You should read this section in conjunction with our audited financial statements, including the notes to the financial statements, which are set out in the Accountants' Reports in Appendices IA and IB to this prospectus. The financial statements have been prepared in accordance with IFRSs.

The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. You should review "Risk Factors" in this prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.

The following tables set forth a summary income statement data, a summary statement of financial information data and a summary statement of cash flows data which are derived from the Accountants' Reports of our Group and Aotecar Nanjing in Appendices IA and IB to this prospectus respectively.

The following summary of financial information of the Group and Aotecar Nanjing have been prepared in accordance with IFRSs and should be read in conjunction with the respective Accountants' Reports.

Summary Income Statement Data

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover	308,815	378,387	797,026	313,419	642,583
Cost of sales	(226,655)	(282,849)	(585,137)	(229,995)	(475,024)
Gross profit	82,160	95,538	211,889	83,424	167,559
Other revenue and net income	2,059	4,008	1,973	108	3,913
Distribution expenses	(21,377)	(25,179)	(42,227)	(17,147)	(33,166)
Administrative expenses	(14,999)	(25,848)	(33,639)	(16,162)	(25,232)
Other operating expenses	(2,491)	(5,749)	(5,593)	(2,766)	(2,916)
Profit from operations	45,352	42,770	132,403	47,457	110,158
Finance costs	(4,088)	(5,078)	(6,600)	(3,400)	(6,249)
Profit before taxation	41,264	37,692	125,803	44,057	103,909
Income tax	479	(6,723)	(23,350)	(8,532)	(20,389)
Profit for the year/period	41,743	30,969[(1)]	102,453	35,525	83,520

Note:

(1) The decrease in our profit for the year ended 31 December 2008 as compared with the year ended 31 December 2007 was mainly due to certain non-recurring items, including: (i) an one-off compensation benefit given to Mr. Qian amounting to RMB7.4 million, representing fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a

further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, in recognition of the past contributions of Mr. Qian to the growth and development of the Group and as an incentive of his continued efforts; (ii) a tax credit of RMB5.3 million in the year ended 31 December 2007; and (iii) an increase in the amortisation charges of intangible assets of RMB3.1 million as a result of the acquisition of Aotecar Nanjing by our Group in December 2007. Please refer to relevant sections below for further explanations.

Summary Statement of Financial Information Data

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	117,750	264,139	376,472	431,735
Current assets	245,663	323,591	604,616	832,953
Current liabilities	166,239	425,952	712,142	912,277
Net current assets/(liabilities)	79,424	(102,361)	(107,526)	(79,324)
Total assets less current liabilities	197,174	161,778	268,946	352,411
Non-current liabilities	—	18,770	21,755	19,536
Net assets	197,174	143,008	247,191	332,875

Summary Statement of Cash Flows Data

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash generated from operating activities	35,143	24,486	80,834	49,911	41,036
Net cash used in investing activities	(13,530)	(39,277)	(121,018)	(49,580)	(85,739)
Net cash (used in)/generated from financing activities	(20,000)	42,400	22,279	(4,721)	119,164
Cash at the beginning of the year/period	5,503	7,116	34,726	34,726	16,560
Effect of foreign exchange rate changes	—	1	(261)	—	(9)
Cash at end of the year/period	7,116	34,726	16,560	30,336	91,012

BASIS OF PREPARATION

Aotecar Nanjing was a sino-foreign equity joint venture, which was 49.29%, 39.67% and 11.04% owned by Nanjing Lukou International Airport Limited, Fang Brothers and other miscellaneous investors, respectively, before December 2007. Pursuant to a loan agreement dated 19 January 2007 entered into between Fang Brothers, CITIC Capital China Fund I (parent company of CITIC Capital China) and CDH China Management Company Limited (acting on behalf of CDH Cool), (the "**Loan Agreement**"), as supplemented and amended by the first supplemental loan agreement dated 10 December 2007 entered into between Fang Brothers, CITIC Capital China Fund I, CDH China Management Company Limited and CDH Cool and relevant agreements detailed in "History, Development and Reorganisation" in this prospectus, Fang Brothers, CITIC Capital China Fund I and CDH Cool would set up an investment holding company to acquire the entire equity interests in Aotecar Nanjing.

Fang Brothers completed the acquisition of the remaining equity interests in Aotecar Nanjing on 29 December 2007 with loans advanced by CITIC Capital China Fund I and CDH Cool, and subsequently transferred the entire equity interests in Aotecar Nanjing to CUAS set up in accordance with the Loan Agreement, which indirectly owned entire equity interests in Aotecar Hong Kong through Aotecar International. After the acquisition of the equity interests in Aotecar Nanjing, the entire equity interests in Aotecar Nanjing were transferred to Aotecar Hong Kong, and CUAS issued its shares to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto (a related party of CDH Cool) as repayment for the loans made by Fang Brothers, CITIC Capital China Fund I and CDH Cool to effect the acquisition of equity interests in Aotecar Nanjing in accordance with the Loan Agreement.

CUAS, Aotecar International and Aotecar Hong Kong do not carry out any business nor operation as they are investment holding companies set up to hold investments of the Group, including the entire equity interests in Aotecar Nanjing. Therefore, for the year ended 31 December 2008, Aotecar Nanjing is the only operating company within the Group. Further, neither Fang Brothers, CITIC Capital China, CDH Cool nor CDH Auto has obtained, directly or indirectly, more than half of the voting power or potential voting power of the board of directors of Aotecar Nanjing or any of above investment holding companies (CUAS, Aotecar International or Aotecar Hong Kong) formed to effect the business combination.

The Company was incorporated on 25 May 2010. Pursuant to a share transfer agreement dated 11 September 2008 entered into between Aotecar International, CUAS and Mr. Qian, as supplemented by two supplemental agreements detailed in "History, Development and Reorganisation" in this prospectus, CUAS transferred 5% equity interests in Aotecar International to Mr. Qian on 22 June 2010. Pursuant to the group reorganisation completed on 10 November 2010, the Company acquired all of the equity interests in Aotecar International from CUAS and Mr. Qian by issuing shares to Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Mr. Qian. Upon completion of the group reorganisation on 10 November 2010, the Company became the holding company of Aotecar International and the companies now comprising the Group are owned by the same equity shareholders, i.e. Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Mr. Qian, both before and after the group reorganisation mentioned above. The Company is an investment holding company which does not carry out any business nor operation apart from the acquisition of Aotecar International. Therefore, in substance, no business combination has occurred and consequently, the combined financial statements of the Company are considered as a continuation of the combined financial statements of Aotecar International and its subsidiaries.

As the equity shareholders of the Group, i.e. Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, acquired the entire equity interests in Aotecar Nanjing on 29 December 2007, the first year results of operations of the companies now comprising the Group (mainly Aotecar Nanjing) presented in the Accountants' Report of the Group are the results of operations for the year ended 31 December 2008. The results of operations of Aotecar Nanjing from 29 December 2007 to 31 December 2007 were not presented in the Accountants' Report of the Group as the financial effect of the 3 days is not material to the financial information of the Group.

As the acquisition of Aotecar Nanjing by our Group on 29 December 2007 was recognised using the purchase method of accounting, the financial information for Aotecar Nanjing for the year ended 31 December 2007 has not been included in the "Accountants' Report of the Group" in Appendix IA to this prospectus. Thus the financial information of Aotecar Nanjing has been set out in a separate accountants' report included in the "Accountants' Report of Aotecar Nanjing" in Appendix IB to this prospectus.

During the Track Record Period, the management of the Group and Aotecar Nanjing remained substantially the same and Aotecar Nanjing engaged in substantially the same principal business activities as the Group. Therefore, the financial information presented in this prospectus can be used for analytical and comparison purposes even though the financial information of Aotecar Nanjing and the Group were presented under separate accountants' reports. Our Group's net assets as at 31 December 2008 was lower than Aotecar Nanjing's net assets as at 31 December 2007, mainly due to the differences in certain account balances including goodwill, the intangible assets and the amounts due to related parties between the balance sheets of Aotecar Nanjing and our Group.

The following table shows extracts of the balance sheets of Aotecar Nanjing and our Group as at 31 December 2007 and the differences between them.

	Aotecar Nanjing	**Our Group**	**Differences**
	As at 31 December 2007		
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	105,301	105,301	—
Lease prepayments	6,232	26,725	20,493
Intangible assets	4,092	69,928	65,836
Goodwill	—	39,895	39,895
Deferred tax assets	2,125	—	(2,125)
	117,750	241,849	124,099
Current assets			
Inventories	68,532	71,731	3,199
Trade and other receivables	146,077	146,077	—
Income tax refundable	3,247	3,247	—
Pledged deposits	20,691	20,691	—
Cash	7,116	7,116	—
	245,663	248,862	3,199
Current liabilities			
Trade and other payables	102,399	94,770	(7,629)
Amounts due to related parties	—	224,060	224,060
Interest bearing borrowings	55,855	55,855	—
Provision	7,985	7,985	—
	166,239	382,670	216,431
Net-current assets/(liabilities)	79,424	(133,808)	(213,232)
Non-current liabilities			
Deferred tax liabilities	—	18,425	18,425
Net assets	197,174	89,616	(107,558)

The financial information has been prepared in accordance with IFRSs.

Before the acquisition of control of Aotecar Nanjing by the Group on 29 December 2007, the financial statements of Aotecar Nanjing were presented on an individual company basis. However, after completion of the acquisition, the financial statements of the Group had been prepared on a combined basis with the acquisition of subsidiaries being accounted for using the purchase method of accounting. As a result of the above, there were differences between the balance sheets of Aotecar Nanjing and the Group as detailed above. The differences comprise of intangible assets, goodwill, lease prepayments, inventories, trade and other payables, amounts due to related parties and deferred tax assets and liabilities.

The difference in intangible assets represents our core technology and customer relationships which were recognised on the Group level. Goodwill had been recognised in the financial statements of our Group as a result of the acquisition of Aotecar Nanjing by our Group on 29 December 2007. The difference in lease prepayments represents a fair value adjustment to the land use rights. The difference in inventories represents fair value adjustments as a result of the acquisition of Aotecar Nanjing by our Group on 29 December 2007. The difference for the trade and other payables represents dividend payable by Aotecar Nanjing which was eliminated on the Group level. The difference in the amounts due to related parties represents amount payable to CUAS as a result of the transfer of 100% equity interests in Aotecar Nanjing to our Group by Fang Brothers. Please refer to "History, Development and Reorganisation – Aotecar Nanjing" for details of the transfer. The difference in deferred tax assets and liabilities was due to the deferred tax effects of various assets.

