incurred costs relating to these services.

- In accordance with the criteria for capitalization under IAS 38, engineering and product development costs incurred by our Predecessor did not qualify for capitalization due to uncertainty at the time regarding the probable future economic benefit of product development spending, whereas certain engineering and product development costs incurred by our Group qualified for capitalization under IAS 38 due to the significant change in the probable future economic benefit of product development spending after the Acquisition. As such, engineering and product development costs for our Group are not comparable to those of our Predecessor. There was no change in accounting policy and the criteria under IAS 38 were consistently applied in evaluating the capitalization of engineering and product development costs for our Predecessor prior to December 1, 2010 and for our Group subsequent to the Acquisition. The nature of the engineering and product development costs incurred by our Predecessor and our Group did not change before or after the Acquisition.

Certain engineering and product development costs of our Group qualified for capitalization under IAS 38, whereas the engineering and product development costs of our Predecessor did not, due to the significant change in probable future economic benefit of product development spending after the Acquisition for the following reasons:

- (i) The global automotive market had been experiencing significant distress since 2008. While the industry started to recuperate in 2010, there was ongoing uncertainty at the time about our Predecessor's current and future financial performance. In addition, there was ownership uncertainty about our Predecessor as GM intended to dispose of its interest in our Predecessor after acquiring us from Delphi Corporation in 2009. The uncertainty over our Predecessor's ownership and financial performance together with the prevailing global automotive market distress adversely impacted its long-term financing capabilities and operational performance. After the Acquisition, the stability in ownership as well as the improving outlook of the global automotive market in 2011 resulted in significant business programs awarded by customers.

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## FINANCIAL INFORMATION

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- (ii) Prior to the Acquisition, GM's ownership in our Predecessor adversely impacted its ability to market products to, and obtain business from, GM's competing OEMs. Since the Acquisition, we ceased to be under GM's ownership and our Group's customer base has been expanding significantly with new business programs awarded by other key customers. See "Business — Customers — Supply Relationships with Our Customers."

Engineering and product development costs recognized as expense include all expenses related to advanced research, program development engineering and continuous improvement engineering to improve processes that do not qualify for capitalization in accordance with our accounting policies. Engineering and product development costs recognized as expense are charged to the income statement. Development costs that qualify are capitalized as intangible assets. Amortization expenses for capitalized development costs are included in cost of sales. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our engineering and product development costs charged to the income statement were US\$8.5 million, US\$108.4 million and US\$81.6 million, respectively. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, development costs capitalized as intangible assets were US\$4.8 million, US\$70.8 million and US\$108.7 million, respectively. See "— Description of Selected Income Statement Line Items — Engineering and Product Development Costs."

- Our Predecessor only recognized obligations for defined benefit plans for which it was the legal plan sponsor. Our Predecessor participated in certain defined benefit plans in the U.S. for which another GM entity was the legal plan sponsor. For these plans, a defined benefit obligation was not recognized. Instead, our Predecessor only recognized costs equal to their contribution payable for the period in accordance with the employee benefit accounting standards under IFRS.
- 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.

For these reasons, with the exception of revenue, we have not combined our Predecessor's financial information for the period from January 1, 2010 to November 30, 2010 with our Group's financial information for the period from November 4, 2010 to December 31, 2010. Revenue has been combined as it was not significantly affected by the factors noted above.

As the operating results of our Predecessor, with the exception of revenue, are not directly comparable to the operating results of our Group, we believe that the profit test requirement under Rule 8.05(1) and the cash flow test requirement under Rule 8.05(2) of the Listing Rules are not applicable in these circumstances. Therefore, we have applied for the Listing pursuant to the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules.

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## FINANCIAL INFORMATION

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### FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our Group's results of operations and financial condition have been and will continue to be affected by a number of factors, including those set forth below.

#### Customer Schedules and New Business Booking

Our business is directly related to automotive sales and production. We primarily sell our products to automotive OEMs and are dependent on the continued growth, viability and financial stability of our customers.

During the period from January 1, 2010 to November 30, 2010, we were a wholly owned subsidiary of GM. GM was our most significant customer, representing 52.8% of our revenue for the period. As a division of GM, our ability to establish business relationships with certain other OEMs was limited because of competition among the global leading OEMs.

Since the Acquisition on November 30, 2010, our Group has secured significant new bookings. Additionally, in 2011 and 2012, the automotive industry continued its global recovery with the exception of Europe which has experienced prolonged economic difficulty. Our Group has secured increased purchase orders in regions where the automotive industry has continued to recover. While GM represented more than a majority of our Group's revenue for the years ended December 31, 2011 and 2012, our Group plans to continue to diversify its customer base in the future. See "Business — Our Strategies — Solidify established customer relationships and continue to diversify customer base."

After the Acquisition, we launched a new technology, REPS, which is a product in our EPS product line. A significant portion of our new bookings relate to the EPS product line. EPS products account for 29.9%, 33.9% and 35.3% of our total revenues for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively.

#### Pricing and Material Cost Pressures

Pricing pressure in the automotive supply industry has been substantial and is likely to continue. Cost-cutting initiatives adopted by our customers can result in downward pressure on the pricing of our products. OEMs also possess significant leverage over their suppliers, including us, because we belong to a highly competitive industry, serve a limited number of customers, have a high fixed cost base and historically have had excess capacity. Based on these factors, and because our customers' product programs encompass large volumes, our customers 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 could intensify as OEMs continue to pursue cost-cutting initiatives. If we are unable to generate sufficient production cost savings in the future, such as by improving our operating efficiencies and reducing expenses, to offset price reductions, our margins and profitability would be materially and adversely affected.

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## FINANCIAL INFORMATION

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The costs of raw materials, parts and components constitute a significant part of our total cost of sales. Raw material costs accounted for 64.6% of our Predecessor's total cost of sales for the period from January 1, 2010 to November 30, 2010 and 49.0%, 67.0% and 66.5% of our total cost of sales for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Our cost of sales for the period from November 4, 2010 to December 31, 2010 was affected by a US\$32.8 million employee restructuring charge. See “— Ability to Manage Manufacturing Challenges.” Our raw material costs are influenced by the prices of several commodities, including steel, rare earth magnet materials, aluminum, copper, and oil. Our material costs include castings, forgings, machined parts, motors, controllers, sensors, and bearings. Continuing volatility in the prices for our raw materials, parts and components may have adverse effects on our business, results of operations and financial condition. We will continue our efforts to pass material, components and supply cost increases on to our customers. However, competitive and market pressures have limited our ability to do so, and may prevent us from doing so in the future, because our customers are generally not obligated to accept our proposed price increases. Even when we are able to pass price increases on to our customers, there can be delays before we are able to do so. In 2011 and 2012, we were successful in negotiating certain contracts that permit us to fully or partially pass along certain raw material price increases, particularly price increases related to steel and rare earth materials, which partially mitigated the impact of rising raw material prices on our gross margin.

### **Ability to Manage 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 long-term customer orders with certainty makes it difficult for us to optimize our manufacturing processes and maximize utilization of our manufacturing capacity.

Our Group has implemented a number of cost reduction initiatives relating to cost of sales since the Acquisition. These initiatives included implementing production efficiency improvements, reducing scrap generation, and reducing labor costs. For example, pursuant to the MOU effective upon Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, we offered hourly employees: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. Our Group recognized employee restructuring charges of US\$32.8 million during the period from November 4, 2010 to December 31, 2010 and US\$1.8 million during the year ended December 31, 2011 in connection with this initiative (the “2010 employee restructuring initiative”). This initiative reduced the manufacturing wage structure of the U.S. hourly workforce in 2011 and future years.



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## FINANCIAL INFORMATION

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In 2012, our Group reduced salary and hourly headcount in an effort to reduce manufacturing, engineering, selling and administrative costs in accordance with recent cost reduction initiatives (the “2012 employee restructuring initiative”). In the year ended December 31, 2012, our Group recognized employee restructuring charges of US\$7.4 million, of which US\$2.4 million were related to efforts to reduce manufacturing and engineering labor costs.

### **Success of Capital Investment**

As we continue to grow our business, we expect to require continued substantial capital expenditure in the future as programs approach their respective launch dates and as new programs are won. 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 EPS. Our capital investments can be categorized into: (i) capital expenditures relating to property, plant and equipment; and (ii) capitalization of qualifying development costs.

Capital expenditures relating to property, plant and equipment were US\$47.5 million, US\$8.6 million, US\$67.1 million and US\$172.4 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012.

Our Group capitalized qualifying development costs of US\$4.8 million, US\$69.6 million and US\$104.1 million during the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. These costs were recognized 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. By contrast, our Predecessor did not capitalize development costs for the period from January 1, 2010 to November 30, 2010 or in prior periods since it could not be determined whether those costs would result in a future benefit.

Amortization expense recognized on these capitalized costs were nil, nil, US\$0.7million and US\$4.6 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. When a program is launched, capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years. We expect amortization expense to increase in future years as several programs that are currently in development are launched. Thus, amortization charges will more closely approximate amounts capitalized in those periods. We expect to continue to incur substantial costs for engineering and product development in the future to support our existing technologies and future development efforts.

### **Volatility in Operating Results Caused by Potential Impairment Charge**

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

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## FINANCIAL INFORMATION

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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 evaluation in the future may result in material impairment charges which would have a significant impact on our operating results and potentially our share price.

### **Our Tax Rates**

Effective tax rates for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012 were 0.5%, 7.4% and 5.7%, respectively. Our more significant subsidiaries are subject to tax in either the United States or China. Certain of our subsidiaries are currently exempted or taxed at preferential tax rates that range from 0% to 15%. Termination, revision, or lapse of the various types of preferential treatment mentioned above would have a negative impact on our results of operations and financial condition. See “Risk Factors — Risks Related to Our Business and Industry — 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.”

Our Poland subsidiary enjoys a Special Economic Zone (SEZ) tax concession related to its manufacturing operations. This concession operates similar to a tax holiday because it reduces the tax rate from 19% to 0% for the activities subject to the SEZ. We expect to maintain this significant tax concession until the SEZ concession expires in 2020.

Through 2011 our U.S. entities experienced tax losses, which were mostly attributable to Nexteer Automotive, our main U.S. operating entity. Up to 2011, we did not recognize any net deferred tax assets due to the uncertainty surrounding the availability of future profits against which these tax losses could be utilized, taking into consideration the trend of historical financial results as well as our business budget and booked business at the time. In 2012, we determined that it was appropriate to recognize these deferred tax assets due to current and future forecasted taxable profits in the United States. This gave rise to a large income tax benefit in 2012, which partially offset the total income tax expense for the year and was a major driver of the 5.7% effective tax rate. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. See “Appendix IA — Accountant’s Report of the Financial Information of the Group — II. Notes on the Financial Information — 2. Summary of Significant Accounting Policies.” As such, we examine the trend of historical earnings as objective evidence to assess the extent to which a deferred tax asset can be recognized. Our U.S. consolidated group incurred net taxable losses for the period from December 1, 2010 to December 31, 2010 and for the year ended December 31, 2011. In view of our history of the tax losses with no utilization in the past, no deferred tax assets attributable to our U.S. operations were recorded up to December 31, 2011. In contrast, the operating results of our U.S. operations experienced improvement in 2012, which resulted in an expected consolidated net taxable profit to be reported in our 2012 U.S. consolidated tax return. Our 2012 taxable profits will commence the utilization of our U.S. consolidated group’s net operating loss carry-forwards. This utilization provides significant positive evidence of the realizability of our U.S. deferred tax assets. After taking into consideration other factors such as our business plan, forecast and budget, booked business on hand and prevailing industry conditions, we commenced the recognition of deferred tax assets

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## FINANCIAL INFORMATION

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in 2012 to the extent that we believed it was probable that future taxable profits will be available to utilize previously unrecognized deferred tax assets, which is expected to be primarily tax loss carryforwards. As disclosed under “Appendix IA — Accountant’s Report of the Financial Information of the Group — II. Notes on the Financial Information — 9. Deferred Income Taxes,” as of December 31, 2012, our Group had US\$29.7 million of tax losses carry-forwards in the United States which will begin to expire in 2032 and were fully recognized as deferred tax assets for the year ended December 31, 2012.

We are required to measure current and deferred taxes based on tax laws that are enacted or substantively enacted as of the balance sheet date. The U.S. legislation allowing the federal research credit was not enacted or substantively enacted for the 2012 reporting period until January 2, 2013. Therefore, we did not include a tax benefit of US\$4.0 million for this 2012 credit in our 2012 financial statements. Instead, we will be reporting both the 2012 and 2013 tax benefit of the research credit in 2013, which will favorably impact our effective tax rate in 2013.

### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our Group’s financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2 and 3 of the Accountant’s Reports in Appendices IA and IB in this Prospectus, respectively.

#### Revenue Recognition

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by our Group or any commercial incentives linked to sales. Our Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our Group’s activities, as described below. Our Group contracts with customers, which are generally OEMs in the automotive industry, to sell driveline and steering products. In connection with these contracts our Group also contracts to provide tooling and prototype and engineering services. The revenue recognition policies applied by our Group for each of these activities are as follows:

- **Product** — Revenues are recognized when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred, and collectability is reasonably assured.

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## FINANCIAL INFORMATION

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- **Prototype and engineering** — Prototype and engineering activities are only performed in connection with the development of a product that will be produced for the customer. Consideration received from customers for engineering and prototyping is deferred and recognized over the product life cycle of the related product.
- **Tooling** — Our Group’s development and sale of tooling for customers is performed in connection with the preparations to produce and sell product to our customers. Therefore, consideration received from customers for tooling used in the production of the finished product is recognized as revenue at the time the tooling is accepted by the customer.

Deferred revenue relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

### **Property, Plant and Equipment and Depreciation**

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset’s carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

- |                                    |  |
|------------------------------------|--|
| ● Leasehold improvements           | 10-20 years or over lease term, whichever is shorter |
| ● Buildings                        | 10-40 years  |
| ● Machinery, equipment and tooling | 3-27 years   |
| ● Furniture and office equipment   | 3-10 years   |

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer-specific parts. Tools owned by our Group are capitalized as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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## FINANCIAL INFORMATION

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An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other (losses)/gains, net" in the income statement.

Construction-in-progress represents buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

### **Intangible Assets — Research and Development**

Our Group incurs significant costs on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognized as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

- the technical feasibility to complete the development project so that it will be available for use or sale;
- the intention to complete the development project to use or sell it;
- the ability to use the output of the development project;
- the manner in which the development project will generate probable future economic benefits for our Group;
- the availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and
- the expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years.

Development costs not satisfying the above criteria are recognized in our Group's income statement as incurred.

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## FINANCIAL INFORMATION

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### Provisions

Provisions for restructuring, legal disputes, environmental liabilities, warranties and decommissioning are recognized when our Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

- **Litigation.** Our Group is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters and employment related matters.