OVERVIEW

We are a leading manufacturer of automobile air-conditioning compressors in the PRC. According to the Ourview Report[(1)], we were the second largest PRC manufacturer of automobile air-conditioning compressors in 2009 in terms of production and sales volumes and our production volume accounted for 14.6% of the entire PRC automobile air-conditioning compressor manufacturing industry in 2009. According to the same report, we were the largest PRC manufacturer of scroll automobile air-conditioning compressors in 2009, and our production volume represented 72.2% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009. Our wholly-owned subsidiary, Aotecar Nanjing, has been listed as a "China Best Small & Medium-sized Enterprise"[(2)] (中國潛力企業) by Forbes magazine for three consecutive years since 2008. In 2010, our Aotecar brand was acknowledged as a "Well-known Trademark" (馳名商標) in the PRC.

Compressor is a key component of an automobile air-conditioning system. The scroll compressor is the latest generation compressor and the production of it accounted for 20.3% of the total production of automobile air-conditioning compressors in the PRC in 2009. Earlier generations of compressors include piston compressor, swash plate compressor and rotary vane compressor. Due

Notes:

(1) The Ourview Report was issued by Ourview Consultancy, an independent third party, set up in 2004 and headquartered in Beijing. Ourview Consultancy is one of the PRC consultancy firms specialising in market research relating to automobile parts and automobile electronics products in the PRC. We engaged Ourview Consultancy to conduct relevant market research and analyses and prepare the Ourview Report. The Ourview Report data was compiled on the following bases: i) first hand interviews; ii) data from governmental departments, associations and organisations; iii) public publications; and iv) previous data collected by Ourview Consultancy. In connection with our engagement of the Ourview Consultancy, we paid a service fee of RMB45,000. Such payment was neither contingent on our successful Listing nor conditional upon any of the results that were set out in the Ourview Report. The Ourview Report covers analyses of more than 20 foreign, Sino-foreign and domestic PRC automobile air-conditioning compressors manufacturers.

(2) The English name of "China Best Small & Medium-sized Enterprise" has been changed to "China Up and Comers" in 2009 and "Forbes China Up & Comers" in 2010.

to the development of new generations of compressors, the use of piston compressor is generally fading out from the PRC market. Both the swash plate compressor and scroll compressor are suitable for use in various types of displacement vehicles, while the rotary vane compressor is more suitable for the use in small-displacement vehicles. As compared with swash plate compressor, scroll compressor has the benefits of higher cooling efficiency and volume ratio, lighter weight and lower power consumption, and its market share in the PRC increased from 1.9% in 2002 to 20.3% in 2009 in terms of production volume according to the Ourview Report. According to the same report, scroll compressors are not only widely used in traditional gasoline and diesel engine vehicles, they are also especially suitable for the use in electric vehicles. According to the PRC national standard for "Automobile Air-conditioning Electrically Driven Compressor Assembly" (汽車空調用電動壓縮機總成), an electrically driven compressor used in vehicles should comprise both a scroll compressor and an electric motor.

Currently, there are more than 100 automobile air-conditioning compressor manufacturers in the PRC and the production of scroll air-conditioning compressors only accounted for 20.3% of the total PRC market in 2009 in terms of production volume. Since scroll compressors represent the latest generation in the automobile air-conditioning compressor industry, the current penetration rate is still considered to be low and it is expected that it will take time for the automobile manufacturers to switch to the use of scroll air-conditioning compressor in the production of their automobiles.

Our Group currently supplies automobile air-conditioning compressors to leading PRC automobile manufacturers. The major customers of our automobile air-conditioning compressors include BYD, Chery, Geely, Brilliance and Foton, being among the top ten self-owned automobile brands in the PRC, which in aggregate, accounted for 21.5%, 32.9%, 36.8% and 36.3% respectively of our total revenue for the three years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010, and foreign joint venture automobile brands, such as DPCA, NAVECO and SGMW. Amongst them, Chery, DPCA and SGMW, which were not our top five customers during the Track Record Period, in aggregate, accounted for 1.8%, 2.5% and 2.3% respectively of our total revenue for the two years ended 31 December 2008 and 2009 and for the six months ended 30 June 2010. As at the Latest Practicable Date, we did not have sufficient industry information on whether we were the sole supplier to any of our customers.

According to the Ourview Report, our Group together with the second and third largest scroll air-conditioning compressor manufacturers in the PRC accounted for a total of 92.3% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009. The second largest scroll automobile air-conditioning compressor manufacturer in the PRC is a wholly foreign-owned enterprise based in Guangdong Province and its production volume accounted for 15.5% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009. The third largest scroll automobile air-conditioning compressor manufacturer in the PRC is a wholly foreign-owned enterprise based in Jiangsu Province, and its production volume accounted for 4.6% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009. There were also other smaller players in the market but each of their respective production volumes accounted for less than 2.0% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009 according to the Ourview Report. According to the same report, the production volumes of the second and the third largest scroll air-conditioning compressors manufacturers in the PRC were 400,000 sets and 120,000 sets respectively in 2009, which were far behind the 1.9 million sets manufactured by the Group in 2009.

We put emphasis on our R&D. As at the Latest Practicable Date, our R&D team had more than 50 members, of whom over 80% have received tertiary education. We developed our own proprietary technologies and have 48 registered patents, seven of which are invention patents. Our technologies, though not absolutely unique, have contributed to the current market position of the Group. We have been accredited with the titles of "High and New Technology Enterprise" (高新技術企業) and the "Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology" (江蘇省節能環保汽車空調壓縮機工程技術研究中心). We have obtained the copyright in "Aotecar scroll compressor process simulation software V1.0" (奧特佳渦旋壓縮機過程模擬軟件V1.0). Furthermore, we have been approved by the National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China (全國冷凍空調設備標準化技術委員會), an institute authorised by the PRC Standardisation Administration[(1)], as the key drafting organisation for the national standards for "Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles" (汽車空調用小排量渦旋壓縮機), which are expected to be published in 2011 as the relevant national standards in the PRC. We are conscious of the keen competition from existing market players and will continue our efforts in strengthening our R&D capabilities in order to maintain our competitiveness in the industry. Please refer to "Business – Research and development" in this prospectus for details of our R&D strategies.

Our two production bases (the Old Production Base and the New Production Base) are located in Nanjing, Jiangsu Province, with an aggregate current annual production capacity of 3.0 million sets of compressors as at the Latest Practicable Date and we expect that the annual production capacity will reach 4.0 million sets by mid 2011 following completion of the expansion of the New Production Base. We pursue "lean production" and take "zero defect" as our quality goal. After obtaining certification from CCCAP for our compressors in 2001, we obtained the ISO/TS 16949:2002 international automobile supplier quality system certification in 2003, as a result of our design, manufacture and implementation of the quality control system for our automobile air-conditioning compressors. We are able to satisfy the product quality expectations of our customers by responding swiftly to quality control queries and continuously improving our quality control measures.

We achieved strong and continued growth in production, revenue and profit in the past few years as a result of the strengthening of our R&D capabilities and our broadening customer base. Our production has grown to 1.9 million sets in 2009 from 0.6 million sets in 2007, representing a CAGR of 71.7%, which was much higher than the growth in the overall industry (according to the Ourview Report, the CAGR of PRC automobile air-conditioning compressor production was 33.2% over the same period). Our total revenue increased from RMB308.8 million in 2007 to RMB797.0 million in 2009 with a CAGR of 60.7%, and our profit increased from RMB41.7 million in 2007 to RMB102.5 million in 2009 with a CAGR of 56.7%. We believe that the fast-paced growth of our business has enabled us to consolidate our leading position in the industry, enhance our relationships with our customers and strengthen our R&D capability.

Note:

[(1)] *The PRC Standardisation Administration, under the supervision of the General Administration of Quality Supervision, Inspection and Quarantine, is a public institution authorised by the State Council to administer unified management, supervision and overall coordination of standardisation works in China.*

The following table shows our revenue by product type during the Track Record Period:

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Scroll compressors										
– 066 series	56,493	18.3	116,827	30.9	241,850	30.3	98,590	31.5	171,193	26.6
– 086 series	159,749	51.7	133,875	35.4	266,076	33.4	106,951	34.1	214,317	33.4
– 106 series	47,743	15.5	74,212	19.6	172,089	21.6	70,962	22.6	140,293	21.8
– electric scroll compressors	—	—	152	0.0	1,171	0.1	529	0.2	1,590	0.2
Other compressors	19,276	6.2	15,391	4.1	18,049	2.3	6,800	2.2	11,290	1.8
Total compressors	283,261	91.7	340,457	90.0	699,235	87.7	283,832	90.6	538,683	83.8
Others[(1)]	25,554	8.3	37,930	10.0	97,791	12.3	29,587	9.4	103,900	16.2
Total	308,815	100.0	378,387	100.0	797,026	100.0	313,419	100.0	642,583	100.0

Note:

(1) *Revenue from "Others" represents mainly sales of component parts and accessories for scroll compressors.*

As at the Latest Practicable Date, we had 38 sales and marketing personnel in different teams for external liaison and internal coordination.

For the year ended 31 December 2007, 51.7% of our revenue was generated from the sales of 086 series scroll compressors. While for the year ended 31 December 2008, the revenue from the sales of 086 series decreased to 35.4% and then further decreased to 33.4% for each of the year ended 31 December 2009 and the six months ended 30 June 2010. While our revenue from the sales of 066 series scroll compressors showed an increasing trend for the three years ended 31 December 2009, representing 18.3%, 30.9%, 30.3% of revenue respectively, it dropped to 26.6% of the total revenue for the six months ended 30 June 2010. Our revenue generated from the sales of 106 series scroll compressors also showed an increasing trend, representing 15.5%, 19.6%, 21.6% and 21.8% of our total revenue respectively during the Track Record Period. The fluctuations of our revenue by product mix during the Track Record Period were attributable to the changes in demand of our customers as they shifted towards vehicle with smaller displacement. During the Track Record Period, the average selling price of our air-conditioning compressors were RMB471.3, RMB415.1, RMB389.3 and RMB381.0 per set respectively.