Our Group believes its established reserves are adequate to cover such items. However, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on our Group.

- **Environmental Liabilities.** Our Group records environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.
- **Warranties.** Our Group recognizes expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on our Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. Our Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.
- **Decommissioning.** Conditional asset retirement obligations identified by our Group primarily relate to asbestos abatement and removal and disposal of storage tanks at certain of our sites. Amounts recorded are based on our Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. Our Group records accretion expense monthly to account for discounting of such obligations.

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## FINANCIAL INFORMATION

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### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Inventory cost includes direct material, direct labor and related manufacturing overhead costs (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Current and Deferred Income Tax**

Income tax expense comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is recognized in other comprehensive income or directly in equity, respectively.

#### ***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### ***Deferred Income Tax***

(i) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(ii) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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## FINANCIAL INFORMATION

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### *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

For the period from January 1, 2010 to November 30, 2010, U.S. taxes were estimated on an “as if separate” basis, as if our Predecessor were a stand-alone entity. Since certain of our Predecessor’s legal entities filed a consolidated tax return with GM legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

### **RESULTS OF OPERATIONS**

The following table sets forth a summary of our Predecessor’s consolidated statement of comprehensive income for the period from January 1, 2010 to November 30, 2010 and our Group’s combined statements of comprehensive income for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012. The basis of presentation of our Predecessor’s financial information is not comparable to the basis of presentation of our Group’s financial information. Accordingly, with the exception of revenue, we have not combined our Predecessor’s financial information for the period from January 1, 2010 to November 30, 2010 with our Group’s financial information for the period from November 4, 2010 to December 31, 2010. Revenue has been combined as it was not significantly affected by the factors noted above. Operating results in any historical period may not be indicative of the results that may be expected in any future period.



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## FINANCIAL INFORMATION

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### Our Predecessor

	For the period from January 1, 2010 to November 30, 2010
	(US\$ thousands)
<b>Revenue</b> .....	1,895,195
Cost of sales .....	(1,610,442)
<b>Gross profit</b> .....	284,753
Engineering and product development costs .....	(118,008)
Administrative expenses .....	(59,139)
Selling and distribution expenses .....	(17,018)
Other losses, net .....	(5,537)
<b>Operating profit</b> .....	85,051
Finance income .....	790
Finance costs .....	(4,747)
Finance costs, net .....	(3,957)
<b>Profit before income tax</b> .....	81,094
Income tax expense .....	(10,991)
<b>Profit for the period</b> .....	70,103
<b>Profit for the period attributable to:</b>	
Equity holders of our Predecessor .....	67,955
Non-controlling interests .....	2,148
<b>Profit for the period</b> .....	70,103
<b>Other comprehensive loss, net of tax</b>	
Exchange differences .....	(5,482)
Actuarial losses on defined benefit plans, net of tax .....	(854)
	(6,336)
<b>Total comprehensive income, for the period</b> .....	63,767
<b>Attributable to:</b>	
Equity holders of our Predecessor .....	61,157
Non-controlling interests .....	2,610
	63,767

## FINANCIAL INFORMATION

### Our Group

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
		(US\$ thousands)	
<b>Revenue</b> .....	156,688	2,247,752	2,167,802
Cost of sales .....	(182,033)	(1,970,477)	(1,900,989)
<b>Gross (loss)/profit</b> .....	(25,345)	277,275	266,813
Engineering and product development costs .....	(8,470)	(108,376)	(81,623)
Administrative expenses .....	(21,841)	(78,089)	(88,563)
Selling and distribution expenses .....	(994)	(10,547)	(9,343)
Other (losses)/gains, net .....	(638)	8,938	(3,361)
<b>Operating (loss)/profit</b> .....	(57,288)	89,201	83,923
Finance income .....	72	838	562
Finance costs .....	(1,744)	(16,602)	(22,291)
Finance costs, net .....	(1,672)	(15,764)	(21,729)
<b>(Loss)/profit before income tax</b> .....	(58,960)	73,437	62,194
Income tax credit/(expense) .....	293	(5,404)	(3,567)
<b>(Loss)/profit for the period/year</b> .....	(58,667)	68,033	58,627
<b>(Loss)/profit for the period/year attributable to:</b>			
Equity holders of the Company .....	(58,539)	66,686	57,096
Non-controlling interests .....	(128)	1,347	1,531
<b>(Loss)/profit for the period/year</b> .....	(58,667)	68,033	58,627
<b>Other comprehensive income/(loss), net of tax</b>			
Exchange differences .....	2,865	(11,851)	4,607
Actuarial gains/(losses) on defined benefit plans, net of tax .....	118	(929)	(1,394)
	2,983	(12,780)	3,213
<b>Total comprehensive (loss)/income, for the period/year</b> .....	(55,684)	55,253	61,840
<b>Attributable to:</b>			
Equity holders of the Company .....	(55,661)	53,489	60,103
Non-controlling interests .....	(23)	1,764	1,737
	(55,684)	55,253	61,840

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

#### Revenue

Revenue represents income from our product sales as well as the provision of tooling, prototype parts and engineering services to customers. Product sales represented approximately 99% of total revenue for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012. We typically enter into contracts with our OEM customers 24-30 months prior to the recognition of revenue. The revenue we recorded during the Track Record Period primarily represents contracts we received prior to the Acquisition. We generated revenues of US\$2,051.9 million, US\$2,247.8 million and US\$2,167.8 million for the years ended December 31, 2010, 2011 and 2012, respectively.

The following sets forth our revenue by product lines for the periods/years indicated:

	Our Predecessor		Our Group		Combined <sup>(1)</sup>		Our Group			
	For the period from January 1, 2010 to November 30, 2010		For the period from November 4, 2010 to December 31, 2010		Total 2010		For the year ended December 31, 2011		For the year ended December 31, 2012	
	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%
<b>Steering:</b>										
EPS . . . . .	553,811	29.2	46,782	29.9	600,593	29.3	762,967	33.9	764,937	35.3
HPS . . . . .	485,992	25.7	40,585	25.9	526,577	25.7	540,396	24.0	447,314	20.6
Steering Column (CIS) . . . . .	487,822	25.7	38,240	24.4	526,062	25.6	500,193	22.3	481,827	22.2
<b>Driveline . . . . .</b>	<u>367,570</u>	19.4	<u>31,081</u>	19.8	<u>398,651</u>	19.4	<u>444,196</u>	19.8	<u>473,724</u>	21.9
<b>Total . . . . .</b>	<u>1,895,195</u>	100.0	<u>156,688</u>	100.0	<u>2,051,883</u>	100.0	<u>2,247,752</u>	100.0	<u>2,167,802</u>	100.0

Note:

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”

The following table sets forth sales volumes by product lines for the years indicated:

Product lines <sup>(1)</sup>	For the year ended		
	December 31, 2010 <sup>(2)</sup>	December 31, 2011	December 31, 2012
	(in thousands)		
<b>Steering:</b>			
EPS . . . . .	2,278	2,682	2,680
HPS . . . . .	10,700	10,718	8,289
Steering Column (CIS) . . . . .	4,098	3,727	3,463
<b>Driveline . . . . .</b>	<u>7,944</u>	<u>8,018</u>	<u>8,694</u>
<b>Total . . . . .</b>	<u>25,020</u>	<u>25,145</u>	<u>23,126</u>

Notes:

(1) Product lines exclude aftermarket, service and components.  
(2) Sales volumes for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 have been combined. See “— Basis of Presentation.”

## FINANCIAL INFORMATION

The following table sets forth the ranges of the price per unit by product lines for the years indicated:

Product lines <sup>(1)</sup>	For the year ended		
	December 31, 2010 <sup>(2)</sup>	December 31, 2011	December 31, 2012
	(US\$)		
<b>Steering:</b>			
EPS .....	210-335	185-335	200-430
HPS .....	2-270	2-270	2-270
Steering Column (CIS) .....	20-430	20-450	20-430
<b>Driveline</b> .....	25-100	25-215	25-215

Notes:

- (1) Product lines exclude aftermarket, service and components.
- (2) Price range for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”

The range of prices for each product line is attributable to the wide variety of products within a product line. See “Business — Our Products.” There is a significant difference in pricing depending on whether we sell an entire system or separate products. Furthermore, pricing within a specific product category also varies widely due to the high degree of customer-specific customization of our products.

The following table sets forth our revenue by geographic segment for the periods/years indicated:

Geographic segment:	Our Predecessor		Our Group		Combined <sup>(1)</sup>		Our Group			
	For the period from January 1, 2010 to November 30, 2010		For the period from November 4, 2010 to December 31, 2010		Total 2010		For the year ended December 31, 2011		For the year ended December 31, 2012	
	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%
North America .....	1,200,748	63.4	96,858	61.8	1,297,606	63.2	1,470,392	65.4	1,536,351	70.9
Europe .....	430,868	22.7	31,715	20.2	462,583	22.5	456,359	20.3	328,444	15.2
China .....	129,240	6.8	18,125	11.6	147,365	7.2	168,477	7.5	182,326	8.4
Rest of World <sup>(2)</sup> .....	134,339	7.1	9,990	6.4	144,329	7.1	152,524	6.8	120,681	5.5
<b>Total</b> .....	<u>1,895,195</u>	100.0	<u>156,688</u>	100.0	<u>2,051,883</u>	100.0	<u>2,247,752</u>	100.0	<u>2,167,802</u>	100.0

Notes:

- (1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”
- (2) Includes Brazil, India, Korea and Australia.

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## FINANCIAL INFORMATION

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### Cost of Sales and Gross Profit

Cost of sales represents costs directly attributed to our revenue generating activities and consists principally of raw materials, manufacturing expenses and employee restructuring costs. For the period from January 1, 2010 to November 30, 2010, our Predecessor's costs of sales were US\$1,610.4 million. The following table sets forth our Predecessor's cost of sales and gross profit for the period indicated:

	For the period from January 1, 2010 to November 30, 2010
	(US\$ thousands)
Cost of Sales .....	1,610,442
Gross Profit .....	284,753
Gross Profit % .....	15.0%

For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our Group's costs of sales were US\$182.0 million, US\$1,970.5 million and US\$1,901.0 million, respectively. The following table sets forth our Group's cost of sales and gross profit for the period/years indicated:

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
	(US\$ thousands)		
Cost of Sales .....	182,033	1,970,477	1,900,989
Gross (Loss)/Profit .....	(25,345)	277,275	266,813
Gross (Loss)/Profit % .....	(16.2%)	12.3%	12.3%

The two major components of cost of sales are raw materials and manufacturing costs.

The primary types of materials purchased are electrical parts, particularly controllers, motors and sensors; machined parts, including castings and forgings, bearings, and stampings; and commodity purchases. The cost of the commodity purchases is significantly impacted by global economic conditions. The key commodities that impact material costs are steel and rare earth materials. As economic pressures increase on those commodities, the purchased material cost rises. The impact of price fluctuations of these commodities on our gross profit and margins is significantly mitigated by various commercial agreements with our customers that allow for full or partial pass-through of cost increases. Another significant component of cost of sales is manufacturing cost, which consists primarily of hourly labor cost, salaried labor costs (management and planning for manufacturing and support functions), benefit costs, utilities, scrap expense, indirect and maintenance material, and start-up and launch expenses. A portion of the hourly labor costs is variable and fluctuates with customer requirements, while salaried cost is predominately fixed.

## FINANCIAL INFORMATION

The following table sets forth the components of cost of sales of our Predecessor for the period indicated:

	<b>For the period from January 1, 2010 to November 30, 2010</b>	
	(US\$ thousands)	%
Raw materials .....	1,039,619	64.6
Manufacturing .....	525,429	32.6
Restructuring costs .....	—	—
Other .....	45,394	2.8
<b>Total .....</b>	<b>1,610,442</b>	<b>100</b>

The following table sets forth the components of cost of sales of our Group for the period/years indicated:

	<b>For the period from November 4, 2010 to December 31, 2010</b>		<b>For the year ended December 31, 2011</b>		<b>For the year ended December 31, 2012</b>	
	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%
Raw materials .....	89,145	49.0	1,320,418	67.0	1,264,615	66.5
Manufacturing .....	59,041	32.4	607,024	30.8	586,698	30.9
Restructuring costs .....	32,763	18.0	1,776	0.1	2,417	0.1
Other .....	1,084	0.6	41,259	2.1	47,259	2.5
<b>Total .....</b>	<b>182,033</b>	<b>100</b>	<b>1,970,477</b>	<b>100</b>	<b>1,900,989</b>	<b>100</b>

For the period from January 1, 2010 to November 30, 2010, our Predecessor's gross profit was US\$284.8 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group's gross (loss)/profit was US\$(25.3 million), US\$277.3 million and US\$266.8 million, respectively. For a description of the gross loss for the period from November 4, 2010 to December 31, 2010, see “— Results of Operations — Period from November 4, 2010 to December 31, 2010 — Our Group.”

### Engineering and Product Development Costs

The following table sets forth the components of engineering and product development costs of our Predecessor for the period indicated:

	<b>For the period from January 1, 2010 to November 30, 2010</b>
	(US\$ thousands)
Engineering and product development costs charged to income statement .....	118,008
Development costs capitalized as intangible assets .....	—
<b>Total engineering and product development costs .....</b>	<b>118,008</b>

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## FINANCIAL INFORMATION

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The following table sets forth the components of engineering and product development costs of our Group for the period/years indicated:

	<b>For the period from November 4, 2010 to December 31, 2010</b>	<b>For the year ended December 31, 2011</b>	<b>For the year ended December 31, 2012</b>
		(US\$ thousands)	
Engineering and product development costs charged to income statement . . . . .	8,470	108,376	81,623
Development costs capitalized as intangible assets . . . . .	<u>4,846</u>	<u>70,771</u>	<u>108,702</u>
<b>Total engineering and product development costs . . . . .</b>	<u><u>13,316</u></u>	<u><u>179,147</u></u>	<u><u>190,325</u></u>

Engineering and product development costs charged to our income statement include all advanced research, program development engineering, and continuous improvement engineering to improve processes that do not qualify for capitalization as an intangible asset in accordance with our accounting policies discussed above. Amortization expenses for capitalized development costs are included in cost of sales. Our Group's research, development, and engineering department operates a global network of technical centers where we employ and contract engineers, researchers, designers, software experts, process experts, and technicians. This global network allows our Group to develop steering and driveline systems and improve existing products. We believe that continued research, development and engineering activities are critical to our long term growth as we seek additional business with new and existing customers.

For the period from January 1, 2010 to November 30, 2010, no engineering and product development costs were capitalized by our Predecessor. Engineering and product development costs incurred by our Predecessor prior to December 1, 2010 did not meet the IFRS criteria for capitalization due to the then uncertainty about the probable future economic benefit of product development spending after considering such factors as: (i) prevailing global automotive market conditions in 2008, 2009, and early 2010 combined with ownership uncertainty of our Predecessor; and (ii) in October 2009 through November 2010, the adverse impact of GM's ownership upon our Predecessor's ability to market its products to and obtain business from GM's competing OEMs.

For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, capitalized engineering and product development costs were US\$4.8 million, US\$70.8 million and US\$108.7 million, respectively.

Our Group considered the following factors to evaluate whether the capitalization of engineering and product development costs was appropriate: (i) significant awards for new programs were secured from customers since we ceased to be under GM's ownership; (ii) the improving outlook of the global automotive market in 2010; and (iii) as a result of the improving outlook of the global automotive market in 2010, higher profitability forecasts for our Group in future periods resulting from awards from new and existing customers in 2010 and

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## FINANCIAL INFORMATION

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2011. Our Group concluded that qualifying engineering and product development costs incurred after December 1, 2010 met the IFRS criteria for capitalization. See “Business — Research and Development.”

For the period from January 1, 2010 to November 30, 2010, our Predecessor’s gross engineering and product development costs were US\$118.0 million, representing 6.2% of our Predecessor’s revenue.

For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s gross engineering and product development costs were US\$13.3 million, US\$179.1 million and US\$190.3 million, representing 8.5%, 8.0% and 8.8% of our Group’s revenue, respectively. The increase in gross engineering and product development costs by US\$11.2 million from the year ended December 31, 2011 to the year ended December 31, 2012 is attributable to the volume of programs currently in development that are expected to launch in 2013 and 2014.

Amortization of capitalized development costs recorded under cost of sales amounted to nil, nil, US\$0.7 million, and US\$4.6 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Our Group expects amortization expense to increase in future years as several programs that are currently in development are launched.

### **Administrative Expenses**

Administrative expenses principally include employee wages and benefits for administrative staff, including finance, human resources, IT, legal and others. The largest components of employee wages and benefits within administrative expenses include salaries, bonuses, and contributions to various benefit plans pursuant to our HR policy or applicable regulations. During the period GM owned our Predecessor, the costs charged by GM to our Predecessor for these services may not be indicative of the costs that our Predecessor would have incurred had our Predecessor been a stand-alone entity. Additionally, GM did not charge our Predecessor for all costs it incurred. In all instances where costs were not charged to our Predecessor, no expense has been included in our Predecessor’s consolidated financial statements. Consequently, amounts reported as administrative expenses by our Predecessor are not comparable to our Group. See “— Basis of Presentation.” For the period from January 1, 2010 to November 30, 2010, our Predecessor’s administrative expenses were US\$59.1 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s administrative expenses were US\$21.8 million, US\$78.1 million, and US\$88.6 million, respectively.

### **Selling and Distribution Expenses**

Selling and distribution expenses principally include employee wages and benefits for our global sales staff and other related expenses. For the period from January 1, 2010 to November 30, 2010, our Predecessor’s selling costs were US\$17.0 million, representing 0.9% of our Predecessor’s revenue. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s selling costs were US\$1.0 million, US\$10.5 million and US\$9.3 million, representing 0.6%, 0.5% and 0.4% of our Group’s revenue, respectively.



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## FINANCIAL INFORMATION

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### **Other (Losses)/Gains, net**

Other (losses)/gains, net, principally include foreign exchange (losses)/gains as well as royalty income offset by special claims. For the period from January 1, 2010 to November 30, 2010, our Predecessor's net other losses were US\$5.5 million. For the period from November 4, 2010 to December 31, 2010, our Group's other losses, net were US\$0.6 million. For the year ended December 31, 2011, our Group's other gains, net were US\$8.9 million, and for the year ended December 31, 2012, our Group's other losses, net were US\$3.4 million.

### **Finance Costs, net**

Finance costs, net, consist of interest income and expense reduced by interest capitalized on qualifying assets. Our Predecessor's financing activities and capital structure were managed by GM. Accordingly, finance costs reported by our Predecessor are not comparable to those of our Group. See "— Basis of Presentation." For the period from January 1, 2010 to November 30, 2010, our Predecessor's net finance costs were US\$4.0 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group's net finance costs were US\$1.7 million, US\$15.8 million and US\$21.7 million, respectively.

### **Income Tax (Expense)/Credit**

Income tax expenses represent total current and deferred tax expenses.

For the period from January 1, 2010 to November 30, 2010, our Predecessor's income tax expense was US\$11.0 million, representing 13.6% of our Predecessor's profit before income tax. For the period from November 4, 2010 to December 31, 2010, our Group's income tax credit was US\$0.3 million while the tax expense for the years ended December 31, 2011 and 2012 were US\$5.4 million and US\$3.6 million, respectively, representing 0.5%, 7.4% and 5.7% of our Group's (loss)/profit before income tax, respectively.

### **Profit/(Loss) for the Period/Year**

Profit/(loss) for the period/year represents the profit/(loss) after tax. Profits/(loss) between our Predecessor and our Group are not comparable primarily because of the change of the net asset basis when our Group acquired the assets and assumed the liabilities from our Predecessor, the manner in which costs were charged by GM to our Predecessor for the pre-Acquisition period, the capitalization of development costs due by our Group, and the Acquisition fees and costs incurred by our Group. See "— Basis of Presentation."

### ***Our Predecessor***

Our Predecessor's profit for the period from January 1, 2010 to November 30, 2010 was US\$70.1 million, or 3.7%, of our Predecessor's revenue for the period.

### ***Our Group***

For the period from November 4, 2010 to December 31, 2010, our Group's loss was US\$58.7 million. For the years ended December 31, 2011 and 2012, our Group's profit was US\$68.0 million and US\$58.6 million, representing 3.0% and 2.7% of our Group's revenue,

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## FINANCIAL INFORMATION

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respectively. The decrease in net profit margin from 2011 to 2012 was primarily attributable to costs incurred as a result of our 2012 employee restructuring initiative, costs related to the Global Offering, as well as an increase in finance costs as a result of an increase in our total borrowings by US\$134.0 million from December 31, 2011 to December 31, 2012.

### Currency Conversion Differences

Currency conversion differences represent exchange differences related to converting the balance sheet and income statement to the functional currency of our Group which is the U.S. Dollar. Balance sheet accounts are converted at the closing period exchange rate and income statement accounts are converted at an average period exchange rate. All resulting exchange differences are recognized in other comprehensive income.

## RESULTS OF OPERATIONS

### Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the year ended December 31, 2012 was US\$2,167.8 million, a decrease of US\$80.0 million, or 3.6%, as compared with our Group's revenue of US\$2,247.8 million for the year ended December 31, 2011. The decrease in revenue was due to the following:

- An overall decrease in total sales volume resulting from the following factors:
  - a slight decline in sales volume of the EPS product line, which was primarily the combined effect of increased demand in China offset by a decline in sales volume of the EPS product line in Europe, primarily due to recessionary economic conditions throughout 2012;
  - a decline in sales volume of the HPS product line. The decline was primarily due to the industry conversion from HPS to EPS, which is consistent with our Group's overall growth strategy of shifting our focus to the EPS product line;
  - a decline in sales volume of the steering columns product line primarily as a result of the integration of steering columns into EPS products. Thus, an increased number of our EPS products include an integrated steering column product; and
  - partially offset by an increase in sales volume of the driveline product line primarily due to new programs and increased sales volumes from existing programs in North America.
- An overall decrease in pricing was a result of:
  - the impact of price reductions to secure new customer programs and contractually scheduled price reductions for existing programs which were agreed upon when certain programs were originally awarded; and
  - the decrease was partially offset by the following: (1) an increase in new program launches and the shift in product mix to higher priced products, such as EPS, and (2) the impact of customer billings for commodity recovery of cost of raw materials. During 2012, in accordance with negotiated contracts with certain customers, increases in the cost of rare earth metals and steel were fully or partially passed through to these customers.

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## FINANCIAL INFORMATION

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In line with the industry conversion from HPS to EPS and our Group's EPS-focused growth strategy, we have strategically shifted our production focus from HPS to EPS. While we continue to produce HPS products, we have become more selective with respect to the HPS business we pursue and accept, which has resulted in a decrease in HPS sales volume from 2011 to 2012. Once we have accepted a business opportunity, it typically takes 24 to 30 months for us to implement the required manufacturing capacity and for the customer to complete development of the vehicle before commencing production. Moreover, even after commencing production, it generally takes at least six months for newly ramped up capacity to run at full capacity. As a result, it may take two or three years before the booked business can become significant sources of income. Furthermore our sales volume of EPS and HPS is affected by macroeconomic conditions. Accordingly, the growth in revenue of our EPS products from 2011 and 2012 did not match the decrease in revenue of our Group's HPS products for the same period. The decrease in sales volume of HPS did not have a material adverse effect on our Group's sustainability during the Track Record Period and is in line with our Group's EPS-focused strategies for future growth. See "Business — Customers — Supply Relationships with Our Customers" for a summary of our key booked business as of the Latest Practicable Date, including key EPS programs booked as of the Latest Practicable Date, which have estimated lifetime revenue of US\$4.5 billion.

**Cost of sales.** Our Group's cost of sales for the year ended December 31, 2012 was US\$1,901.0 million, which primarily included raw material costs of US\$1,264.6 million, manufacturing expense of US\$586.7 million, employee restructuring costs of US\$2.4 million, as well as other costs of sales. The decrease in cost of sales by US\$69.5 million, or 3.5%, from US\$1,970.5 million for the year ended December 31, 2011 to US\$1,901.0 million for the year ended December 31, 2012 aligns with the overall decline in our Group's sales revenue of 3.6%. In addition, cost of sales in 2012 continued to improve as a result of cost reduction initiatives, including:

- the implementation of production efficiency improvements;
- a decline in labor costs as a result of the 2010 employee restructuring initiative; and
- a decline in direct material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives, which were partially offset by increased economic commodity pressures resulting in an increase in purchased material costs that were fully or partially passed through to customers.

This decrease was partially offset by a restructuring expense of US\$2.4 million related to manufacturing and engineering headcount reductions which were intended to reduce labor costs in future periods in accordance with recent cost reduction initiatives.

**Gross profit.** Our Group's gross profit for the year ended December 31, 2012 was US\$266.8 million, a decrease of US\$10.5 million, or 3.8%, as compared with our Group's gross profit of US\$277.3 million for the year ended December 31, 2011. The decrease in gross profit was primarily driven by the decline in sales revenue for the reasons described above. See "— Revenue." Our Group's gross profit decreased from 2011 to 2012; however, our gross profit margin for the year ended December 31, 2012 was 12.3%, which remained stable compared to a gross profit margin of 12.3% for the year ended December 31, 2011.

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## FINANCIAL INFORMATION

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**Engineering and product development costs.** Our Group's engineering and product development costs for the year ended December 31, 2012 were US\$81.6 million, which primarily included labor and benefits expense of US\$64.6 million, materials expense of US\$13.6 million, as well as other expenses of US\$3.4 million. Our Group capitalized approximately US\$108.7 million, or 57.1%, of total engineering and product development costs in the year ended December 31, 2012. By comparison, our Group capitalized US\$70.8 million, or 39.5%, of total engineering and product development costs in the year ended December 31, 2011. The increase in amounts capitalized in 2012 reflects an increase in the number of programs in development and the later stages of development for certain of our Group's larger programs. Generally, as products advance through the development life cycle, a larger portion of engineering and product development costs can be capitalized.

**Administrative expenses.** Our Group's administrative expenses for the year ended December 31, 2012 were US\$88.6 million, which were primarily comprised of salaries and wages expense of US\$29.5 million and information technology implementation and maintenance expenses of US\$16.2 million. The increase in administrative expenses of US\$10.5 million, or 13.4%, as compared with our Group's administrative expenses of US\$78.1 million for the year ended December 31, 2011 was primarily attributable to restructuring expense of US\$5.0 million incurred in the year ended December 31, 2012 as a result of the 2012 employee restructuring initiative as well as US\$6.6 million in costs related to the Global Offering. This increase was partially offset by a decrease in salaries, wages, and benefits due to the workforce restructuring initiative.

**Selling and distribution expenses.** Our Group's selling and distribution expenses for the year ended December 31, 2012 were US\$9.3 million, which primarily included salaries and wages expense of US\$4.9 million, business travel expense of US\$1.2 million, outside service costs of US\$1.5 million, employee benefits expense of US\$1.3 million, as well as other expenses totaling US\$0.4 million. The decrease in selling and distribution expenses of US\$1.2 million, or 11.4%, as compared with our Group's selling and distribution expenses of US\$10.5 million for the year ended December 31, 2011 was largely attributable to a headcount reduction of temporary employees in connection with our 2012 employee restructuring initiative.

**Other (losses)/gains, net.** Our Group's other losses, net for the year ended December 31, 2012 were US\$3.4 million, which were primarily comprised of a foreign exchange loss of US\$3.3 million. Our Group's other gains of US\$8.9 million for the year ended December 31, 2011 consisted primarily of the unfavorable impact of the Euro against the U.S. Dollar. The foreign exchange (losses)/gains were comprised of US\$8.1 million exchange gains and US\$2.0 million exchange losses on a loan held by our North America subsidiary as of December 31, 2011 and 2012, respectively.

**Finance income.** Our Group's finance income for the year ended December 31, 2012 was US\$0.6 million, a decrease of US\$0.2 million, or 32.9%, as compared with our Group's finance income of US\$0.8 million for the year ended December 31, 2011. Finance income remained stable from the year ended December 31, 2011 to the year ended December 31, 2012.

**Finance costs, net.** Our Group's finance costs, net for the year ended December 31, 2012 were US\$21.7 million, which were comprised of interest expenses and guarantee fees for our outstanding bank loans. The increase in finance costs, net of US\$6.0 million, or 37.8%, as

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## FINANCIAL INFORMATION

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compared with our Group's finance costs, net of US\$15.8 million for the year ended December 31, 2011 was primarily attributable to an increase in our total borrowings from US\$406.6 million as of December 31, 2011 to US\$540.6 million as of December 31, 2012. This increase in finance costs, net was also impacted by an increase in our weighted average annual interest rate from 2.9% to 4.1% in the years ended December 31, 2011 and 2012, respectively.

***Income tax expense.*** Our Group's income tax expense for the year ended December 31, 2012 was US\$3.6 million. In 2012 we recognized certain deferred tax assets which gave rise to large income tax benefits that partially offset the total income tax expense for the year.