The following table shows our sales volume and average selling prices during the Track Record Period:

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)
							(unaudited)			
Compressors	601,057	471.3	820,110	415.1	1,796,268	389.3	741,968	382.5	1,413,997	381.0

The sales volume of our Group increased by 36.4% between the year ended 31 December 2007 and 2008 and by 119.0% between the year ended 31 December 2008 and 2009 of our Group. The increase was attributable to:

- a number of our key customers (for details, please refer to "Business – Sales and marketing – Customers" in this prospectus) increased their demand for our major products during the Track Record Period;
- our production capacity increased during the Track Record Period to fulfil the increasing demand for our products resulting in the increase in sales volume;
- our competitive pricing and the enhancement of our product quality stimulated sales volume growth during the Track Record Period; and
- growth in market demand where the production growth of the PRC automobile air-conditioning compressors was 24.5% between 2007 and 2008 and 42.6% between 2008 and 2009.

The average selling price of our products decreased by 11.9%, 6.2% and 2.1% respectively for each of the two years ended 31 December 2009 and the six months ended 30 June 2010. For the period from 1 January 2010 to the Latest Practicable Date, the average selling price of our products was RMB382.1 per set, representing a decrease of 1.8% as compared with that of the year ended 31 December 2009. The decrease was attributable to requests from customers to reduce prices from time to time since we operate in a competitive industry. The Group normally negotiate with the customers on the prices of the products once or twice a year and at that time, some of our customers would require us to adjust the selling prices in order to reflect the general market rate which was decreasing over the Track Record Period. Upon receiving such requests, we would have internal discussions, which would involve our general manager, on whether we would be able to meet such requests without compromising our profitability. The most recent requests we received from such customers for adjusting our selling price were in July and October 2010 and we were able to meet our customers' requests without compromising our gross profit margin due to economies of scale and effective cost control. Notwithstanding the decrease in average selling prices of our products, we were able to maintain steady gross profit margins at 26.6%, 25.2%, 26.6% and 26.1% respectively during the Track Record Period.

Though the average selling price had decreased during the Track Record Period, the significant increase in our scale of operations during the Track Record Period had lowered our production costs and thus allowed us to maintain our market competitiveness.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. Our accounting policies have a significant impact on our operating results. Estimates and judgments are based on historical experience, prevailing marketing conditions and rules and regulations, and are reviewed on a continual basis taking into account the changing environment and circumstances. The critical accounting policies adopted and estimates made in preparation of our financial statements are set out as follows:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Plant and buildings	20 years
– Machinery and equipment	10-15 years
– Furniture, fixtures and other office equipment	5 -10 years
– Motor vehicles	4 -10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

Core technology	15 years
Customer relationships	10 years

Both the period and method of amortisation are reviewed annually.

The basis of valuation for core technology and customer relationships are as follow:

Core technology – applying the royalty method using forecasted revenue from all the Group's compressor products, royalty rate, maintenance expenses, income tax rate and return on assets.

Customer relationship – applying the excess earnings method using forecasted revenue attributable to existing customers, attrition rate, operating margins, return on contributory charges for intangible assets, income tax rate and return on assets.

Internal and external resources of information are reviewed at each balance sheet date to identify indications that the intangible assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Impairment of trade and other receivables

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Economic conditions

The demand for our compressors is generally influenced by economic conditions in the PRC, including consumer spending and the production output and sales volumes of automobiles. Growth in domestic consumption of consumer and manufactured goods, which has risen in line with the growth in the PRC GDP, as well as growth in the PRC exports, has resulted in increased demand for our compressors. Despite the global economic crisis that ensued in the second half of 2008, our product sales were not materially affected because domestic demand for automobiles in the PRC market remained strong and our products also became more competitive. For the years ended 31 December 2008 and 2009, the Chinese economy experienced GDP growth of 9.0% and 9.1%, respectively, and we experienced 22.5% and 110.6% growth in our revenue, respectively.

Capacity expansion

Our results of operations have been and are expected to continue to be benefited by our aggressive production capacity expansion. In recent years we have undertaken a significant expansion in production capacity, adding 0.9 million sets per annum in 2009 by setting up new production facilities, to an aggregate production capacity of 1.9 million sets per annum as at 31 December 2009. As at the Latest Practicable Date, our production capacity was 3.0 million sets per annum. In order to meet the expected increasing demand for automobile in the PRC, we are expanding our New Production Base which is expected to be completed in mid 2011. Our production capacity will then be increased to 4.0 million sets per annum, representing 113.2% growth from the end of 2009. Please refer to "Business – Production facilities and production capacity" in this prospectus for more details. Successfully implementing our capacity expansion plan will impact our future sales volumes, revenues and profits and also our market share. We expect to satisfy the capital expenditure needs for our planned expansion from the expected proceeds of the Global Offering, as well as from cash flow from operations and bank borrowings. For additional information on our planned future capital expenditures, please refer to "Future Plans and Use of Proceeds – Use of proceeds" in this prospectus.

Market competition

During the Track Record Period, our average selling price of the automobile air-conditioning compressors had shown a gradually decreasing trend. The decrease was mainly due to the effect from economies of scale where we were able to offer our products at a lower price to maintain our market competitiveness. In addition, we operate in a competitive industry and our customers require us to adjust the prices each year. We, as the leading manufacturer of automobile air-conditioning compressors in the PRC and the largest scroll automobile air-conditioning compressor manufacturer in the PRC (accounted for over 70% of the scroll automobile air-conditioning compressor market in 2009), were able to maintain a stable gross margin through the benefits of economies of scale and stringent cost control. During the Track Record Period, the gross profit margins of the Group were 26.6%, 25.2%, 26.6% and 26.1% respectively. If there is an increase in market competition, this may increase the pressure on our average selling price and our profit margins.

Borrowing costs

Between 31 December 2007 and 31 December 2009, our aggregate interest-bearing borrowings increased by RMB117.9 million, or 211.1%, from RMB55.9 million to RMB173.8 million. Our interest bearing borrowings further increased by RMB334.8 million, or 192.6%, to RMB508.5 million as at 30 June 2010. Our finance costs amounted to RMB4.1 million, RMB5.1 million, RMB6.6 million and RMB6.2 million, respectively, during the Track Record Period. Our borrowing costs are dependent on our level of debt and applicable interest rates. Our bank borrowings consist of both fixed and variable rate debt obligations linked to applicable bank rates, the latter of which may be adjusted by banks every year in accordance with prevailing interest rates. Our level of borrowings increased significantly during the Track Record Period, which was mainly due to our continuous increase in our operating capacity. In the event the borrowing costs continue to increase, the Group's profits may be affected.

Product liability claims

Our business nature exposes us to the risk of product liability claims that is inherent in the R&D, manufacturing and marketing of our automobile air-conditioning compressors. As a developer and manufacturer of automobile air-conditioning compressors, we may be subject to product liability claims due to quality defects. Moreover, we may be subject to potential claims from our customers during the relevant warranty period for which we provide free warranty service for repair and maintenance of our products. A substantial claim or a substantial number of claims relating to our products could have material and adverse impact on our business, financial condition and results of operations. Provision for product warranties is made based on the best estimate of the expected settlement under the sales agreements in respect of sales made during the warranty period prior to the relevant balance sheet dates. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable. During the Track Record Period, the provision of Aotecar Nanjing and our Group (as the case may be) for warranties amounted to RMB10.9 million, RMB13.1 million, RMB27.2 million and RMB20.2 million, respectively. The amount of provisions utilised during the Track Record Period amounted to RMB10.7 million, RMB12.7 million, RMB13.9 million, and RMB6.2 million, respectively. We have not obtained insurance coverage for product liability or implemented any other protection scheme in line with general industry practice. If our products are proved to be defective and result in financial losses to our customers, we may be liable to product liability claims under the laws of the PRC or other jurisdictions in which our products are sold. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and businesses, and result in negative publicity. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount of damages.

In the event of allegations that any of our products are defective, we may also undergo product recalls which could result in substantial and unexpected expenditure and would reduce our operating profit and cash flow. A product recall may require significant management attention, affect the value of our brand name, lead to a decrease in demand for our products and may also lead to increased scrutiny by regulatory agencies of our operations. During the Track Record Period, we had not made any product recall.

RESULTS OF OPERATIONS

The following table shows our results of operations for the periods indicated:

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		**2008**		**2009**		**2009**		**2010**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Turnover	308,815	100.0	378,387	100.0	797,026	100.0	313,419	100.0	642,583	100.0
Cost of sales	(226,655)	(73.4)	(282,849)	(74.8)	(585,137)	(73.4)	(229,995)	(73.4)	(475,024)	(73.9)
Gross profit	82,160	26.6	95,538	25.2	211,889	26.6	83,424	26.6	167,559	26.1
Other revenue and net income	2,059	0.7	4,008	1.1	1,973	0.2	108	0.0	3,913	0.6
Distribution expenses	(21,377)	(6.9)	(25,179)	(6.7)	(42,227)	(5.3)	(17,147)	(5.4)	(33,166)	(5.2)
Administrative expenses	(14,999)	(4.9)	(25,848)	(6.8)	(33,639)	(4.2)	(16,162)	(5.2)	(25,232)	(3.9)
Other operating expenses	(2,491)	(0.8)	(5,749)	(1.5)	(5,593)	(0.7)	(2,766)	(0.9)	(2,916)	(0.5)
Profit from operations	45,352	14.7	42,770	11.3	132,403	16.6	47,457	15.1	110,158	17.1
Finance costs	(4,088)	(1.3)	(5,078)	(1.3)	(6,600)	(0.8)	(3,400)	(1.1)	(6,249)	(1.0)
Profit before taxation	41,264	13.4	37,692	10.0	125,803	15.8	44,057	14.0	103,909	16.1
Income tax	479	0.1	(6,723)	(1.8)	(23,350)	(2.9)	(8,532)	(2.7)	(20,389)	(3.1)
Profit for the year/period	41,743	13.5	30,969	8.2	102,453	12.9	35,525	11.3	83,520	13.0

Turnover

The turnover of the Group experienced substantial growth during the Track Record Period, from RMB308.8 million in 2007 to RMB797.0 million in 2009, and to RMB642.6 million for the six months ended 30 June 2010. The growth was contributed mainly from the increase in sales volume of compressors which accounted for over 80% of our sales during the Track Record Period. Among the different scroll compressors products, the revenue generated from our 066, 086 and 106 series scroll compressors increased from RMB264.0 million in 2007 to RMB680.0 million in 2009 and to RMB525.8 million for the six months ended 30 June 2010. The aggregate revenue from the 066, 086 and 106 series scroll compressors contributed 85.5%, 85.9%, 85.3% and 81.8% during the Track Record Period of the Group.