***Profit for the year.*** Our Group's profit for the year ended December 31, 2012 was US\$58.6 million, a decrease of US\$9.4 million, or 13.8%, compared to profit for the year ended December 31, 2011 of US\$68.0 million. Our Group's net margin for the years ended December 31, 2012 and 2011 were 2.7% and 3.0%, respectively. The decrease in net profit margin from 2011 to 2012 was primarily attributable to cost incurred as a result of our 2012 employee restructuring initiative, costs related to the Global Offering, as well as an increase in finance costs as a result of an increase in our total borrowings by US\$134.0 million from December 31, 2011 to December 31, 2012.

### **Year Ended December 31, 2011 Compared with the Combined Year Ended December 31, 2010**

Our Predecessor's operating results are not directly comparable to the results of our Group. Accordingly, with the exception of revenue, we have not combined our Predecessor's financial information for the period from January 1, 2010 to November 30, 2010 with our Group's financial information for the period from November 4, 2010 to December 31, 2010 for the purpose of management's discussion and analysis of results of operations. See "— Basis of Presentation."

***Revenue.*** Our Group's revenue for the year ended December 31, 2011 was US\$2,247.8 million, an increase of US\$195.9 million or 9.5%, as compared with the combined revenue of our Predecessor for the period from January 1, 2010 to November 30, 2010 and our Group for the period from November 4, 2010 to December 31, 2010 of US\$2,051.9 million. The increase in revenue was due to the following:

- Total sales volume showed a slight increase resulting from the following factors:
  - an increase in sales volume of the EPS product line which contributed to an increase in sales revenue of US\$162.4 million, or 27.0%, from US\$600.6 million in the year ended December 31, 2010 to US\$763.0 million in the year ended December 31, 2011. The increase was primarily due to new programs and increased customer schedules on existing programs in North America. In addition, subsequent to the Acquisition, we launched new REPS technology, which resulted in increased sales volume in North America;
  - an increase in sales volume of the HPS product line which contributed to an increase in sales revenue of US\$13.8 million, or 2.6%, from US\$526.6 million in the year ended December 31, 2010 to US\$540.4 million in the year ended December 31, 2011. The increase was primarily due to an increase in customer schedules on existing programs;

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## FINANCIAL INFORMATION

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- partially offset by a decline in sales volume of the steering columns product line which contributed to a decrease in sales revenue of US\$25.9 million, or 4.9%, from US\$526.1 million in the year ended December 31, 2010 to US\$500.2 million in the year ended December 31, 2011 primarily as a result of the integration of steering columns into EPS products. Thus, an increased number of our EPS products include an integrated steering column product; and
- a slight increase in sales volume of the driveline product line primarily due to new programs and increased sales volumes from existing programs in North America.
- An overall decrease in pricing as a result of:
  - the impact of pricing reductions to secure new customer programs. We also experienced contractual price reductions which were agreed upon when certain programs were originally awarded; and
  - the decrease was partially offset by an increase resulting from customer billings for commodity recovery of cost of raw materials. During 2011, in accordance with negotiated contracts with certain customers, increases in the cost of rare earth metals and steel were fully or partially passed through to these customers.
- An increase in revenue relating to the favorable impact of the Euro against the U.S. dollar.

### **Year Ended December 31, 2011 — Our Group**

*Cost of sales.* Our Group's cost of sales for the year ended December 31, 2011 was US\$1,970.5 million. Costs of sales in 2011 included mainly raw material costs of US\$1,320.4 million, manufacturing expense of US\$607.0 million, employee restructuring expense of US\$1.8 million, and others of US\$41.3 million. In addition, cost of sales in 2011 was affected by each of the following:

- In connection with the continued launch of REPS in North America, our Group incurred costs in North America primarily relating to additional labor, incremental scrap and premium freight.
- An increase in raw material costs, particularly for steel and rare earth metals, which were partially passed along to customers, as discussed above.
- Cost of sales increases were offset by significant improvements in cost of sales related to cost reduction initiatives, which included the implementation of production efficiency improvements, reducing labor costs, as a result of the 2010 employee restructuring initiative described below and reduced direct material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.
- Effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, U.S. hourly employees were offered (i) a lump sum payment for employees who agreed to a lower hourly rate after the Acquisition (mandatory

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## FINANCIAL INFORMATION

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for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. Our Group recognized costs of US\$1.8 million during the year ended December 31, 2011 in connection with this employee restructuring initiative, which had a favorable impact in 2011 and is expected to have a favorable impact in future periods as the wage structure of our U.S. hourly workforce decreased substantially. See “— Period from November 4, 2010 to December 31, 2010 — Our Group.”

**Gross profit.** Our Group’s gross profit for the year ended December 31, 2011 was US\$277.3 million, which was primarily affected by the impact of higher revenue stemming from volume increases, cost improvements in manufacturing and direct materials, partially offset by rising commodity costs, particularly steel and rare earth metals, start-up and launch costs of producing a new product and new technology.

**Engineering and product development costs.** Our Group’s engineering and product development costs for the year ended December 31, 2011 were US\$108.4 million, which primarily comprised labor and benefits expense of US\$79.2 million, materials expense of US\$16.8 million and other expenses of US\$12.4 million.

**Administrative expenses.** Our Group’s administrative expenses for the year ended December 31, 2011 were US\$78.1 million, which primarily comprised salaries and wages expense of US\$29.9 million and IT expense of US\$20.1 million. Administrative expense for this period also included a business tax credit approximating US\$9.3 million relating to the Michigan Economic Growth Authority.

**Selling and distribution expenses.** Our Group’s selling and distribution expenses for the year ended December 31, 2011 were US\$10.5 million, which primarily comprised salaries and wages expense of US\$4.8 million, business travel expense of US\$1.1 million, outside service costs of US\$2.0 million, employee benefits expense of US\$1.5 million, and other expenses totaling US\$1.1 million.

**Other gains, net.** Our Group’s other gains, net for the year ended December 31, 2011 were US\$8.9 million.

**Finance income.** Our Group’s finance income for the year ended December 31, 2011 was US\$0.8 million.

**Finance costs, net.** Our Group’s finance costs, net for the year ended December 31, 2011 were US\$15.8 million, which were comprised of interest expenses and guarantee fees for our outstanding bank loans and Acquisition Debt.

**Income tax expense.** Our Group’s income tax expense for the year ended December 31, 2011 were US\$5.4 million.

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## FINANCIAL INFORMATION

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### Period from November 4, 2010 to December 31, 2010 — Our Group

**Cost of sales and gross loss.** Our Group's cost of sales for the period from November 4, 2010 to December 31, 2010 was US\$182.0 million. Costs of sales for the period from November 4, 2010 to December 31, 2010 mainly included raw material costs of US\$89.1 million, manufacturing expense of US\$59.0 million, employee restructuring expense of US\$32.8 million, and other costs of sales of US\$1.1 million.

Our Group incurred gross loss for the period from November 4, 2010 to December 31, 2010 mainly due to employee wage restructuring costs of US\$32.8 million. In 2010, we ratified the Nexteer Automotive MOU with the UAW, which included wage and separation provisions to achieve a reduced ongoing wage rate. Pursuant to the MOU effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, hourly employees were offered: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. We believe this resulted in a significant favorable impact in 2011 and future periods as the wage structure of our U.S. hourly force decreased substantially.

Excluding the effect of the employee wage restructuring costs, our Group incurred gross profit for the period from November 4, 2010 to December 31, 2010. The low gross profit margin is mainly due to normal seasonality of the business as December is typically a low sales volume month.

**Engineering and product development costs.** Our Group's engineering and product development costs for the period from November 4, 2010 to December 31, 2010 were US\$8.5 million. Engineering and product development costs for the period from November 4, 2010 to December 31, 2010 included labor and benefits expense of US\$6.2 million, materials expense of US\$0.9 million and other expenses of US\$1.4 million.

**Administrative expenses.** Our Group's administrative expenses from November 4, 2010 to December 31, 2010 were US\$21.8 million. Administrative expenses were impacted by acquisition related costs of US\$12.3 million, relating to the Acquisition. In addition, administrative expenses for the period from November 4, 2010 to December 31, 2010 included salaries and wages expense of US\$3.1 million and IT expense of US\$3.0 million.

**Selling and distribution expenses.** Our Group's selling and distribution expenses for the period from November 4, 2010 to December 31, 2010 were US\$1.0 million. Selling costs for the period from November 4, 2010 to December 31, 2010 also included salaries and wages expense of US\$0.3 million, business travel expense of US\$0.1 million, outside service costs of US\$0.3 million, employee benefits expense of US\$0.1 million, and other expenses totaling US\$0.2 million.

**Other losses, net.** Our Group's other losses, net for the period from November 4, 2010 to December 31, 2010 were US\$0.6 million.

**Finance income.** Our Group's finance income for the period from November 4, 2010 to December 31, 2010 was US\$0.1 million representing interest income.



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## FINANCIAL INFORMATION

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**Finance costs, net.** Our Group's finance costs, net for the period from November 4, 2010 to December 31, 2010 were US\$1.7 million representing interest expense and guarantee fees.

**Income tax expense.** Our Group's income tax expense for the period from November 4, 2010 to December 31, 2010 were US\$0.3 million. The main components of income tax expense were tax holidays and credits, non-deductible expenses, and unrecognized tax benefits.

### **Period from January 1, 2010 to November 30, 2010 — Our Predecessor**

**Cost of sales.** Our Predecessor's cost of sales for the period from January 1, 2010 to November 30, 2010 was US\$1,610.4 million. Costs of sales for the period from January 1, 2010 to November 30, 2010 mainly included raw material costs of US\$1,039.6 million, manufacturing expense of US\$525.4 million, and other costs of sales of US\$45.4 million.

**Gross profit.** Our Predecessor's gross profit for the period from January 1, 2010 to November 30, 2010 was US\$284.8 million.

**Engineering and product development costs.** Our Predecessor's engineering and product development costs for the period from January 1, 2010 to November 30, 2010 were US\$118.0 million. Engineering and product development costs for the period from January 1, 2010 to November 30, 2010 included labor and benefits expense of US\$72.3 million, materials expense of US\$18.7 million, and other expenses of US\$27.0 million.

**Administrative expenses.** Our Predecessor's administrative expenses for the period from January 1, 2010 to November 30, 2010 were US\$59.1 million. Administrative costs for the period from January 1, 2010 to November 30, 2010 included salaries and wages expense of US\$18.7 million and IT expense of US\$18.6 million.

**Selling and distribution expenses.** Our Predecessor's selling and distribution expenses for the period from January 1, 2010 to November 30, 2010 were US\$17.0 million. Selling and distribution expenses were impacted by business development costs of US\$9.3 million. Selling and distribution expenses for the period from January 1, 2010 to November 30, 2010 also included salaries and wages expense of US\$3.7 million, business travel expense of US\$0.6 million, outside service costs of US\$1.4 million, employee benefits expense of US\$1.0 million and other expenses totaling US\$1.0 million.

**Other losses, net.** Our Predecessor's other losses, net for the period from January 1, 2010 to November 30, 2010 were US\$5.5 million.

**Finance income.** Our Predecessor's finance income for the period from January 1, 2010 to November 30, 2010 was US\$0.8 million representing interest income.

**Finance costs, net.** Our Predecessor's finance costs, net for the period from January 1, 2010 to November 30, 2010 were US\$4.0 million. Finance costs were impacted by US\$2.0 million in interest related to a note payable to GM. The note to GM was repaid in December 2010.

**Income tax expense.** Our Predecessor's income tax expense for the period from January 1, 2010 to November 30, 2010 were US\$11.0 million. The main components of income tax expense were tax holidays, non-deductible expenses, and unrecognized tax benefits.

## FINANCIAL INFORMATION

### SEGMENT INFORMATION

For management and accounting purposes, we classify our operations and sales by geographic segments. Our business is divided into four reportable segments: North America, Europe, China and Rest of World.

The following table sets forth sales revenue, cost of sales, and gross profit of our Predecessor's reportable segments for the period indicated:

<u>Our Predecessor</u>	<u>North America</u>	<u>Europe</u>	<u>China</u>	<u>Rest of World</u>	<u>Consolidated</u>
			(US\$ thousands)		
<b>For the period from</b>					
<b>January 1, 2010 to</b>					
<b>November 30, 2010</b>					
Revenue . . . . .	1,200,748	430,868	129,240	134,339	1,895,195
Cost of Sales . . . . .	(965,384)	(344,298)	(143,332)	(157,428)	(1,610,442)
Gross Profit . . . . .	235,364	86,570	(14,092)	(23,089)	284,753
Gross Profit Margin . . . . .	19.6%	20.1%	(10.9%)	(17.2%)	15.0%

The following table sets forth sales revenue, cost of sales, and gross profit of our Group's reportable segments for the period/years indicated:

<u>Our Group</u>	<u>North America</u>	<u>Europe</u>	<u>China</u>	<u>Rest of World</u>	<u>Consolidated</u>
			(US\$ thousands)		
<b>For the period from</b>					
<b>November 4, 2010 to</b>					
<b>December 31, 2010</b>					
Revenue . . . . .	96,858	31,715	18,125	9,990	156,688
Cost of Sales . . . . .	(132,778)	(23,875)	(15,100)	(10,280)	(182,033)
Gross Profit . . . . .	(35,920)	7,840	3,025	(290)	(25,345)
Gross Profit Margin . . . . .	(37.1%)	24.7%	16.7%	(2.9%)	(16.2%)
	<u>North America</u>	<u>Europe</u>	<u>China</u>	<u>Rest of World</u>	<u>Consolidated</u>
			(US\$ thousands)		
<b>For the year ended</b>					
<b>December 31, 2011</b>					
Revenue . . . . .	1,470,392	456,359	168,477	152,524	2,247,752
Cost of Sales . . . . .	(1,341,372)	(332,750)	(145,180)	(151,175)	(1,970,477)
Gross Profit . . . . .	129,020	123,609	23,297	1,349	277,275
Gross Profit Margin . . . . .	8.8%	27.1%	13.8%	0.9%	12.3%
	<u>North America</u>	<u>Europe</u>	<u>China</u>	<u>Rest of World</u>	<u>Consolidated</u>
			(US\$ thousands)		
<b>For the year ended</b>					
<b>December 31, 2012</b>					
Revenue . . . . .	1,536,351	328,444	182,326	120,681	2,167,802
Cost of Sales . . . . .	(1,374,548)	(257,319)	(155,103)	(114,019)	(1,900,989)
Gross Profit . . . . .	161,803	71,125	27,223	6,662	266,813
Gross Profit Margin . . . . .	10.5%	21.7%	14.9%	5.5%	12.3%

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## FINANCIAL INFORMATION

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### North America

Our North America segment refers to the operations in the United States and Mexico.

### Year Ended December 31, 2012 compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the North America segment increased by US\$66.0 million, or 4.5%, from US\$1,470.4 million in 2011 to US\$1,536.4 million in 2012. The increase in revenue was primarily attributable to:

- An overall increase in total sales volume as a result of:
  - an increase in volume attributable primarily to existing steering system and driveline programs in the United States; and
  - an increase in volume attributable primarily to existing EPS programs in Mexico.
- The increase in total sales volume was partially offset by a decrease relating to the net impact of pricing. While we continued to experience revenue increases resulting from customer billings for commodity cost recovery, these were partially offset by the year-to-year pricing reductions to secure new customers.

**Cost of sales.** Our Group's cost of sales for the North America segment increased by US\$33.2 million or 2.5% from US\$1,341.4 million in the year ended December 31, 2011 to US\$1,374.5 million in the year ended December 31, 2012. The increase in cost of sales was primarily attributable to:

- Changes in product mix and increased production of high-cost products, such as EPS.
- The increase in warranty expense primarily due to renegotiated terms over new programs in North America which expanded our responsibility to reimburse customers for any defects covered under the customer contract.
- The increase was partially offset by a decrease in material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives which included the implementation of production efficiency improvements and reduced labor costs as a result of the 2012 employee restructuring initiative.

**Gross profit.** Our Group's gross profit for the North America segment increased by US\$32.8 million from US\$129.0 million in the year ended December 31, 2011 to US\$161.8 million in the year ended December 31, 2012. The gross profit margin for the North America segment increased from 8.8% for the year ended December 31, 2011 to 10.5% for the year ended December 31, 2012. The increase was primarily attributable to the increase in sales volume for the segment as well as the decrease in material costs, and was partially offset by the impact of price reductions provided to customers as well as the higher proportion of lower margin business in 2012.

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## FINANCIAL INFORMATION

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### Year Ended December 31, 2011 compared with the Year Ended December 31, 2010

**Revenue.** Our Predecessor's and our Group's combined revenue for the North America segment increased by US\$172.8 million, or 13.3%, from US\$1,297.6 million in 2010 to US\$1,470.4 million in 2011. The increase in revenue was primarily attributable to:

- An increase in volume relating to new programs on existing programs. We launched a new EPS technology, Rack Assist EPS, which accounted for the majority of the revenue increase in North America. The remainder of the volume increase was attributable to existing programs across both steering system and driveline product lines.
- A net nil impact on pricing for the year ended December 31, 2011, consisting of the following offsetting factors:
  - Revenue increases resulting from customer billings for commodity cost recovery. During 2011, there were significant commodity price increases related primarily to rare earth metals and steel. Based upon negotiated contracts with certain customers, part of these increases were passed along to customers.
  - The revenue increase was partially offset by year-to-year pricing reductions to secure new customer programs in accordance with contractual price reductions which were agreed upon when programs were originally awarded.

### Europe

Our Europe segment refers to the operations in European countries.

### Year Ended December 31, 2012 compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the Europe segment decreased by US\$127.9 million, or 28.0%, from US\$456.4 million in the year ended December 31, 2011 to US\$328.4 million in the year ended December 31, 2012. The decrease in revenue was primarily attributable to:

- A decrease in revenue resulting from a decline in sales volume of the EPS product line attributable to continuing difficult economic conditions in most of Europe that accelerated throughout the year ended December 31, 2012.
- A decrease relating to the net impact of the year-to-year pricing reductions to secure new customers which was partially offset by revenue increases resulting from increased customer billing for commodity and materials cost recovery.

**Cost of sales.** Our Group's cost of sales for the Europe segment decreased by US\$75.4 million or 22.7% from US\$332.8 million in the year ended December 31, 2011 to US\$257.3 million in the year ended December 31, 2012. The decrease in cost of sales aligns with the decline in sales revenue for the Europe segment of 28.0%. In addition, the decrease in cost of sales was attributable to cost reduction initiatives, including:

- A decrease relating to reduced material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.
- A decrease in labor costs as a result of the 2010 and 2012 employee restructuring initiatives.

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## FINANCIAL INFORMATION

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**Gross profit.** Our Group's gross profit for the Europe segment decreased by US\$52.5 million from US\$123.6 million in the year ended December 31, 2011 to US\$71.1 million in the year ended December 31, 2012. The gross profit margin for the Europe segment decreased from 27.1% for the year ended December 31, 2011 to 21.7% for the year ended December 31, 2012. The decrease was primarily attributable to the decline in sales volume and a higher proportion of lower margin business, and was partially offset by the impact of reduced material and labor costs.

### **Year Ended December 31, 2011 compared with the Year Ended December 31, 2010**

**Revenue.** Our Predecessor's and our Group's combined revenue for the Europe segment decreased by US\$6.2 million, or 1.3%, from US\$462.6 million in 2010 to US\$456.4 million in 2011. The decrease in revenue was primarily attributable to:

- A decrease in revenue resulting from a decline in volume attributable to continuing difficult economic conditions in most of Europe.
- The decrease was partially offset by an increase relating to the favorable impact of the Euro against the U.S. dollar as well as an increase relating to the net impact of pricing in 2011 comprised mainly of the following:
  - Revenue increases resulting from customer billings for commodity cost recovery. During 2011, there were significant commodity price increases related primarily to rare earth metals and steel. Based upon negotiated contracts with certain customers, all or part of these increases could be passed along to customers.
  - The revenue increases were partially offset by year-to-year pricing reductions resulting from granting customer price reductions to secure new customer programs and as a result of contractual price reductions which were agreed upon when programs were originally awarded.

### **China**

Our China segment refers to the operations in China.

### **Year Ended December 31, 2012 compared with the Year Ended December 31, 2011**

**Revenue.** Our Group's revenue for the China segment increased by US\$13.8 million, or 8.2%, from US\$168.5 million in 2011 to US\$182.3 million in 2012. The year-over-year increase in revenue was primarily attributable to:

- An increase relating to the favorable impact of the RMB against the U.S. dollar.
- An increase due to customer billings for commodity cost recovery.
- An increase in volume relating to new programs as well as an increase in volume on existing programs.

These year-over-year increases in revenue were partially offset by a decrease in pricing resulting from contractual price reductions which were agreed upon when programs were originally awarded.

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## FINANCIAL INFORMATION

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**Cost of sales.** Our Group's cost of sales for the China segment increased by US\$9.9 million or 6.8% from US\$145.2 million in the year ended December 31, 2011 to US\$155.1 million in the year ended December 31, 2012. The increase in cost of sales aligns with the increase in sales revenue for the China segment of 8.2%, and was partially offset by continued improvements in cost of sales related to cost reduction initiatives, including reduced material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.

**Gross profit.** Our Group's gross profit for the China segment increased by US\$3.9 million, or 16.9%, from US\$23.3 million in the year ended December 31, 2011 to US\$27.2 million in the year ended December 31, 2012. The gross profit margin for the China segment increased from 13.8% for the year ended December 31, 2011 to 14.9% for the year ended December 31, 2012. The increase was primarily attributable to the favorable impact of volume combined with an increased proportion of higher margin business as well as the favorable impact of foreign currency exchange, and was partially offset by the impact of previously negotiated contractual price reductions.

### **Year Ended December 31, 2011 compared with the Year Ended December 31, 2010**

**Revenue.** Our Predecessor's and our Group's combined revenue for the China segment increased by US\$21.1 million or 14.3% from US\$147.4 million in 2010 to US\$168.5 million in 2011. The year-over-year increase in revenue was primarily attributable to:

- An increase in volume relating to new programs as well as an increase in volume on existing programs.
- An increase relating to the favorable impact of the RMB against the U.S. dollar.
- These year-over-year increases in revenue were partially offset by a decrease in pricing resulting from contractual price reductions which were agreed upon when programs were originally awarded.

### **Rest of World**

Our Rest of World segment refers to the operations in Australia, South America and Asia except China.

**Revenue.** Our Predecessor's and our Group's combined revenue for the Rest of World segment increased by US\$8.2 million or 5.7%, from US\$144.3 million in 2010 to US\$152.5 million in 2011. Additionally, our Group's revenue for the Rest of World segment decreased by US\$31.8 million, or 20.9%, from US\$152.5 million in 2011 to US\$120.7 million in 2012. The decrease in revenue was primarily attributable to a decline in sales volume of products in Australia resulting from the expiration of two significant sales contracts.

**Cost of sales.** Our Group's cost of sales for the Rest of World segment decreased by US\$37.2 million, or 24.6%, from US\$151.2 million in 2011 to US\$114.0 million in 2012. The decrease in cost of sales aligned with the decrease in sales revenue for the Rest of World segment of 20.9% and also resulted from internal cost reduction initiatives.

## FINANCIAL INFORMATION

**Gross Profit.** Our Group's gross profit for the Rest of World segment increased from US\$1.3 million for the year ended December 31, 2011 to US\$6.7 million for the year ended December 31, 2012. The increase was primarily attributable to an increased proportion of higher margin business as well as internal cost reduction initiatives. The gross profit margin for the Rest of World segment increased from 0.9% for the year ended December 31, 2011 to 5.5% for the year ended December 31, 2012, which was primarily attributable to our internal cost reduction initiatives.

### ANALYSIS OF FINANCIAL POSITION

The following table sets forth our Group's combined balance sheets as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(US\$ thousands)		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	270,704	290,146	434,103
Other non-current assets . . . . .	17,577	87,826	196,897
Total non-current assets . . . . .	288,281	377,972	631,000
<b>Current assets</b>			
Inventories . . . . .	152,313	156,788	174,433
Trade receivables . . . . .	308,180	315,882	324,317
Cash and cash equivalents . . . . .	113,466	78,233	64,080
Other current assets . . . . .	49,673	44,615	65,041
Total current assets . . . . .	623,632	595,518	627,871
<b>Total assets</b> . . . . .	<u>911,913</u>	<u>973,490</u>	<u>1,258,871</u>
<b>Equity and Liabilities</b>			
<b>Total equity</b> . . . . .	74,954	123,018	191,809
<b>Non-current liabilities</b>			
Borrowings . . . . .	25,555	2,065	441,531
Provisions . . . . .	30,475	33,228	40,730
Other non-current liabilities . . . . .	22,606	48,334	77,504
Total non-current liabilities . . . . .	78,636	83,627	559,765
<b>Current liabilities</b>			
Trade payables . . . . .	254,667	259,687	295,741
Other payables and accruals . . . . .	90,813	87,489	85,549
Borrowings . . . . .	364,888	404,571	99,117
Provisions . . . . .	44,495	11,511	16,043
Other current liabilities . . . . .	3,460	3,587	10,847
Total current liabilities . . . . .	758,323	766,845	507,297
<b>Total liabilities</b> . . . . .	<u>836,959</u>	<u>850,472</u>	<u>1,067,062</u>
<b>Total equity and liabilities</b> . . . . .	<u>911,913</u>	<u>973,490</u>	<u>1,258,871</u>
<b>Net current (liabilities)/assets</b> . . . . .	<u>(134,691)</u>	<u>(171,327)</u>	<u>120,574</u>
<b>Total assets less current liabilities</b> . . . . .	<u>153,590</u>	<u>206,645</u>	<u>751,574</u>

## FINANCIAL INFORMATION

### Inventories

Our inventories include raw materials, work in progress and finished goods. Raw materials primarily include steel and rare earth materials. The following table sets forth a summary of our balance of inventories as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Raw materials .....	104,026	95,683	107,148
Work in progress .....	31,488	36,611	40,764
Finished goods .....	17,126	27,916	34,787
	<u>152,640</u>	<u>160,210</u>	<u>182,699</u>
Less: provision for impairment losses .....	(327)	(3,422)	(8,266)
	<u><u>152,313</u></u>	<u><u>156,788</u></u>	<u><u>174,433</u></u>

Our Group typically maintains an average of 30 days of inventory on hand to manage its working capital and customer schedule requirements. The increase in finished goods inventory in 2011 and 2012 reflected our preparation for new program launches as we secure new business during the period.

Our Group regularly reviews our inventories on hand and evaluates future demand based on customer schedules and commitments. Impairment provisions are recognized when there is objective evidence that inventory is obsolete.

The following table sets forth our Predecessor's average inventory days on hand for the period indicated:

	For the period from January 1, 2010 to November 30, 2010
Inventory days outstanding <sup>(1)</sup> .....	31

Note:

(1) With respect to our Predecessor, calculated as ending balance of inventory divided by cost of sales in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average inventory days on hand for the period/years indicated:

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
Inventory days outstanding <sup>(1)</sup> .....	26	29	32

Note:

(1) Calculated as average balance of inventory divided by cost of sales in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31 2011 and 2012.



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## FINANCIAL INFORMATION

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Our turnover days of inventory increased from 29 days in 2011 to 32 days in 2012 primarily as a result of an increase in finished goods inventory to meet the number of delivery dates scheduled subsequent to December 31, 2012 for the North America segment. Additionally, our Group held more raw materials to meet the demand of new EPS program launches subsequent to December 31, 2012 and EPS programs in progress as of December 31, 2012. These launches required additional inventory on-hand for the Rest of World segment. In addition, cost of sales decreased by US\$69.5 million primarily as a result of the overall decline in our Group's sales revenue of 3.5%.

According to our internal estimates, as of February 28, 2013, our Group had used or sold approximately 97% of inventory on hand as of December 31, 2012.

### Trade Receivables

Our trade receivables primarily consist of amounts payable by third-party customers. Credit terms range from 30 to 90 days after invoice date depending on the customer. The creditworthiness of a customer is assessed on their payment history and ability to make repayments and customer credit ratings from third-party rating agencies. The following table sets forth our trade and other receivables as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Trade receivables, gross .....	308,219	317,167	327,261
less: provisions for impairment.....	(39)	(1,285)	(2,944)
<b>Trade receivables, net.....</b>	<b>308,180</b>	<b>315,882</b>	<b>324,317</b>

The increase in trade receivables from December 31, 2010 to December 31, 2011 was primarily driven by increased sales to third parties. The increase in trade receivables from December 31, 2011 to December 31, 2012 is primarily driven by the increase in days sales outstanding between the periods.

According to our internal estimates, as of February 28, 2013, 98.2% of the trade receivables outstanding as of December 31, 2012 were settled.

We regularly review our aging analysis and evaluate collectability on an individual basis by specific analysis of those customers with known collection problems due to bankruptcy or liquidity issues. Our trade receivables are primarily related to receivables from a number of our OEM customers, which include substantially all of the world's top ten major OEMs in terms of production volumes and generally have positive credit profiles. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulty on the part of the counterparty or default or significant delay in payment) that we will be unable to collect all of the amounts due.