Revenue from others represents mainly sales of component parts and accessories for scroll compressors.

We sell to domestic and global automobile manufacturers as well as the automobile after-sales market. The Group generated 96.2%, 98.7%, 98.6% and 97.2% respectively of our revenue from sales in the PRC market during the Track Record Period. With respect to our overseas sales, we mainly export our products to the US, Japan, Malaysia and other Southeast Asia regions.

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Domestic sales	297,197	96.2	373,592	98.7	785,822	98.6	307,034	98.0	624,286	97.2
Overseas sales	11,618	3.8	4,795	1.3	11,204	1.4	6,385	2.0	18,297	2.8
Total	308,815	100.0	378,387	100.0	797,026	100.0	313,419	100.0	642,583	100.0

Cost of sales

Our cost of sales includes raw materials, components and accessories, direct staff costs and direct expenses.

The following table shows our cost of sales during the Track Record Period:

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Raw materials, components and accessories	201,676	89.0	251,911	89.1	525,770	89.8	206,222	89.6	426,344	89.8
Direct staff costs	11,122	4.9	14,378	5.1	31,426	5.4	12,574	5.5	26,755	5.6
Direct expenses	13,857	6.1	16,560	5.8	27,941	4.8	11,199	4.9	21,925	4.6
Total	226,655	100.0	282,849	100.0	585,137	100.0	229,995	100.0	475,024	100.0

The major component of our cost of sales during the Track Record Period was raw materials, components and accessories, representing 89.0%, 89.1%, 89.8% and 89.8% respectively of the total cost of sales. Raw materials comprise mainly of clutches, aluminium parts and components. The average price of our major raw material, aluminium parts and components, was RMB77.7, RMB74.1, RMB65.0 and RMB68.5 per set (which includes brake discs, static plates, cases and front end covers) respectively during the Track Record Period. Other major raw materials we need for our production include clutches and crankshafts. In relation to clutches, the average price was RMB79.0, RMB75.2, RMB74.8 and RMB72.8 per set respectively during the Track Record Period, while the average price of crankshafts was RMB13.1, RMB12.8, RMB12.2 and RMB11.9 per set respectively during the Track Record Period. We also source aluminium ingots for use by Aotecar Casting following its incorporation on 4 December 2008 and the average price of aluminium for the year ended 31 December 2009 and for the six months ended 30 June 2010 was RMB13.4 and RMB15.1 per kilogram respectively. Direct expenses includes depreciation and amortisation and other direct expenses. As a percentage to our revenue, our cost of sales remained relatively stable throughout the Track Record Period, representing 73.4%, 74.8%, 73.4% and 73.9% respectively of the Group.

Gross profit and gross profit margin

Gross profit is equal to revenue less costs of sales. Gross profit margin is equal to gross profit divided by revenue. Our gross profit margins during the Track Record Period were relatively stable at 26.6%, 25.2%, 26.6% and 26.1% respectively.

Other revenue and net income

Other revenue and net income comprises mainly of interest income from bank deposits, net foreign exchange gains and government grants from the PRC government. During the Track Record Period, the other revenue and net income of the Group amounted to RMB2.1 million, RMB4.0 million, RMB2.0 million and RMB3.9 million respectively. As a percentage of our revenue, our other revenue and net income represented 0.7%, 1.1%, 0.2% and 0.6% respectively during the Track Record Period.

Distribution expenses

The following table shows the major items of our distribution expenses during the Track Record Period:

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Warranty	10,923	13,068	27,239	10,654	20,223
Transportation	3,189	4,143	7,577	3,146	8,897
Advertising	3,000	3,431	2,546	1,155	1,185
Entertainment	1,428	1,566	1,497	654	981
Staff costs and other benefits	1,126	1,118	2,033	915	1,617
Others	1,711	1,853	1,335	623	263
Total	21,377	25,179	42,227	17,147	33,166

According to the industry practice, all products of the Group are generally subject to a warranty period of 60,000 kilometres travelled by an automobile with our compressor installed or 2 years, whichever is earlier, and related provisions will be made in this regard. The provision for warranty expenses amounted to RMB10.9 million, RMB13.1 million, RMB27.2 million and RMB20.2 million during the Track Record Period. As a percentage of our revenue, our provision for warranty expenses represented 3.5%, 3.5%, 3.4% and 3.1% respectively during the Track Record Period.

The distribution expenses of the Group as a percentage to our revenue during the Track Record Period were 6.9%, 6.7%, 5.3% and 5.2% respectively.

Administrative expenses

The following table shows the major items of our administrative expenses during the Track Record Period:

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Administrative staff costs and other benefits	7,413	15,043	16,253	8,140	12,963
Depreciation and amortisation	607	1,082	1,578	761	1,057
Travelling expenses	2,147	2,237	2,708	1,279	1,269
R&D	1,326	1,919	3,019	878	513
Bad debts provision	481	520	1,949	1,866	—
Listing expenses	—	—	—	—	5,517
Audit and professional fees	410	689	1,565	393	1,396
Office expenses	387	770	1,849	997	642
Entertainment expenses	771	928	1,007	490	703
Other taxes and levies	237	576	1,052	451	820
Others	1,220	2,084	2,659	907	352
Total	14,999	25,848	33,639	16,162	25,232

As a percentage to our revenue, our administrative expenses represented 4.9%, 6.8%, 4.2% and 3.9% respectively during the Track Record Period.

Finance costs

Our finance costs mainly comprise of interest expenses on bank loans and discounted bills. During the Track Record Period, the finance costs of the Group amounted to RMB4.1 million, RMB5.1 million, RMB6.6 million and RMB6.2 million respectively.

Taxation

We are subject to PRC enterprise income taxes as our operating subsidiaries are located in PRC. For the financial year ended 31 December 2007, Aotecar Nanjing enjoyed a tax credit of RMB5.3 million arising from certain equipment purchases in accordance with the relevant tax regulations of the PRC. Therefore, there was a net tax credit of RMB479,000 for the same year. The effective tax rates of our Group for the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 were 17.8%, 18.6% and 19.6% respectively.

During the Track Record Period, the Group have made all the required tax filings under the relevant tax laws and regulations in the relevant jurisdictions, have paid all outstanding tax liabilities when they fall due and are not aware of any dispute with tax authorities.

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

Turnover

Turnover for the six months ended 30 June 2010 was RMB642.6 million, an increase of RMB329.2 million, or 105.0%, from revenue of RMB313.4 million for the six months ended 30 June 2009.

The increase was mainly due to an increase in the demand from our existing customers.

Costs of sales

Cost of sales for the six months ended 30 June 2010 was RMB475.0 million, an increase of RMB245.0 million, or 106.5%, from the cost of sales of RMB230.0 million for the six months ended 30 June 2009. The increase in cost of sales was mainly due to the overall increase in the sales of compressors.

Gross profit

Gross profit for the six months ended 30 June 2010 was RMB167.6 million, an increase of RMB84.2 million, or 100.9%, from the gross profit of RMB83.4 million for the six months ended 30 June 2009. Gross profit margin remained fairly stable at 26.1% for the six months ended 30 June 2010 as compared to 26.6% for the six months ended 30 June 2009.

Other revenue and net income

Other revenue and net income for the six months ended 30 June 2010 was RMB3.9 million, an increase of RMB3.8 million, or 3,523.1%, from other revenue and net income of RMB0.1 million for the six months ended 30 June 2009. The increase was mainly due to an increase in the government grants.

Distribution expenses

Distribution expenses for the six months ended 30 June 2010 was RMB33.2 million, an increase of RMB16.1 million, or 93.4%, from distribution expenses of RMB17.1 million for the six months ended 30 June 2009. The increase was mainly due to the increase in the provision for warranty expenses, which was increased from RMB10.7 million for the six months ended 30 June 2009 to RMB20.2 million for the six months ended 30 June 2010, an increase of RMB9.5 million or 89.8%. Such increase in the provision of warranty expenses was due to an increase in our revenue.

The increase in distribution expenses was also due to the increase in transportation costs, which was increased from RMB3.1 million for the six months ended 30 June 2009 to RMB8.9 million for the six months ended 30 June 2010, an increase of RMB5.8 million or 182.8%. Such increase was due to the increase in sales during the six months ended 30 June 2010 where higher transportation costs were incurred for transporting our products to our customers.

The distribution expenses as a percentage of revenue remained fairly stable at 5.2% for the six months ended 30 June 2010 as compared to 5.4% for the six months ended 30 June 2009.

Administrative expenses

Administrative expenses for the six months ended 30 June 2010 was RMB25.2 million, an increase of RMB9.0 million, or 56.1%, from administrative expenses of RMB16.2 million for the six months ended 30 June 2009. The increase was mainly due to the increase in the administrative staff costs and other benefits from RMB8.1 million for the six months ended 30 June 2009 to RMB13.0 million for the six months ended 30 June 2010, an increase of RMB4.9 million or 59.3%. The increase was due to bonus to be paid to staff as a result of the good financial performance of the Group.

The increase was also due to the expenses incurred for the listing exercise of RMB5.5 million for the six months ended 30 June 2010 where no such expenses were incurred in the six months ended 30 June 2009.

Finance costs

Finance costs for the six months ended 30 June 2010 was RMB6.2 million, an increase of RMB2.8 million, or 83.8%, from RMB3.4 million for the six months ended 30 June 2009. The increase in finance costs was due to an increase in bank borrowings for the six months ended 30 June 2010.

Income tax

Aotecar Nanjing was accredited as a "High and New Technology Enterprise" in October 2008 for a term of 3 years and is therefore subject to a preferential income tax rate of 15% for the year ending 31 December 2010 as approved by the relevant tax authority. The income tax rate applicable for Aotecar Nanjing for the year ending 31 December 2011 onwards would be 15% if its eligibility for such preferential income tax rate continues to be approved by the relevant tax authority, or 25% if otherwise. The income tax rate applicable for Aotecar Xiangyun and Aotecar Casting is 25%. Income tax for the six months ended 30 June 2010 was RMB20.4 million, an increase of RMB11.9 million, or 139.0%, from RMB8.5 million for the six months ended 30 June 2009. The main reason of the increase was due to increase in the profit before taxation from RMB44.1 million for the six months ended 30 June 2009 to RMB103.9 million for the six months ended 30 June 2010, an increase of RMB59.8 million or 135.9%.