## FINANCIAL INFORMATION

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

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Not overdue .....	298,393	300,851	311,364
Overdue:			
Less than 30 days .....	5,298	8,811	11,409
30–60 days .....	1,379	3,542	1,569
60–89 days .....	906	469	272
Greater than 90 days .....	2,243	3,494	2,647
Total .....	<u>308,219</u>	<u>317,167</u>	<u>327,261</u>

The following table sets forth our Predecessor's average days sales in trade receivables for the period indicated:

	<u>Our Predecessor</u>
	For the period from January 1, 2010 to November 30, 2010
Days sales outstanding <sup>(1)</sup> .....	58

Note:

(1) With respect to our Predecessor, calculated as ending balance of trade receivables divided by revenue in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average days sales in trade receivables for the period/years indicated:

	Our Group		
	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
Days sales outstanding <sup>(1)</sup> .....	63	51	54

Note:

(1) Calculated as average balance of trade receivables divided by revenue in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012.

Our turnover days of trade receivables increased from 51 days in 2011 to 54 days in 2012, primarily as a result of increased credit sales to GM during the last months of 2012 as well as a decrease in collections from a major customer in our European operations. In addition, sales revenue decreased by US\$80.0 million from 2011 to 2012. See “— Results of Operations.”

## FINANCIAL INFORMATION

### Other Receivables and Prepayments

The following table sets forth other receivables and prepayments as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(US\$ thousands)		
Amounts reimbursable from customers on tools <sup>(1)</sup> .....	15,712	12,268	30,525
Other taxes recoverable <sup>(2)</sup> .....	11,199	18,104	17,963
Prepaid assets <sup>(3)</sup> .....	9,000	10,246	12,333
Deposits on vendors .....	3,489	4,087	5,662
Others <sup>(4)</sup> .....	11,014	1,085	790
	<u>50,414</u>	<u>45,790</u>	<u>67,273</u>
Less: non-current portion .....	<u>(1,563)</u>	<u>(1,395)</u>	<u>(2,483)</u>
Current portion .....	<u>48,851</u>	<u>44,395</u>	<u>64,790</u>

Notes:

- (1) Represents amounts reimbursable from customers on tools we have purchased on behalf of customers and will eventually be billed to the customer.
- (2) Balance primarily represents value-added tax recoverables and certain tax incentives granted to our Group for investing capital and maintaining jobs in the State of Michigan, United States.
- (3) Amount is as of December 31, 2012, and includes prepaid listing expenses of US\$1.0 million.
- (4) Balance includes a related party receivable of US\$10.0 million as of December 31, 2010. For more information regarding the specific terms of this receivable, see "Appendix IA — Accountant's Report on the Financial Information of the Group — II. Notes on the Financial Information — 32. Related party transactions."

Certain of our customer contracts call for OEMs to reimburse us for all or a portion of the tooling costs that we incur in connection with our design, assembly, and manufacturing efforts. Amounts due from OEMs, as of December 31, 2010, 2011 and 2012, were US\$15.7 million, US\$12.3 million, and US\$30.5 million, respectively. The increase in amounts due from OEMs by US\$18.3 million from December 31, 2011 to December 31, 2012 primarily resulted from an increase in the number of customer contracts awarded to our Group in 2012 for which all or a portion of the tooling costs are reimbursable.

### Trade Payables

Our trade payables primarily consist of amounts payable to third parties for the purchase of raw materials and other production costs and overheads. Payment terms to suppliers typically range from 45 to 60 days. The following table sets forth our trade payables as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(US\$ thousands)		
Trade payables .....	<u>254,667</u>	<u>259,687</u>	<u>295,741</u>

The increase in the trade payables by US\$5.0 million from December 31, 2010 to December 31, 2011 primarily resulted from increased raw material purchases due to increased production volume intended to meet increased demand for our products. The increase in trade

## FINANCIAL INFORMATION

payables by US\$36.1 million from December 31, 2011 to December 31, 2012 primarily resulted from an increase in our investment in EPS manufacturing equipment during the last two months of 2012.

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

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Not overdue .....	217,352	229,829	260,576
Overdue:			
Less than 30 days .....	21,776	17,597	15,588
30–60 days .....	10,336	8,645	10,148
60–89 days .....	2,035	636	3,000
Greater than 90 days .....	3,168	2,980	6,429
Total .....	<u>254,667</u>	<u>259,687</u>	<u>295,741</u>

The following table sets forth our Predecessor's average trade payables turnover days for the period indicated:

	For the period from January 1, 2010 to November 30, 2010
Average trade payables turnover days <sup>(1)</sup> .....	49

Note:

(1) With respect to our Predecessor, calculated as ending balance of trade payables divided by cost of sales in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average trade payables turnover days for the period/years indicated:

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
Average trade payables turnover days <sup>(1)</sup> .....	42	48	53

Note:

(1) Calculated as average balance of trade payables divided by cost of sales in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012.

Our turnover days of trade payables increased from 48 days in 2011 to 53 days in 2012, primarily as a result of an increase in our investment in EPS manufacturing equipment during the last two months of 2012. In addition, cost of sales decreased by US\$69.5 million, primarily as a result of the overall decline in our Group's sales revenue of 3.5%.

## FINANCIAL INFORMATION

### Other Payables and Accruals

The following table sets forth other payables and accruals as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Accrued expenses and other payables <sup>(1)</sup> . . . . .	76,403	61,516	77,637
Other taxes payable . . . . .	4,709	5,778	1,568
Deposits from customers . . . . .	8,996	8,764	6,761
Dividends payable to non-controlling shareholders of subsidiaries . . . . .	—	10,120	—
Others . . . . .	1,331	2,725	3,110
Total other payables and accruals . . . . .	<u>91,439</u>	<u>88,903</u>	<u>89,076</u>
Less: non current portion . . . . .	<u>(626)</u>	<u>(1,414)</u>	<u>(3,527)</u>
Current portion . . . . .	<u>90,813</u>	<u>87,489</u>	<u>85,549</u>

Note:

(1) Balance includes related party payable of US\$20.5 million, US\$10.5 million, and US\$10.5 million as of December 31, 2010, 2011 and 2012, respectively. See “— Amounts Due to Related Parties.”

Other payables and accruals primarily consisted of accrued payroll expense, accrued staff bonuses and deferred revenue as of December 31, 2010, 2011 and 2012. The increase in other payables and accruals from 2011 to 2012 was primarily due to an increase in accrued hourly wages as a result of an additional two days of service of 2012, an increase in accrued incentive compensation due to improvements in our Group’s operational performance from 2011 to 2012, and an increase in listing expenses related to the Global Offering.

During the year ended December 31, 2011, certain subsidiaries declared dividends of US\$10.2 million to their non-controlling shareholders of which US\$0.3 million and US\$3.1 million were paid in 2011 and 2012, respectively, and the remaining US\$7.0 million was reinvested in these subsidiaries in 2012.

### Amounts Due to Related Parties

Our Group had a related party payable to Beijing E-Town of US\$20.5 million, US\$10.5 million and US\$10.5 million as of December 31, 2010, 2011 and 2012, respectively, which was due on demand. This payable was comprised of US\$10.5 million of outstanding acquisition related costs incurred by PCM China and paid by Beijing E-Town and US\$10.0 million related to an equity contribution paid to GM associated with the Acquisition, which was funded by Beijing E-Town. As of the Latest Practicable Date, such payable had been settled. There are also certain payables due to PCM China by our Group, which represent finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. These payables amounted to US\$3.8 million as of December 31, 2012, and the balance will be fully settled by our Group prior to the Listing.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials and equipment and tooling. We have historically met our working capital and other capital requirements principally from cash provided by operations and loans from banks.

## FINANCIAL INFORMATION

In the future, we believe that our liquidity and capital expenditure requirements will be satisfied by a combination of net proceeds from the Global Offering, cash generated from our operating activities, and continued banking facilities.

The following table sets forth selected cash flows data of our Predecessor for the period indicated:

	<b>For the period from January 1, 2010 to November 30, 2010</b>
	<b>(US\$ thousands)</b>
Net cash generated from operating activities . . . . .	25,373
Net cash used in investing activities . . . . .	(47,872)
Net cash used in financing activities . . . . .	(38,103)
Net decrease in cash and cash equivalents . . . . .	(60,602)
Cash and cash equivalents at beginning of period . . . . .	169,149
Exchange losses on cash and cash equivalents . . . . .	(328)
Adjusted cash and cash equivalents at beginning of period . . . . .	168,821
Cash and cash equivalents at end of period . . . . .	<u>108,219</u>

The following table sets forth selected cash flows data of our Group for the period/years indicated:

	<b>For the period from November 4, 2010 to December 31, 2010</b>	<b>For the year ended December 31,</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>
		<b>(US\$ thousands)</b>	
Net cash generated from operating activities . . . . .	48,939	96,878	156,265
Net cash used in investing activities . . . . .	(331,303)	(132,264)	(271,651)
Net cash generated from financing activities . . . . .	<u>395,040</u>	<u>65</u>	<u>99,150</u>
Net increase/(decrease) in cash and cash equivalents . . . . .	<u>112,676</u>	<u>(35,321)</u>	<u>(16,236)</u>
Cash and cash equivalents at beginning of periods/years . . . . .	—	113,466	78,233
Exchange gains on cash and cash equivalents . . . . .	<u>790</u>	<u>88</u>	<u>2,083</u>
Adjusted cash and cash equivalents at beginning of periods/years . . . . .	<u>790</u>	<u>113,554</u>	<u>80,316</u>
Cash and cash equivalents at end of periods/years . . . . .	<u>113,466</u>	<u>78,233</u>	<u>64,080</u>

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## FINANCIAL INFORMATION

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### *Cash Flows Generated from Operating Activities*

#### *Our Predecessor*

For the period from January 1, 2010 to November 30, 2010, net cash generated from operating activities was US\$25.4 million.

#### *Our Group*

For the period from November 4, 2010 to December 31, 2010, cash generated from operations was US\$49.2 million. Significant working capital movements within net cash generated from operating activities included:

- an increase in payable and accruals of US\$36.1 million, attributable mainly to capital purchases to support EPS program wins; and
- an increase in provisions of US\$33.2 million attributable to provisions established in connection with the wage buy-down restructuring program.

In the year ended December 31, 2011, cash generated from operations was US\$104.6 million. Significant working capital movements within net cash generated from operating activities primarily included:

- an increase in receivables of US\$15.7 million, primarily due to the increased sales in 2011;
- a decrease in provisions of US\$30.2 million attributable to the payment of accrued employee restructuring liabilities in early 2011; and
- an increase in deferred revenue of US\$23.5 million reflecting an increasing level of prototype and engineering activities that our customers reimburse us for, which we classify as deferred revenue, and in support of EPS program wins.

For the year ended December 31, 2012, cash generated from operations was US\$162.1 million. Significant working capital movements within net cash generated from operating activities primarily included:

- an increase in trade and other receivables of US\$32.9 million, primarily due to an increase in the number of days sales outstanding. See “— Trade and Other Receivables”;
- an increase in inventories of US\$22.1 million, mainly due to an increase in the number of delivery dates scheduled on or around December 31, 2012 for the North America segment as well as an increase in EPS programs in progress as of December 31, 2012 requiring additional inventory on-hand for the China and Rest of World segments; and
- an increase in our Group’s deferred revenue of US\$27.3 million reflecting increased prototype and reimbursable engineering activity to support significant EPS program wins.

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## FINANCIAL INFORMATION

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### *Cash Flows Used in Investing Activities*

Cash flow used in investing activities primarily reflect capital spending for customer programs.

#### *Our Predecessor*

Net cash used in investing activities for the period from January 1, 2010 to November 30, 2010 was US\$47.9 million and primarily attributable to capital investments in property, plant, and equipment to meet operational and business requirements.

#### *Our Group*

Net cash used in investing activities for the period from November 4, 2010 to December 31, 2010 was US\$331.3 million mainly reflecting the purchase of our Predecessor from GM. Net cash used in investing activities was US\$132.3 million and was US\$271.7 million for the years ended December 31, 2011 and 2012. This was mainly attributable to the acquisition of steering EPS manufacturing equipment to support future global customer launches and expenditure on qualifying capitalized development costs across all of our geographic segments.

### *Cash Flows Generated from/Used in Financing Activities*

#### *Our Predecessor*

For the period from January 1, 2010 to November 30, 2010, net cash used in financing activities was US\$38.1 million. This net cash used in financing activities was mainly attributable to the payment of intercompany debt and dividends paid to GM prior to the sale of our Predecessor by GM.

#### *Our Group*

For the period from November 4, 2010 to December 31, 2010, net cash generated from financing activities was US\$395.0 million, mainly reflecting debt incurred to finance the purchase of our Predecessor from GM.

Net cash generated from financing activities was US\$0.07 million for the year ended December 31, 2011. Net cash generated from financing activities was US\$99.2 million for the year ended December 31, 2012 which was mainly attributable to the net impact of proceeds obtained from two unsecured term loans of US\$300.0 million and US\$126.0 million used primarily to repay our Group's US\$316.0 million of Acquisition Debt.



## FINANCIAL INFORMATION

### Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2010	2011	2012	2013
				(unaudited)
	(US\$ thousands)			
<b>Current Assets</b>				
Inventories . . . . .	152,313	156,788	174,433	183,430
Trade and other receivables . . . . .	357,031	360,277	389,107	419,645
Restricted bank deposits . . . . .	822	220	251	4,823
Cash and cash equivalents . . . . .	113,466	78,233	64,080	64,871
<b>Total current assets</b> . . . . .	623,632	595,518	627,871	672,769
<b>Current Liabilities</b>				
Trade and other payables . . . . .	345,480	347,176	381,290	393,376
Retirement benefits and compensations . . . . .	954	1,141	1,721	1,867
Current income tax liabilities . . . . .	2,458	872	2,219	3,334
Borrowings . . . . .	364,888	404,571	99,117	81,829
Provisions . . . . .	44,495	11,511	16,043	12,001
Deferred revenue . . . . .	48	1,574	6,907	8,596
<b>Total current liabilities</b> . . . . .	758,323	766,845	507,297	501,003
<b>Net current (liabilities)/assets</b> . . . . .	(134,691)	(171,327)	120,574	171,766

We have principally financed our working capital from cash provided by operations and loans from banks. We had net current liabilities of US\$134.7 million and US\$171.3 million as of December 31, 2010 and 2011, respectively, and net current assets of US\$120.6 million and US\$171.8 million as of December 31, 2012 and April 30, 2013, respectively.

There was an increase in inventories, trade and other receivables and trade and other payables as of April 30, 2013, as compared to December 31, 2012, which is typically a low sales volume month due to seasonality.

Our current liabilities as of December 31, 2010 and 2011 primarily consisted of a US\$316.0 million bank loan facility incurred to finance the Acquisition Debt. The Acquisition Debt was classified as short-term borrowings as of December 31, 2010 and 2011 because the loan included a provision whereby it was callable by the lender at any time. Our net current liability position primarily resulted from the impact of the classification of the Acquisition Debt.

In November 2012, we repaid the US\$316.0 million bank loan facility and obtained term loans in the amount of US\$426.0 million. The term loans have a term of 96 months, and were classified as non-current liabilities as of December 31, 2012.

Our current liabilities as of December 31, 2012 included borrowings of US\$99.1 million, which consisted mostly of bank loans and revolving loans that we secured following our separation from GM.

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## FINANCIAL INFORMATION

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During the Track Record Period and as of the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, breached any financial covenants or failed to roll over short-term loans with our principal banks upon maturity of these short-term loans. We believe we will be able to roll over existing short-term borrowings upon their maturity in 2013.

### Working Capital

Taking into account our cash flows from operating activities, presently available bank loans and other borrowings and the estimated net proceeds from the Global Offering, our Directors, after due inquiry, believe that we have sufficient available working capital for our present requirements for the next 12 months from the date of this Prospectus.

### Capital Expenditures

Our capital expenditures include cash expenditures for the purchases of machinery, equipment and tooling and investment on product development. Since the Acquisition, we have secured significant bookings from new OEMs and expect to continue launching new products and technology as the automotive industry continues its global recovery. To support these endeavors, we have required and will continue to require significant capital expenditures. See “Future Plans and Use of Proceeds — Use of Proceeds.”

The following table sets forth our Predecessor’s capital expenditures for the period indicated:

	For the period from January 1, 2010 to November 30, 2010
	(US\$ thousands)
Capital expenditure in connection with:	
— Purchase of property, plant and equipment . . . . .	47,451
— Product development costs capitalization . . . . .	—
<b>Total</b> . . . . .	<b>47,451</b>

The following table sets forth our Group’s capital expenditures for the period/years indicated:

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
	(US\$ thousands)		
Capital expenditure in connection with:			
— Purchase of property, plant and equipment . .	8,614	67,071	172,381
— Product development costs capitalization . . .	4,846	69,585	104,091
<b>Total</b> . . . . .	<b>13,460</b>	<b>136,656</b>	<b>276,472</b>

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## FINANCIAL INFORMATION

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Our capital expenditures during the Track Record Period were incurred with respect to activities in North America, Europe, China and Rest of World. We expect to incur US\$214.0 million of capital expenditures for the year ending December 31, 2013. We expect to fund the capital expenditures expected for the year ending December 31, 2013 with cash flows generated by our operations, operational loans from banks and the net proceeds of the Global Offering.

### Capital and Operating Lease Commitments

#### *Capital Commitments*

We had capital expenditure commitments of US\$43.4 million, US\$191.7 million and US\$201.6 million as of December 31, 2010, 2011 and 2012, respectively, to purchase property, plant and equipment contracted but not provided for.

#### *Operating Lease Commitments*

The following table sets forth our Predecessor's non-cancellable operating leases for the period indicated:

	For the period from January 1, 2010 to November 30, 2010
	(US\$ thousands)
— Within one year .....	7,950
— Between one and five years .....	19,270
— More than five years .....	<u>6,012</u>
<b>Total minimum future payments</b> .....	<b>33,232</b>

The following table sets forth our Group's non-cancellable operating leases for the period/years indicated:

	For the period from November 4, 2010 to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
		(US\$ thousands)	
— Within one year .....	7,950	8,825	9,924
— Between one and five years .....	18,569	24,891	26,314
— More than five years .....	<u>6,012</u>	<u>5,747</u>	<u>3,600</u>
<b>Total minimum future payments</b> .....	<b>32,531</b>	<b>39,463</b>	<b>39,838</b>

### Indebtedness

During the Track Record Period, our borrowings primarily consisted of loans and factoring facilities from banks. As of December 31, 2010 and 2011 and 2012 and April 30, 2013, our total indebtedness was US\$390.4 million, US\$406.6 million, US\$540.6 million and US\$594.9 million, respectively.

## FINANCIAL INFORMATION

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

	As of December 31,			As of April 30,
	2010	2011	2012	2013
	(US\$ thousands)			(unaudited)
<b>Non-current</b>				
Borrowings from banks				
— secured . . . . .	—	—	571	67,525
— unsecured . . . . .	—	1,153	439,961	444,700
Borrowings from a subsidiary of				
Delphi Corporation — unsecured . . . .	25,536	—	—	—
Finance lease obligations . . . . .	19	912	999	814
<b>Total non-current borrowings . . . . .</b>	<b><u>25,555</u></b>	<b><u>2,065</u></b>	<b><u>441,531</u></b>	<b><u>513,039</u></b>
<b>Current</b>				
Borrowings from banks				
— secured, for acquisition of business . .	316,000	316,000	—	—
— secured, others . . . . .	3,000	49,550	47,055	33,041
— unsecured . . . . .	—	38,553	50,045	34,804
Borrowings from General Motors				
— unsecured . . . . .	37,985	—	—	—
Add: current portion of:				
— non-current secured borrowings				
from banks . . . . .	—	—	285	13,005
— non-current unsecured borrowings				
from banks . . . . .	3,414	208	1,388	639
— non-current unsecured borrowings				
from a subsidiary of Delphi Corporation . . . . .	4,474	—	—	—
— finance lease obligations . . . . .	15	260	344	340
	<u>364,888</u>	<u>404,571</u>	<u>99,117</u>	<u>81,829</u>
<b>Total borrowings . . . . .</b>	<b><u>390,443</u></b>	<b><u>406,636</u></b>	<b><u>540,648</u></b>	<b><u>594,868</u></b>

Our secured borrowings are secured by our accounts receivable, inventory and property, plant and equipment.

Our current borrowings as of December 31, 2010 and 2011 consisted primarily of Acquisition Debt of US\$316.0 million, which was incurred solely for the purpose of the Acquisition and was not used for our business operations. The Acquisition Debt was classified as current borrowings because the loan included a provision stipulating that such debt was callable by the lender at any time. The Acquisition Debt represented 80.9% and 77.7% of our total borrowings as of December 31, 2010 and 2011, respectively.

Our current borrowings during the Track Record Period also included borrowings from various financial institutions of US\$3.0 million, US\$88.1 million, US\$97.1 million and US\$67.8 million at December 31, 2010, 2011 and 2012 and April 30, 2013, respectively. The increases in 2011 and 2012 reflect borrowings both in the U.S. and at our foreign subsidiaries mainly to finance our working capital requirements.

## FINANCIAL INFORMATION

Our non-current borrowings as of December 31, 2012 consisted primarily of two unsecured term loans totaling US\$426.0 million which our Group obtained in November 2012. The proceeds of these term loans were used to repay the Acquisition Debt and repay or replenish the cash used in repaying the acquisition related payments of US\$82.2 million. The remaining approximately US\$27.8 million was used to supplement our working capital. These term loans have a term of 96 months with principal payments of US\$30.5 million payable semi-annually beginning on June 30, 2014. See “Appendix 1A — Accountant’s Report on the Financial Information of the Group — II. Notes on the Financial Information — 17. Borrowings.”

The table below sets forth the maturity profile of our borrowings as of the dates indicated:

	As of December 31,			As of April 30,
	2010	2011	2012	2013
	(US\$ thousands)			
Within one year . . . . .	364,888	404,571	99,117	81,829
One year to two years . . . . .	4,490	562	58,978	78,121
Two years to five years . . . . .	21,065	1,503	200,553	241,614
More than five years . . . . .	—	—	182,000	193,304
	<u>390,443</u>	<u>406,636</u>	<u>540,648</u>	<u>594,868</u>

For more information regarding the specific terms of our borrowings, including currency denominations and interest rates, see “Appendix IA — Accountant’s Report on the Financial Information of the Group — II. Notes on the Financial Information — 17. Borrowings.”

As of December 31, 2012, the undrawn amount of loans from third-party financial institutions was approximately US\$235.2 million.

As of April 30, 2013, we had other payables due to PCM China of US\$3.8 million, which represented finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. The balance of such payables will be fully settled by our Group prior to the Listing.

On March 1, 2013, we restated our credit agreement for our existing US\$165.0 million revolving loan. The restated credit agreement added a term loan of US\$75.0 million and increased the revolving credit capacity from US\$165.0 million to US\$200.0 million, which increased the total capacity of the credit facility by US\$110.0 million, from US\$165.0 million to US\$275.0 million. The term loan of US\$75.0 million is due in thirty consecutive monthly installments of US\$1.3 million, repayment of which commences on September 1, 2013. The term loan bears interest at LIBOR+3.5% per annum.

### **General Covenants**

The restated credit agreement contains general covenants restricting the ability of each loan party (Nexteer Automotive, Project Rhodes Holding Corporation, Steering Solutions Corporation, Steering Solutions IP Holding Corporation and Steering Solutions Expat Holding Corporation) and its subsidiaries to, among other things, (i) incur additional indebtedness other than any permitted indebtedness; (ii) incur any liens on any of its assets other than any

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## FINANCIAL INFORMATION

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permitted liens; (iii) enter into any merger, dissolution, liquidation, consolidation with another entity or disposition of all or substantially all of its assets; (iv) dispose of all or any part of its assets except permitted dispositions; (v) change the general nature of its business or acquire any properties or assets that are not reasonably related to such business; (vi) prepay certain indebtedness; (vii) amend the terms of certain agreements or governing documents; (viii) cause or permit any change of control; (ix) make restricted payments; (x) make or acquire any investment or incur any liabilities for an investment except permitted investments; (xi) enter into transactions with any affiliates of the loan parties; (xii) use the proceeds of the loans for any purpose other than the permitted uses; or (xiii) sell any of their inventory on certain terms. In each case, there are certain permitted exceptions to these restrictions.

### *Financial Covenants*

In addition, the restated credit agreement requires Nexteer Automotive to maintain an excess availability of facilities of not less than US\$20 million at all times and a minimum required EBITDA amount for the end of each monthly period as set forth in the credit agreement.

As of the Latest Practicable Date, save as disclosed in this Prospectus, we did not have any other debt securities, borrowings, indebtedness, mortgages, contingent liabilities or guarantees.

### **Contingent Liabilities**

#### *Provisions*

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

	As of December 31,		
	2010	2011	2012
		(US\$ thousands)	
Restructuring .....	32,763	1,589	5,715
Litigation .....	266	316	442
Environmental liabilities .....	12,719	12,541	12,504
Warranties .....	24,565	25,115	32,398
Decommissioning .....	4,657	5,178	5,714
Total provisions .....	74,970	44,739	56,773
Less: non current portion .....	(30,475)	(33,228)	(40,730)
Current portion .....	44,495	11,511	16,043

In 2010, our Group and the UAW ratified the Nexteer Automotive MOU. Pursuant to the MOU effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, hourly employees were offered: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment.

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## FINANCIAL INFORMATION

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The Company incurred a provision of US\$32.8 million as of December 31, 2010 related to this wage restructuring initiative. Most of the expenses for which provisions were made were paid in early 2011.

In 2012, our Group reduced salary and hourly headcount in an effort to reduce manufacturing, engineering, selling and administrative costs and align our workforce with production and sales levels for the year. The Company incurred a provision of US\$5.7 million as of December 31, 2012 related to this workforce restructuring initiative. See “— Factors Affecting Our Group’s Results of Operations — Ability to Manage Manufacturing Challenges.”

Our warranty provision represents our Group’s estimate of amounts that will eventually be required to settle such obligations. These provisions are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. Our estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims. The increase in our warranty provision by US\$7.3 million primarily resulted from renegotiated terms over new programs in North America which expanded our responsibility to reimburse customers for any defects covered under the customer contract.

Our environmental provision represents our Group’s best estimate of financial exposure with respect to environmental sites.

From time to time our Group is subject to various legal actions and claims incidental to its business, including those alleged defects, breach of contracts, intellectual property matters and employment related matters. As of the Latest Practicable Date, our Group did not have any material provisions related to these matters.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, except as set forth above under “— Capital and Operating Lease Commitments — Operating Lease Commitments,” we had not entered into any off-balance sheet transactions.

### FINANCIAL RATIOS

The following table sets forth selected financial ratios of our Predecessor as of the dates indicated:

	<u>As of November 30, 2010</u>
Current ratio <sup>(1)</sup> .....	164.8%
Quick ratio <sup>(2)</sup> .....	124.9%
Gearing ratio <sup>(3)</sup> .....	18.5%
Return on equity <sup>(4)</sup> .....	—
Return on total assets <sup>(5)</sup> .....	—

Notes:

(1) Current assets divided by current liabilities.

(2) Current assets minus inventory minus restricted cash then divided by current liabilities.

(3) Total borrowings plus non-recurring related party payables then divided by total equity.

(4) Profit attributable to equity shareholders for the period divided by average balance of total capital and reserve attributable to equity holders.

(5) Profit for the period divided by average balance of total assets.

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## FINANCIAL INFORMATION

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The following table sets forth selected financial ratios of our Group as of the dates and for the period/years indicated:

	As of or for the period from November 4, 2010 to December 31, 2010	As of or for the year ended December 31, 2011	As of or for the year ended December 31, 2012
Current ratio <sup>(1)</sup> .....	82.2%	77.7%	123.8%
Quick ratio <sup>(2)</sup> .....	62.0%	57.2%	89.3%
Gearing ratio <sup>(3)</sup> .....	549.5%	342.1%	289.3%
Return on equity <sup>(4)</sup> .....	—	80.7%	40.5%
Return on total assets <sup>(5)</sup> .....	—	7.2%	5.3%

Notes:

<sup>(1)</sup> Current assets divided by current liabilities.

<sup>(2)</sup> Current assets minus inventory minus restricted cash then divided by current liabilities.

<sup>(3)</sup> Total borrowings plus non-recurring related party payables then divided by total equity.

<sup>(4)</sup> Profit attributable to equity shareholders for the year divided by average balance of total capital and reserve attributable to equity holders.

<sup>(5)</sup> Profit for the year divided by average balance of total assets.

### Current Ratio

Current ratio is calculated by dividing current assets by current liabilities.

The current ratio decreased from 82.2% as of December 31, 2010 to 77.7% as of December 31, 2011, primarily due to an increase in short-term borrowings for acquisition related expenditures, settlement of short-term provision and for capital expenditures in 2011.

The current ratio increased from 77.7% as of December 31, 2011 to 123.8% as of December 31, 2012, primarily due to a decrease in short-term borrowings of US\$305.5 million mainly resulting from repayment of the Acquisition Debt (US\$316.0 million) in November 2012.

### Quick Ratio

Quick ratio is calculated by dividing current assets less inventories and restricted cash by current liabilities.

The quick ratio decreased from 62.0% as of December 31, 2010 to 57.2% as of December 31, 2011, primarily due to the decrease in cash and cash equivalents mainly resulting from the Company's investment in steering EPS manufacturing equipment to support future global customer launches. See “— Liquidity and Capital Resources — Cash Flow.”