Profit for the year

The Group's profit for the six months period ended 30 June 2010 increased by 135.1% to RMB83.5 million from RMB35.5 million for the six months ended 30 June 2009 and the net profit margin increased from 11.3% for the six months ended 30 June 2009 to 13.0% for the six months ended 30 June 2010. The increase in net profit margin was mainly due to the increase in other revenue and net income and the increase in administrative expenses was less than the increase in turnover.

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover

Turnover for the year ended 31 December 2009 was RMB797.0 million, an increase of RMB418.6 million, or 110.6%, from turnover of RMB378.4 million for the year ended 31 December 2008.

The increase was mainly due to:

- the increase in market shares of our key customers, which in turn increased the demand for our products;
- an increase in the number of new customers; and
- the increase in our production capacity from 984,000 sets per annum for the year ended 31 December 2008 to 1,876,000 sets per annum for the year ended 31 December 2009, an increase of 892,000 sets per annum or 90.7% to meet the increasing demand of our customers.

Costs of sales

Cost of sales for the year ended 31 December 2009 was RMB585.1 million, an increase of RMB302.3 million, or 106.9%, from the cost of sales of RMB282.8 million for the financial year ended 31 December 2008. The increase in cost of sales was due mainly to the overall increase in the sales of compressors.

Gross profit

Gross profit for the year ended 31 December 2009 was RMB211.9 million, an increase of RMB116.4 million, or 121.8%, from the gross profit of RMB95.5 million for the year ended 31 December 2008. Gross profit margin increased to 26.6% for the year ended 31 December 2009 as compared to 25.2% for the year ended 31 December 2008. Despite a decrease of average selling prices per set of our products, the gross profit margin increased, mainly due to the decrease in production costs as a result from the economies of scale.

Other revenue and net income

Other revenue and net income for the year ended 31 December 2009 was RMB2.0 million, a decrease of RMB2.0 million, or 50.8%, from other revenue and net income of RMB4.0 million for the year ended 31 December 2008. The decrease was mainly due to a decrease in government grants.

Distribution expenses

Distribution expenses for the year ended 31 December 2009 was RMB42.2 million, an increase of RMB17.0 million, or 67.7%, from distribution expenses of RMB25.2 million for the financial year ended 31 December 2008. The increase was mainly due to the increase in the provision for warranty expenses, which was increased from RMB13.1 million for the year ended 31 December 2008 to RMB27.2 million in the year ended 31 December 2009, an increase of RMB14.1 million or 108.4%. Such increase in the provision of warranty expenses was due to an increase in our revenue.

The increase in distribution expenses was also due to the increase in transportation costs, which was increased from RMB4.1 million for the year ended 31 December 2008 to RMB7.6 million for the year ended 31 December 2009, an increase of RMB3.5 million or 82.9%. Such increase was due to the increase in sales during the year ended 31 December 2009 where higher transportation costs were incurred for transporting our products to our customers.

The distribution expenses as a percentage of revenue decreased to 5.3% for the year ended 31 December 2009 as compared to 6.7% for the year ended 31 December 2008. The decrease was mainly due to the corresponding increase in distribution expenses is less than that of revenue. The reason is that the Group's products have already established a high recognition amongst the customers and in the market.

Administrative expenses

Administrative expenses for the year ended 31 December 2009 was RMB33.6 million, an increase of RMB7.8 million, or 30.1%, from administrative expenses of RMB25.8 million for the year ended 31 December 2008. The increase was mainly due to the increase in the administrative staff costs and other benefits from RMB15.0 million for the year ended 31 December 2008 to RMB16.3 million for the year ended 31 December 2009, an increase of RMB1.3 million or 8.0%. There was a charge for compensation benefits given to Mr. Qian amounting to RMB7.4 million, representing the fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, which was recognised as staff costs in 2008. Please see note 5(b)(ii) in "Accountants' Report of the Group" in Appendix IA to this prospectus for further details.

The increase was also due to the increase in R&D expenses and bad debts provision. The R&D expenses increased from RMB1.9 million to RMB3.0 million, an increase of RMB1.1 million or 57.3%. The increase was due to our Group's increasing emphasis on R&D activities. The bad debts provision increased from RMB0.5 million to RMB1.9 million, an increase of RMB1.4 million or 274.8%. The increase was in line with the increase in the revenue. As a percentage of the trade receivable and bills receivable balance, the bad debts provision were 0.3% and 0.5% for the years ended 31 December 2008 and 2009 respectively.

Finance costs

Finance costs for the year ended 31 December 2009 was RMB6.6 million, an increase of RMB1.5 million, or 30.0%, from RMB5.1 million for the year ended 31 December 2008. The increase in finance costs was less than the increase in bank borrowings balance due to a drop in interest rate on bank loans in the financial year ended 31 December 2009.

Income tax

Income tax for the financial year ended 31 December 2009 was RMB23.4 million, an increase of RMB16.7 million, or 247.3%, from RMB6.7 million for the financial year ended 31 December 2008. The main reason for the increase was due to the increase in profit before taxation of RMB37.7 million in 2008 to RMB125.8 million in 2009, an increase of RMB88.1 million or 233.8%. The Group's effective tax rates calculated based on the tax charged to the combined income statement over the profit before tax increased from 17.8% for the year ended 31 December 2008 to 18.6% for the year ended 31 December 2009. The reason was mainly due to the difference in the applicable tax rate for the year ended 31 December 2008 and 31 December 2009. Being a foreign invested enterprise engaged in manufacturing activities, Aotecar Nanjing was granted a two-year full exemption followed by a three-year 50% reduction on income tax from year 2004. Therefore, Aotecar Nanjing was subject to an income tax rate of 12.5% (i.e. 50% of the unified tax rate of 25%) for the year ended 31 December 2008. In addition, Aotecar Nanjing was recognised as a High and New Technology Enterprise under the New EIT Law and subject to an income tax rate at 15% for the year ended 31 December 2009. The income tax rate applicable for Aotecar Xiangyun and Aotecar Casting is 25%. The increase was also due to the increase in PRC dividend withholding income tax from RMB1.9 million for the financial year ended 31 December 2008 to RMB5.0 million for the financial year ended 31 December 2009, the withholding tax rate for the years ended 31 December 2008 and 2009 was 5%. The increase was also due to non-tax deductible compensation benefits given to Mr. Qian amounting to RMB7.4 million, representing the fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, which was recognised as staff costs in 2008. Please see note 5(b)(ii) in "Accountants' Report of the Group" in Appendix IA to this prospectus for further details. No such adjustment was made in 2009.

Profit for the year

The Group's profit for the year increased by 230.8% to RMB102.5 million in 2009 from RMB31.0 million in 2008 and the net profit margin increased from 8.2% in 2008 to 12.9% in 2009. The lower net profit margin in 2008 was mainly due to a one-off compensation benefits given to Mr. Qian amounting to RMB7.4 million, representing fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong. Excluding the one-off compensation, the net profit margin will be 10.1% which is still lower than the 12.9% in 2009. The reason was mainly due to an improvement in gross profit margin from 25.2% in 2008 to 26.6% in 2009, a difference of 1.4%.

Year ended 31 December 2008 compared to year ended 31 December 2007

Turnover

Turnover for the year ended 31 December 2008 was RMB378.4 million, an increase of RMB69.6 million, or 22.5%, from revenue of RMB308.8 million for the year ended 31 December 2007.

The increase was mainly due to:

- increase in the production capacity of 714,000 for the financial year ended 31 December 2007 to 984,000 sets per annum for the financial year ended 31 December 2008, an increase of 270,000 sets per annum or 37.8%. The increase in the production capacity enabled our Group in fulfilling our customers' demand; and

- increase in demand from our existing customers.

Costs of sales

Cost of sales for the year ended 31 December 2008 was RMB282.8 million, an increase of RMB56.1 million, or 24.8%, from cost of sales of RMB226.7 million for the year ended 31 December 2007. The increase in cost of sales was due mainly to the overall increase in the sales of our compressors.

Gross profit

Gross profit for the year ended 31 December 2008 was RMB95.5 million, an increase of RMB13.3 million, or 16.3%, from RMB82.2 million for the year ended 31 December 2007. Gross profit margin decreased to 25.2% for the year ended 31 December 2008 as compare to 26.6% for the year ended 31 December 2007. The decrease in the gross profit margin was due to fair value adjustments of inventories arising from the acquisition of Aotecar Nanjing. The fair value adjustments of inventories represent the application of market or sales value method to estimate the fair value of the inventory balances at the transfer of 100% equity interests in Aotecar Nanjing to our Group.

Other revenue and net income

Other revenue and net income for the financial year ended 31 December 2008 was RMB4.0 million, an increase of RMB1.9 million, or 94.7%, from other revenue and net income of RMB2.1 million for the financial year ended 31 December 2007. The increase was mainly due to increases in government grants.

Distribution expenses

Distribution expenses for the financial year ended 31 December 2008 was RMB25.2 million, an increase of RMB3.8 million, or 17.8%, from RMB21.4 million for the financial year ended 31 December 2007. The increase was mainly due to the increase in the provision for warranty expenses as a result of an increase in the revenue, from RMB10.9 million for the financial year ended 31 December 2007 to RMB13.1 million for the financial year ended 31 December 2008, an increase of RMB2.2 million or 19.6%.

The increase in distribution expenses was also due to the increase in transportation costs, which increased from RMB3.2 million for the year ended 31 December 2007 to RMB4.1 million for the year ended 31 December 2008, an increase of RMB0.9 million or 29.9%. Such increase was due to the increase in sales during the year ended 31 December 2008. Transportation costs as a percentage of revenue remained stable for the two years ended 31 December 2007 and 2008.

The distribution expenses as a percentage of revenue remained stable and was 6.7% for the year ended 31 December 2008 and 6.9% for the year ended 31 December 2007.

Administrative expenses

Administrative expenses for the year ended 31 December 2008 was RMB25.8 million, an increase of RMB10.8 million, or 72.3%, from RMB15.0 million for the year ended 31 December 2007. The increase was mainly due to the increase in administrative staff costs and other benefits from RMB7.4 million to RMB15.0 million, an increase of RMB7.6 million or 102.9%. This increase was mainly due to a charge for compensation benefits given to Mr. Qian amounting to RMB7.4 million, representing the fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, which was recognised as staff costs in 2008. Please see note 5(b)(ii) in "Accountants' Report of the Group" in Appendix IA to this prospectus for further details.

Finance costs

Finance costs for the year ended 31 December 2008 was RMB5.1 million, an increase of RMB1.0 million, or 24.2%, from RMB4.1 million for the year ended 31 December 2007. The increase in finance costs was less than the corresponding increase in bank borrowings balance as loans in the amount of RMB40.0 million were only borrowed in the second half of the year ended 31 December 2008.

Income tax

Income tax charge for the year ended 31 December 2008 was RMB6.7 million, an increase of RMB7.2 million, from a net income tax credit of RMB479,000 for the year ended 31 December 2007. The Group's effective tax rate calculated from the tax charged to the combined income statements over the profit before tax was 17.8% for the year ended 31 December 2008, the income tax applicable for Aotecar Nanjing was 12.5% and the income tax rate applicable for Aotecar Xiangyun and Aotecar Casting was 25% for the year ended 31 December 2008. In the year ended 31 December 2007, there was a net tax credit of RMB479,000, which was after accounting for the tax credit arising from certain equipment purchases. Such equipment purchases were tax deductible in accordance with the relevant tax regulations of the PRC. The income tax charge for the year ended 31 December 2007 excluding the tax credit for such equipment purchases was RMB4.8 million which was equivalent to an effective tax rate of 11.7%, while the income tax rate applicable for Aotecar Nanjing was 12%. The increase in effective tax rates for the year ended 31 December 2008 was mainly due to the effect of PRC dividend withholding tax of RMB1.9 million where the statutory withholding tax rate was 5% and a non-tax deductible compensation benefits given to Mr. Qian amounting to RMB7.4 million, representing the fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, which was recognised as staff costs in 2008. Please see note 5(b)(ii) of "Accountants' Report of the Group" in Appendix IA to this prospectus for further details. No such adjustment was made in 2007.

Profit for the year

The Group's profit decreased by 25.8% to RMB31.0 million in 2008 from RMB41.7 million in 2007 and the net profit margin decreased to 8.2% in 2008 from 13.5% in 2007. The decrease in our profit for the year and also to our net profit margin was mainly due to the taxation charge in 2008 whereas there was a tax credit in 2007, an increase in amortisation charges of intangible assets of RMB3.1 million arising from the acquisition of Aotecar Nanjing by our Group, the PRC dividend withholding tax of RMB1.9 million and an one-off compensation benefit given to Mr. Qian amounting to RMB7.4 million, representing the fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong.

NON-CURRENT ASSETS

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	105,301	132,262	227,669	284,943
Lease prepayments	6,232	27,447	48,774	48,815
Intangible assets	4,092	64,535	59,141	56,445
Goodwill	—	39,895	39,895	39,895
Deferred tax assets	2,125	—	993	1,637
Total	117,750	264,139	376,472	431,735

Intangible assets

Our Group's intangible assets represent core technology for our automobile air-conditioning compressors and customer relationships, which their fair values were recognised using purchase method of accounting as a result of the acquisition of Aotecar Nanjing by our Group in December 2007.

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment.

NET CURRENT ASSETS/(LIABILITIES)

The following table shows the current assets and current liabilities of Aotecar Nanjing and the Group (as the case may be) as at the balance sheet dates indicated.

	Aotecar Nanjing	Our Group			
	As at 31 December			As at 30 June	As at 30 September
	2007	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*
Current assets					
Inventories	68,532	84,008	115,940	151,681	162,793
Trade and other receivables	146,077	193,525	440,950	581,578	574,119
Income tax refundable	3,247	—	—	—	—
Pledged deposits	20,691	11,332	31,166	8,682	17,133
Cash	7,116	34,726	16,560	91,012	40,333
	245,663	323,591	604,616	832,953	794,378
Current liabilities					
Trade and other payables	102,399	103,920	283,070	349,443	347,244
Amounts due to related parties	—	209,419	221,224	17	—
Interest-bearing borrowings	55,855	102,707	173,771	508,537	450,021
Income tax payables	—	1,594	10,866	17,069	17,356
Provision	7,985	8,312	21,678	35,678	39,978
Deferred income	—	—	1,533	1,533	1,533
	166,239	425,952	712,142	912,277	856,132
Net current assets/(liabilities)	79,424	(102,361)	(107,526)	(79,324)	(61,754)

Aotecar Nanjing had current assets of RMB245.7 million as at 31 December 2007, and the Group had current assets of RMB323.6 million, RMB604.6 million, RMB833.0 million and RMB794.4 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. Aotecar Nanjing had current liabilities of RMB166.2 million as at 31 December 2007, and the Group had current liabilities of RMB426.0 million, RMB712.1 million, RMB912.3 million and RMB856.1 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. During the Track Record Period, Aotecar Nanjing's and our Group's current assets mainly consisted of inventories, trade and other receivables, pledged deposits and cash. Aotecar Nanjing's and our Group's current liabilities mainly consisted of trade and other payables, amounts due to related parties and interest-bearing borrowings. The increase in interest-bearing borrowings was mainly due to a bank loan of US$31.0 million from BNP Paribas Hong Kong Branch and a bank loan of HK$93.0 million from DBS Bank Ltd., Hong Kong Branch. Aotecar Nanjing had net current assets of RMB79.4 million as at 31 December 2007. The Group had net current liabilities of RMB102.4 million, RMB107.5 million, RMB79.3 million and RMB61.8 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. The net current liabilities of the Group were mainly due to short term bank borrowings and amounts due to CUAS and Mr. Qian, being related parties of the Group, amount due to CUAS was due to the acquisition of Aotecar Nanjing by the Group from Fang Brothers in December 2007. For details, please refer to "History, Development and Reorganisation – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong" in this prospectus. The amount due to Mr. Qian was incurred as a result of the acquisition of 3% creditor's right by Mr. Qian and the amount received and subsequently refundable by Aotecar Hong Kong on behalf of CUAS (being the consideration payable by Mr. Qian for the 3% shareholding in Aotecar International and related creditor's rights transferred to him by CUAS) pursuant to the share transfer agreement entered into among CUAS, Aotecar International and Mr. Qian on 11 September 2008, and as supplemented by two supplemental agreements dated 7 June 2010 and 15 July 2010. For details, please refer to "History, Development and Reorganisation – Corporate history – Aotecar International – Transfer of shares in Aotecar International from CUAS to Mr. Qian" in this prospectus. As at 30 September 2010, all the amounts due to related parties had been repaid.

The Group generated net cash inflow from operating activities amounted to RMB35.1 million, RMB24.5 million, RMB80.8 million and RMB41.0 million during the Track Record Period. The net current liabilities position of the Group decreased from RMB133.8 million as at 31 December 2007 to RMB79.3 million as at 30 June 2010, and further decrease to RMB61.8 million as at 30 September 2010. The Group also achieved solid sales growth while maintaining the gross profit margin at around 26.0%. Net profit also grew by RMB60.7 million or 145.4% from 2007 to 2009.

The decrease in the cash balance as at 30 September 2010 as compared to 30 June 2010 was mainly due to the repayment of bank loans.

We obtained a bank loan of US$31.0 million from BNP Paribas Hong Kong Branch to repay the amounts due to CUAS and Mr. Qian in June 2010. Upon Listing, we will repay the bank loan of US$31.0 million from BNP Paribas Hong Kong Branch in full by proceeds from the Global Offering. If the amounts due to CUAS and Mr. Qian were excluded from the current liabilities for the three years ended 31 December 2009, the Group would record net current assets of RMB90.3 million, RMB107.1 million and RMB109.8 million respectively as at three years ended 31 December 2009. Our Directors are of the opinion that taking into account the estimated net proceeds from the Global Offering, we will record a net current assets position after the Global Offering. In addition, the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this prospectus.

As at the Latest Practicable Date, our Directors confirmed that (i) there had been no delay or default in the repayment of bank and other borrowings during the Track Record Period; and (ii) other than the loan facility of HK$93.0 million from DBS Bank Ltd., Hong Kong Branch, other banking facilities do not contain any cross-default provisions.

Inventories

The following table shows a breakdown of the inventories of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	27,637	29,255	30,987	35,313
Work in progress	7,059	5,378	21,464	22,694
Finished goods	33,836	49,375	63,489	93,674
Total	68,532	84,008	115,940	151,681

	For the year/period ended			
	31 December			30 June
	2007	2008	2009	2010
Average inventory turnover days	99	100	62	52

Average inventory equals the average of the inventory at the beginning and the end of the year/period. Average inventory turnover days for the three years ended 31 December 2009 equals average inventory divided by cost of sales for the relevant year and multiplied by 365 days. Average inventory turnover days for the six months ended 30 June 2010 equals average inventory divided by cost of sales for the relevant period and multiplied by 183 days.

The inventory turnover days remained fairly stable from 99 days in 2007 to 100 days in 2008. The significant decrease in inventory turnover days to 62 days in 2009 and 52 days for the six months ended 30 June 2010 was mainly due to the fact that the utilisation rate of our Old Production Base and our New Production Base was 103.0% and 92.9% respectively for the year ended 31 December 2009 and 101.7% and 100.5% respectively for the six months ended 30 June 2010, while the utilisation rate of our Old Production Base was 88.3% for the year ended 31 December 2008, and our supply was not able to meet the substantial increase in market demand for our products.

The increase in the inventory balances during the Track Record Period was mainly due to the increase in level of sales.

As at 30 September 2010, 86.2% of the inventories balance as at 30 June 2010 have been utilised.

Trade and other receivables

The following table shows the trade and other receivables and the average trade receivables turnover days of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	116,912	137,406	311,259	410,559
Less: Allowance for doubtful debts	(2,187)	(1,293)	(2,617)	(2,617)
Net trade receivables	114,725	136,113	308,642	407,942
Bills receivable	27,828	36,165	105,336	125,468
Other receivables, deposits and prepayments	3,524	9,737	7,754	23,154
Amounts due from related parties	—	11,510	19,218	25,014
	146,077	193,525	440,950	581,578

	For the year/period ended			
	31 December			30 June
	2007	2008	2009	2010
Average trade receivables turnover days	154	152	134	135

Average trade receivables equals the average of the net trade and bills receivables at the beginning and the end of the year/period. Average trade receivables turnover days for the three years ended 31 December 2009 equals average trade receivables divided by the revenue for the relevant year and multiplied by 365 days. Average trade receivables turnover days for the six months period ended 30 June 2010 equals average trade receivables divided by the revenue for the relevant period and multiplied by 183 days.