The quick ratio increased from 57.2% to 89.3% as of December 31, 2011 and December 31, 2012, respectively, primarily due to a decrease in short-term borrowings of US\$305.5 million, mainly resulting from repayment of the Acquisition Debt (US\$316.0 million) in November 2012.



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## FINANCIAL INFORMATION

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### **Gearing Ratio**

Gearing ratio is the ratio of total borrowings and certain non-recurring related party payables divided by total equity at the end of the respective year. The related party payable balance relates to amounts owed to Beijing E-Town primarily for acquisition expenses and PCM China for interest and guarantee fees on Acquisition Debt.

The gearing ratio decreased from 549.5% as of December 31, 2010 to 342.1% as of December 31, 2011 as equity increased by US\$48.1 million, mainly reflecting profits in 2011.

The gearing ratio decreased from 342.1% as of December 31, 2011 to 289.3% as of December 31, 2012, primarily due to an increase in equity of US\$68.8 million as a result of profits in 2012 and an increase in total borrowings of US\$134.0 million.

### **Return on Equity**

Return on equity is calculated by dividing the net profits attributable to equity shareholders by the arithmetic mean of the opening and closing balances of total capital and reserve attributable to equity holders of the relevant year expressed as a percentage. As discussed under “— Basis of Presentation,” costs and profits for our Predecessor and our Group are not comparable. As a result, return on equity for 2010 has not been presented.

Because of the limited Track Record Period since the Acquisition, the calculation of our return on equity is significantly affected by our after tax earnings. Our opening equity in 2011 included the impact of a substantial after tax loss of US\$58.7 million recorded for the one month ended December 31, 2010. Conversely, we reported net profits of US\$68.0 million for the year ended December 31, 2011, resulting in a return on equity of 80.7%.

Our return on equity decreased from 80.7% as of December 31, 2011 to 40.5% as of December 31, 2012, mainly due to a decrease in after tax profits of US\$9.4 million from US\$68.0 million for the year ended December 31, 2011 to US\$58.6 million for the year ended December 31, 2012 as well as an increase in our total capital from US\$123.0 million as of December 31, 2011 to US\$191.8 million as of December 31, 2012. The increase was primarily due to after tax profits of US\$58.6 million in 2012.

### **Return on Total Assets**

Return on assets is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total assets of the relevant year expressed as a percentage. See “— Basis of Presentation.” As such, costs and profits for our Predecessor and our Group are not comparable. Our return on total assets was 7.2% for the year ended December 31, 2011.

Our return on assets decreased from 7.2% as of December 31, 2011 to 5.3% as of December 31, 2012 mainly due to an increase in property, plant and equipment resulting from the Company’s investment in EPS manufacturing equipment.

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## FINANCIAL INFORMATION

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### QUANTITATIVE AND QUALITATIVE MARKET RISKS

We are exposed to various types of market risks, including the following:

#### **Credit Risk**

We sell our products to automotive manufacturers throughout the world. Our credit risk arises primarily from our outstanding trade and other receivables with our customers. We are also exposed to credit risk arising from the default of our customers on their obligations to us. The central treasury department of our Company is responsible for managing and analyzing credit risks relating to each new customer before standard payment and delivery terms and conditions are offered. A customer's creditworthiness is also assessed at the subsidiary level through analyzing past due receivables.

We also face concentration risk arising from large customers. Our largest customer is GM, which comprised 50.4%, 50.6% and 52.3% of our revenue during the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Trade receivables from GM accounted for approximately 43.1%, 43.0% and 48.6% of total trade accounts receivables as of December 31, 2010, 2011 and 2012, respectively.

Further, we face credit risk from our deposits with banks and other financial institutions. We monitor the credit ratings of these banks and financial institutions. We had 95%, 95% and 72% of our cash in financial institutions with credit ratings of A or higher for the one month period ended December 31, 2010, and the years ended December 31, 2011 and 2012, respectively.

#### **Price Risk**

Price risk relates to changes in the prices of raw materials purchased for production from the time of the price quotation to the customer to the sale of our products to customers. To minimize the impact of price risk we seek to include clauses in our customer contracts that allow for full or partial pass-through of price increases relating to raw materials to customers.

#### **Liquidity Risk**

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities. We monitor our liquidity requirements to ensure sufficient cash and cash equivalents to meet our operational needs, and have available sufficient undrawn committed borrowing facilities. We also take into consideration our debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements.

#### **Interest Rate Risk**

Our interest rate risk arises from fluctuations in interest rates on our current and noncurrent borrowings. Changes in interest rates on borrowings issued at variable rates potentially expose us to cash flow risk. Increases in interest rates would increase expenses relating to our outstanding debt and increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. Because we generally do not take a speculative view on movements in interest rates, we do not currently use

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## FINANCIAL INFORMATION

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any derivative financial instruments to manage these risks. However, our management monitors our interest rate exposure and will consider hedging significant interest rate exposure as necessary.

If the interest rates had been 100 basis points higher/(lower) than the prevailing rate, and all other variables remained constant, our profits for the period from November 4, 2010 to December 31, 2010 and the year ended December 31, 2011 and 2012, would have been US\$0.3 million, US\$3.6 million, and US\$4.8 million lower/(higher), respectively.

### Foreign Exchange Risk

We operate on a worldwide basis. Our revenue is primarily denominated in U.S. dollars, the Euro and the RMB. Our operating expenses are also predominantly denominated in U.S. dollars, Polish Zloty, Euros, Mexico Pesos, RMB and other currencies in relation to our foreign operations. Our Group bases its hedging policy on the exposure and risk that our Group is willing to incur based on its specific operations, business model and risk analysis. Our Group does not use any derivative contracts to hedge against our foreign exchange exposure. Instead, our Group conducts our operations in a manner that is intended to achieve natural hedging. In particular, although our Group operates in many different countries, in most cases our Group entities incur operating expenses to produce a product and receive the corresponding revenues from the sale of such product in the same currency, which reduces our Group's foreign exchange risk, as can be illustrated in the sensitivity analysis of the impact of changes in the foreign exchange rate on equity and post-tax results. However, we evaluate the costs and benefits of hedging from time to time and may engage in more active foreign currency hedging strategies in the future.

A sensitivity analysis to assess the impact on equity and post-tax results if the foreign exchange rate had been 10% higher (lower) than the prevailing rate is as follows:

	<u>Increase in Foreign Exchange Rates</u>	<u>Equity</u>	<u>Post-tax results</u>
		(US\$ thousands)	
<b>As of and for the period ended</b>			
<b>December 31, 2010</b>			
Renminbi (10% strengthening) .....	10%	6,084	187
Euro (10% strengthening) .....	10%	13,826	43
<b>As of and for the year ended</b>			
<b>December 31, 2011</b>			
Renminbi (10% strengthening) .....	10%	6,594	474
Euro (10% strengthening) .....	10%	18,385	7,027
<b>As of and for the year ended</b>			
<b>December 31, 2012</b>			
Renminbi (10% strengthening) .....	10%	9,426	383
Euro (10% strengthening) .....	10%	22,213	2,118

A weakening of the U.S. dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts above, on the basis that all other variables remain consistent.

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## FINANCIAL INFORMATION

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In line with our international expansion plans, we may be required to convert a majority of the proceeds of the Global Offering denominated in Hong Kong dollars into U.S. dollars, Euros, RMB, or other foreign currencies. The potential depreciation of the Hong Kong dollar against certain currencies, including the RMB, could reduce the amount of currency available for our use upon the conversion of the proceeds.

### DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Subject to applicable laws and regulations, we currently intend to pay dividends of not less than 20% of our net profits available for distribution for the year ending December 31, 2013. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditures and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends after the year ending December 31, 2013 may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. As of December 31, 2012, we had no reserve available for distribution to our shareholders.

### RECENT DEVELOPMENTS

The following is a summary of our selected unaudited financial data for the three months ended March 31, 2012 and 2013 that have been prepared in accordance with the accounting policies set forth in our audited combined financial information that are included in Appendix IA to this Prospectus. Our financial results for the three months ended March 31, 2013 may not be indicative of our financial results for the full year ending December 31, 2013 or for future interim periods.

	For the three months ended	
	March 31, 2012	March 31, 2013
	(US\$ thousands) (unaudited)	
Revenue .....	587,895	576,465
Cost of sales .....	(506,002)	(497,289)
Engineering and product development costs .....	<u>(20,430)</u>	<u>(19,888)</u>

For the three months ended March 31, 2013, our revenue decreased by approximately 2% to US\$576.5 million from US\$587.9 million for the three months ended March 31, 2012, primarily due to a decrease in sales volume caused by the end of certain customer programs, which has not yet been offset by an expected increase in revenue from booked customer programs that are expected to begin production later in 2013. For the three months ended March 31, 2013, our cost of sales decreased by approximately 2% to US\$497.3 million from US\$506.0 million for the three months ended March 31, 2012, primarily due to the decrease in sales volume mentioned above. Our engineering and product development costs decreased by approximately 3% to US\$19.9 million for the three months ended March 31, 2013 from US\$20.4 million for the three months ended March 31, 2012.

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## FINANCIAL INFORMATION

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According to our unaudited management accounts, our Group's gross profit and gross profit margins for the second half of 2012 decreased by approximately US\$38.9 million and 2.3%, respectively compared to the first half of 2012, mainly due to pricing pressure from customers and seasonality. In addition, our Group also incurred listing expenses of approximately US\$6.6 million and employee restructuring costs of approximately US\$7.4 million in the second half of 2012. As of the Latest Practicable Date, our Group does not expect to incur similar non-recurring expenses in the second half of 2013, except for costs associated with public company reporting and related requirements. Moreover, our Group will launch three new EPS programs in the second half of 2013. As EPS products usually have a higher price than other products, we expect our EPS programs to mitigate the adverse impact of overall pricing pressure from customers.

There has been no material change to our business model and cost and revenue structures that may have a material adverse effect on our business, financial condition and results of operations since December 31, 2012.

### **PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2013**

On the bases and assumptions set out in "Appendix III — Profit Forecast" and, in the absence of unforeseen circumstances, certain profit forecast data of our Group for the six months ending June 30, 2013 is set out below:

Forecast consolidated profit attributable  
to the equity holders of the Company<sup>(1)</sup> . . . . . Not less than US\$52.5 million  
(approximately HK\$407.4 million)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the six months ending June 30, 2013 have been prepared are summarized in "Appendix III — Profit Forecast" in this Prospectus.
- (2) For the purpose of this forecast consolidated profit attributable to equity holders, the balance stated in United States Dollars is converted into Hong Kong dollars at the rate of US\$1 to HK\$7.76. No representation is made that the United States Dollars amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (3) The financial results for the six months ending June 30, 2013 will be audited pursuant to Rule 11.18 of the Listing Rules.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of December 31, 2012 or any future date. It is prepared based on our audited combined net assets of our Group attributable to the equity holders of our Company as of December 31, 2012 as set forth in the Accountant’s Report on the Financial Information of our Group in Appendix IA to this Prospectus, and adjusted as described below. Our unaudited pro forma adjusted combined net tangible assets does not form part of the Accountant’s Report in Appendix IA to this Prospectus.

	Unadjusted Audited Combined Net Tangible Liabilities Attributable to the Equity Holders of our Company as of December 31, 2012 <sup>(1)</sup>	Estimated Net Proceeds from the Global Offering <sup>(2)</sup>	Unaudited Pro Forma Adjusted Net Tangible Assets of our Group Attributable to the Equity Holders of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Share <sup>(3)</sup>	
	(US\$ thousands)	(US\$ thousands)	(US\$ thousands)	(US\$)	(HK\$)
Based on an offer price of HK\$2.54 per Share . . . . .	(8,151)	224,213	216,062	0.09	0.70
Based on an offer price of HK\$3.50 per Share . . . . .	(8,151)	311,058	302,907	0.13	1.01

Notes:

- (1) Our combined net tangible liabilities attributable to the equity holders of our Company as of December 31, 2012 is extracted from the Accountant’s Report on the financial information of the Group in Appendix IA to this Prospectus, which is based on our audited combined net assets attributable to the equity holders of our Company as of December 31, 2012 of US\$170,931,000 less intangible assets as of December 31, 2012 of US\$179,082,000.
- (2) The estimated net proceeds from the Global Offering are based on indicative offer prices of HK\$2.54 or HK\$3.50 per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) Our unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,400,000,000 Shares were in issue assuming that the Global Offering had been completed on December 31, 2012, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to December 31, 2012.

### RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. See Notes 32 and 32 of Appendices IA and IB, respectively, to this Prospectus for more information on the related party transactions entered between us and our related parties. Among other things, we obtained long-term bank loans from the EXIM Bank totaling US\$426.0 million in November 2012, which are guaranteed by AVIC and Beijing E-Town, and bear interest at LIBOR+3.5% per annum and are due in semi-annual installments of US\$30.5 million. The term of these loans commence in June 2014 and mature in October 2020, with the last repayment to be made then (the “EXIM Guaranteed Bank Loans”). We do not intend to repay the EXIM Guaranteed Bank Loans prior to maturity, or seek release of the guarantees given by AVIC or Beijing E-Town. See “Relationship

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## **FINANCIAL INFORMATION**

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with Our Controlling Shareholders — Independence from the Controlling Shareholders — Financial Independence.” In addition, as of December 31, 2012, our Group had bank loans in the amounts of US\$15,817,000 and US\$16,917,000, both of which are guaranteed by PCM China, and such loans have been partly repaid, with the balance expected to be repaid before Listing. Our Group had a payable to Beijing E-Town in the amount of US\$10.5 million as of December 31, 2012, which represented outstanding Acquisition related costs incurred by PCM China and paid by Beijing E-Town, which has been settled as of the Latest Practicable Date. Our Group also had certain payables due to PCM China by our Group, in an amount of US\$3.8 million as of December 31, 2012, which represents finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. Our Group estimates that such amount will be fully settled prior to the Listing.

### **LISTING EXPENSES**

The estimated total listing expenses (excluding underwriting commissions) incurred in relation to this Global Offering are approximately US\$12.2 million. For the year ended December 31, 2012, we incurred US\$7.7 million of listing expenses of which US\$1.1 million was recognized as prepayments. The remaining US\$6.6 million was charged to the income statement for the year ended December 31, 2012. We estimate that an additional listing expenses (excluding underwriting commission) of US\$4.5 million will be incurred by December 2013, of which US\$1.8 million will be recognized as prepayments, which is expected to be charged against equity upon successful listing. The remaining US\$2.7 million will be charged to the income statement. These listing expenses are mainly comprised of professional fees paid to legal advisors and the reporting accountant for their services rendered in relation to the Listing and the Global Offering.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, since December 31, 2012 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the information shown in our Group’s combined financial statements Accountant’s Report in Appendix IA to this Prospectus.