The average trade receivables turnover days for 2007 and 2008 were higher than our credit period to customers, which was generally within 90 days to 120 days. The main reason was that some of our customers used trade bills for settling their trade balances. Those trade bills usually have a credit period of 90 to 180 days. The longer turnover days were also due to certain customers did not settle the outstanding amount within the credit period. The trade receivables turnover days decreased significantly to 134 days for the year ended 31 December 2009 and 135 days for the six months ended 30 June 2010 due to the tightening of the Group's credit policy with more customers settling the outstanding amounts within the credit period.

As at 30 September 2010, 67.8% of the net trade receivables balances as at 30 June 2010 had been settled.

As at 30 September 2010, all net trade receivables balances aged more than 12 months had been settled, 91.5%, 76.1% and 65.0% of the net trade receivables balances aged between 6 to 12 months, 3 to 6 months and less than 3 months respectively as at 30 June 2010 had been settled.

The following table shows the ageing analysis of trade receivables and bills receivable (net of allowance for doubtful debts) of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 3 months	125,833	140,694	385,829	445,498
3 to 6 months	13,068	19,869	23,288	77,557
6 to 12 months	2,462	9,835	3,020	10,218
More than 12 months	1,190	1,880	1,841	137
Total	142,553	172,278	413,978	533,410

The increase in the trade receivables and bills receivables balance over 3 months as at 30 June 2010 as compared with the balance as at 31 December 2009 was due to delay in settling outstanding balances by certain customers. As at 30 September 2010, most of these customers had settled the balances due. The remaining unpaid balances were mainly from an automobile manufacturer with outstanding balance amounted to RMB72.2 million as at 30 June 2010, of which 28.7% had been settled as at 30 September 2010. The customer is a well established automobile manufacturer with long term business relationship with us. Taking into account that the customers continues to make payment to us subsequent to 30 June 2010, the Directors consider that the slow repayment is only temporary in nature and do not foresee any significant risks in receiving the outstanding amount.

The following table shows the movement in the allowance for doubtful debts of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at the beginning of year/period	1,798	2,187	1,293	2,617
Impairment loss recognised	481	520	1,949	—
Uncollectible amounts written off	(92)	(1,414)	(625)	—
Balance at the end of year/period	2,187	1,293	2,617	2,617

Other receivables, deposits and prepayments mainly represent prepayment for purchase of machinery and equipment. The increase in the balance as at 30 June 2010 as compared with 31 December 2009 was mainly due to the increase in prepayment for the purchase of machinery and equipment mainly for the New Production Base.

Trade and other payables

The following table shows the trade and other payables and the average trade and bills payables turnover days of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	**Our Group**		
	As at 31 December			**As at 30 June**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	67,585	80,503	211,122	277,104
Bills payable	15,750	7,120	23,959	8,660
Receipts in advance	—	1,741	973	1,837
Other payables	6,821	9,885	35,881	49,289
Other tax payable	4,614	4,671	11,135	12,553
Dividend payable	7,629	—	—	—
	102,399	103,920	283,070	349,443

	For the year/period ended			
	31 December			**30 June**
	2007	**2008**	**2009**	**2010**
Average trade payables turnover days	117	110	101	100

Average trade payables equals the average of the trade payables and bills payable at the beginning and the end of the year/period. Average trade payables turnover days for the three years ended 31 December 2009 equals average trade payables divided by cost of sales for the relevant year and multiplied by 365 days. Average payables turnover days for the six months ended 30 June 2010 equals average payables divided by cost of sales for the relevant period and multiplied by 183 days.

The average trade payables turnover days throughout the Track Record Period of Aotecar Nanjing and our Group (as the case may be) were higher than the credit terms granted by our suppliers, which was 100 days. The reason was mainly due to the time lag between receipt of goods and issuing of invoices by suppliers. As at 30 September 2010, 64.9% of the accounts payable balance as at 30 June 2010 have been paid by the Group.

Other payables

The following table shows other payables of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equipment and machinery payable	—	1,553	15,106	10,961
Salary and bonus payable	5,489	6,469	15,846	23,781
Professional fees payable	—	559	609	5,794
Deposits received	1,000	305	965	1,089
Others	332	999	3,355	7,664
Total	6,821	9,885	35,881	49,289

The increase in other payables as at 31 December 2009 and 30 June 2010 was due to an increase in the payables of machinery and equipment for the New Production Base and the increase in staff salary and bonus payable due to bonus accrued as at 31 December 2009 and 30 June 2010.

Provision

According to the industry practice, our Group will rectify any product defects arising within two years from the date of sale or 60,000 kilometres of travel with our compressor installed, whichever is earlier. Provision is made based on the best estimate of the expected settlement under the sales agreements of the Group. The following table shows the movement in the provision for product warranties of Aotecar Nanjing and the Group (as the case may be) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at the beginning of year/period	7,726	7,985	8,312	21,678
Addition	10,923	13,068	27,239	20,223
Provision utilised	(10,664)	(12,741)	(13,873)	(6,223)
Balance at the end of year/period	7,985	8,312	21,678	35,678

The relatively large balance as at 31 December 2009 was due to increase in provision made as a result from an increase in revenue for the year ended 31 December 2009. The provision utilised represents the actual settlement to customers due to product defect.

The further increase as at 30 June 2010 was mainly due to increase in revenue for the six months ended 30 June 2010.

Amount due from/(to) related parties

The table below sets out the breakdown of balances with related parties of Aotecar Nanjing and our Group (as the case may be):

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from related parties				
– Xiezhong Nanjing	—	8,710	19,218	22,729
– Changheng Casting	—	2,800	—	—
Total	—	11,510	19,218	22,729
Other receivables from				
– CUAS	—	—	—	2,285
Other payables to related parties				
– CUAS	—	(203,137)	(203,199)	(17)
– Mr. Qian	—	(6,282)	(14,105)	—
– Changheng Casting	—	—	(550)	—
– Mr. Wu Peirong	—	—	(3,370)	—
Total	—	(209,419)	(221,224)	(17)

The other payable to CUAS as at 31 December 2008 and 2009 relates to the transfer of 100% equity interests in Aotecar Nanjing to our Group from Fang Brothers as described in "History, Development and Reorganisation – Corporate history – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong" in this prospectus. The other payable to CUAS as at 30 June 2010 represents professional fees and other administrative and general expenses paid by CUAS on behalf of Aotecar International, and was repaid by Aotecar International to CUAS in July 2010.

The other receivable from CUAS as at 30 June 2010 in the amount of US$0.3 million (equivalent to RMB2.3 million) represents an amount owed by CUAS to Aotecar Hong Kong as a result of the over-repayment of the loan in the amount of US$30.7 million owed by Aotecar Hong Kong to CUAS and Mr. Qian as described in "Relationship With Controlling Shareholders – Independence from our Controlling Shareholders – Financial independence" in this prospectus. In order to repay the said loan, Aotecar Hong Kong obtained a bank loan of US$31.0 million from BNP Paribas Hong Kong Branch as described in "Financial Information – Net current assets/(liabilities)" in this prospectus. Although only US$30.7 million was owed by Aotecar Hong Kong to CUAS and Mr. Qian and the loan obtained by Aotecar Hong Kong was in the amount of US$31.0 million, as CUAS was required to pledge US$31.0 million in favour of BNP Paribas Hong Kong Branch as security of the said loan, instead of Aotecar Hong Kong repaying US$30.7 million to CUAS and Mr. Qian and then have CUAS deposit additional funds to make up the sufficient amount for the pledged deposit, the full amount of the drawdown was paid to CUAS at the direction of Aotecar Hong Kong for CUAS to then immediately pledge the same in favour of BNP Paribas Hong Kong Branch as a result of a desire for convenience and simplicity in managing the flow of funds. As a result, there was an over-repayment of the loan amount of US$0.3 million which was outstanding as at 30 June 2010 and was subsequently fully repaid by CUAS to Aotecar Hong Kong in July 2010.

The other payables to related parties above were non-trade in nature, unsecured and interest free and were repayable on demand.

In relation to the payables due to the related parties who are enterprises such as Changheng Casting and Nanjing Xiezhong, as advised by our PRC Legal Advisers, the loan financing activity between enterprises did not comply with the General Principles of Loan (貸款通則) and the lender may be subject to a fine equivalent to an amount between one to five times of the interests earned. However, as the Group is a borrower and all these loans have been paid off, our PRC Legal Advisers are of the view that the Group would not be subject to any administrative penalties as a result of these loans. In relation to the other payables due to Mr. Wu Peirong and Mr. Qian, who are also our related parties, our PRC Legal Advisers are of the opinion that these payables are not in violation with the PRC law and regulations.

Other receivables and payables between related parties had been fully settled as at the Latest Practicable Date. Trade receivables from related parties will continue after the Global Offering.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through cash flows from operations, short-term bank loans and capital contributions from shareholders. We recorded net cash inflow in 2007 and 2008 and a net cash outflow in 2009. The Group was able to repay our obligations under bank loans when they became due during the Track Record Period.

As at 30 June 2010, we had RMB436.5 million bank loans and RMB72.1 million advances under discounted bills. During the Track Record Period, the Group had not experienced any delay in renewing our existing banking facilities.

Selected combined cash flow statements data

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash generated from operating activities	35,143	24,486	80,834	49,911	41,036
Net cash used in investing activities	(13,530)	(39,277)	(121,018)	(49,580)	(85,739)
Net cash (used in)/generated from financing activities	(20,000)	42,400	22,279	(4,721)	119,164
Cash at beginning of the year/period	5,503	7,116	34,726	34,726	16,560
Effect of foreign exchange rate changes	—	1	(261)	—	(9)
Cash at end of the year/period	7,116	34,726	16,560	30,336	91,012

Net cash generated from operating activities

Our cashflow from operating activities comprises our profit before taxation and adjusted for non cash items such as depreciation and amortisation, finance costs, the effect of changes in trade and other receivables and payables, the changes in inventories and working capital.

Net cash inflow from operating activities for the six months ended 30 June 2010 was RMB41.0 million. The amount was mainly attributable to profit before taxation of RMB103.9 million from the Group's operations, depreciation and amortisation of RMB15.0 million, an increase in trade and other payables of RMB70.3 million, an increase in discounted bank acceptance bills of RMB8.3 million, a decrease in pledged deposits of RMB22.5 million and an increase in warranty provision of RMB14.0 million. The amount was partially offset by an increase in inventories of RMB35.7 million, a decrease in amounts due to related parties of RMB11.8 million and an increase in trade and other receivables of RMB128.6 million. The increase in trade and other payables and discounted bank acceptance bills was mainly due to the increase of purchases of raw materials to meet the rising demand of our products. The increase in inventories and trade and other receivables was mainly due to an increase in the demand of our products. The decrease in pledged deposits was mainly due to a decrease in the issuance of bank acceptance bills.

Net cash inflow from operating activities for the year ended 31 December 2009 was RMB80.8 million. The amount was mainly attributable to profit before taxation of RMB125.8 million from the Group's operations, depreciation and amortisation of RMB23.6 million, an increase in trade and other payables of RMB165.6 million, an increase in discounted bank acceptance bills of RMB50.8 million and an increase in warranty provision of RMB13.4 million. The amount was partially offset by an increase in inventories of RMB31.9 million, an increase in trade and other receivables of RMB249.4 million and an increase in pledged deposits of RMB19.8 million. The increase in trade and other payables and discounted bank acceptance bills was mainly due to the increase of purchases of raw materials to meet the rising demand of our products. The increase in inventories and trade and other receivables was mainly due to an increase in the demand of our products. The increase in pledged deposits was mainly due to a requirement by the banks for the increase in issuance of bank acceptance bills.

Net cash inflow from operating activities for the year ended 31 December 2008 was RMB24.5 million. The amount was mainly attributable to profit before taxation of RMB37.7 million from the Group's operations, depreciation and amortisation of RMB18.5 million, an increase in trade and other payables of RMB7.0 million, an increase in discounted bank acceptance bills of RMB6.1 million and a decrease in pledged deposits of RMB9.4 million. The amount was partially offset by an increase in inventories of RMB12.3 million and an increase in trade and other receivables of RMB48.0 million. The increase in trade and other payables and discounted bank acceptance bills was mainly due to the increase of purchases of raw materials to meet the rising demand of our products. The increase in inventories and trade and other receivables was mainly due to an increase in the demand of our products. The decrease in pledged deposits was mainly due to a decrease in the issuance of bank acceptance bills.

Net cash inflow from operating activities for the year ended 31 December 2007 was RMB35.1 million. The amount was mainly attributable to profit before taxation of RMB41.3 million from Aotecar Nanjing's operations, depreciation and amortisation of RMB12.8 million, an increase in trade and other payables of RMB36.3 million and an increase in discounted bank acceptance bills of RMB6.9 million. The amount was partially offset by an increase in inventories of RMB25.8 million, an increase in trade and other receivables of RMB27.7 million and foreign exchange gains of RMB3.0 million. The increase in trade and other payables and discounted bank acceptance bills was mainly due to the increase of purchases of raw materials to meet the rising demand of our products. The increase in inventories and trade and other receivables was mainly due to an increase in the demand of our products. The increase in inventories and trade and other receivables was mainly due to an increase in the demand of our products. The gains from foreign exchange were mainly due to gains arising from foreign currency denominated loans.

Net cash used in investing activities

Our cashflow in investing activities mainly consists of the payment for the acquisition of and proceeds from the sale of property, plant and equipment and lease prepayments.

Net cash outflow from investing activities for the six months ended 30 June 2010 was RMB85.7 million. The amount was mainly attributable to the acquisition of property, plant and equipment and lease prepayments of RMB86.0 million.

Net cash outflow from investing activities for the year ended 31 December 2009 was RMB121.0 million. The amount was mainly attributable to the acquisition of property, plant and equipment and lease prepayments of RMB121.2 million.

Net cash outflow from investing activities for the year ended 31 December 2008 was RMB39.3 million. The amount was mainly attributable to the acquisition of property, plant and equipment and lease prepayments of RMB40.1 million.

Net cash outflow from investing activities for the year ended 31 December 2007 was RMB13.5 million. The amount was mainly attributable to the acquisition of property, plant and equipment of RMB14.2 million.

Net cash used in/generated from financing activities

Our cashflow in financing activities mainly consists of the proceeds from bank loans and repayment of bank loans.

Net cash inflow from financing activities for the six months ended 30 June 2010 was RMB119.2 million. The amount was mainly attributable to proceeds from bank loans of RMB426.5 million which was offset by the repayment of bank loans of RMB100.0 million and the repayment of amounts due to related parties of RMB208.3 million.

Net cash inflow from financing activities for the year ended 31 December 2009 was RMB22.3 million. The amount was mainly attributable to proceeds from bank loans of RMB122.0 million and the repayment of bank loans of RMB101.8 million.

Net cash inflow from financing activities for the year ended 31 December 2008 was RMB42.4 million. The amount was mainly attributable to proceeds from bank loans of RMB72.0 million, and the repayment of bank loans of RMB30.0 million.

Net cash outflow from financing activities for the year ended 31 December 2007 was RMB20.0 million. The amount was mainly attributable to proceeds from bank loans of RMB59.5 million and the repayment of bank loans of RMB79.5 million.

Indebtedness

We have financed our operation via short term borrowings. The table below sets forth our short term borrowings as at the dates shown:

	Aotecar Nanjing	Our Group			
	As at 31 December			As at 30 June	As at 30 September
	2007	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current					*(unaudited)*
Bank loans					
- Secured	30,000	40,000	40,000	250,518	207,734
- Unsecured	18,991	49,770	70,000	185,968	162,305
Total bank loans	48,991	89,770	110,000	436,486	370,039
Bank advance under discounted bills	6,864	12,937	63,771	72,051	79,982
Total	55,855	102,707	173,771	508,537	450,021

Our bank loans and bank advances carried interest ranging from 6.6% to 9.7%, 2.9% to 7.4%, 2.1% to 5.3%, 0.8% to 6.1% and 0.8% to 6.1% per annum as at 31 December 2007, 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. As at the Latest Practicable Date, the Group's total bank borrowings included US$31.0 million due to BNP Paribas Hong Kong Branch and HK$93.0 million due to DBS Bank Ltd., Hong Kong Branch. CUAS pledged in favour of BNP Paribas Hong Kong Branch a cash deposit in the sum of US$31.0 million as a security for the above loan facility. The loan facility from BNP Paribas Hong Kong Branch will be repaid within one month after the Listing or by 31 December 2010, whichever is earlier, and the cash deposit pledged by CUAS shall be released accordingly. The Group intends to repay the amount due to BNP Paribas Hong Kong Branch immediately after Listing with the proceeds from the Global Offering.

The loan facility of HK$93.0 million from DBS Bank Ltd., Hong Kong Branch shall be repaid within 24 months from the date of the agreement (being 11 June 2010). However, 15% of the proceeds from Global Offering (net of any expenses and amounts as approved by DBS Bank Ltd., Hong Kong Branch) shall be applied towards repayment of the loan at the end of the first interest period after the Global Offering.

The loan facility from DBS Bank Ltd., Hong Kong Branch has a cross default covenant where a default in the repayment of any debts of the Group will trigger a default of the loan facility from DBS Bank Ltd., Hong Kong Branch. Other than certain normal financial covenants and negative pledges for the loan facility from DBS Bank Ltd., Hong Kong Branch, there is no other covenant for the borrowings from BNP Paribas Hong Kong Branch and DBS Bank Ltd., Hong Kong Branch. As at the Latest Practicable Date, the loan due to related parties had been fully repaid and the Group was not indebted to the related parties.

The secured interest-bearing borrowings of Aotecar Nanjing and the Group (as the case may be) were secured by:

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	6,455	6,106	5,756	5,581
Lease prepayments	6,232	26,127	25,528	25,229
	12,687	32,233	31,284	30,810

As mentioned above, CUAS pledged in favour of BNP Paribas Hong Kong Branch a cash deposit in the sum of US$31.0 million as a security for the same amount of loan facility granted to the Group. In addition, as at 30 June 2010, Mr. Qian also provided a personally guarantee for bank loans amounted to RMB50.0 million.

As at 30 September 2010, we had banking facilities of RMB116.0 million, US$31.0 million and HK$93.0 million, of which RMB82.0 million, US$31.0 million and HK$93.0 million had been drawn down and RMB34.0 million remained unutilised.

Save as aforesaid or as otherwise disclosed herein, the Group did not have outstanding at the Latest Practicable Date, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Contingent liabilities

As at 31 December 2007, 2008, 2009 and 30 June 2010, Aotecar Nanjing and our Group (as the case may be) had no significant contingent liabilities.

Commitments

(a) Capital commitments

The table below shows the capital commitments of Aotecar Nanjing and the Group (as the case may be) as at the balance sheet dates indicated:

	Aotecar Nanjing	The Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for	572	43,236	15,024	37,615

(b) Operating lease commitments

The table below shows the operating lease commitment of Aotecar Nanjing and the Group (as the case may be) as at the balance sheets dates indicated:

	Aotecar Nanjing	The Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	—	—	—	517
After 1 year but within 5 years	—	—	—	—
After 5 years	—	—	—	—
	—	—	—	517

Capital expenditure

The following table shows our capital expenditure (additions to lease prepayments and property, plant and equipment) for the Track Record Period:

	Aotecar Nanjing	Our Group		
	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease prepayments	—	1,320	21,926	441
Plant and buildings	168	—	75	419
Machinery and equipment	8,643	17,600	85,537	63,556
Furniture, fixtures and office equipment	372	272	896	308
Motor vehicles	966	1,064	1,426	408
Construction in progress	4,798	21,349	25,442	4,689
Total	14,947	41,605	135,302	69,821

Our capital expenditure represents mainly expenditure for machinery and equipment and construction in progress for plant and buildings.

For the six months ended 30 June 2010, our capital expenditure mainly attributable to acquisition of machinery and equipment for the New Production Base and the construction of the New Production Base.

For the financial year ended 31 December 2009, our capital expenditure was mainly attributable to the acquisition of machinery and equipment for New Production Base and the construction of the New Production Base.

For the financial year ended 31 December 2008, our capital expenditure was mainly attributable to the expansion of production capacity in the Old Production Base and the New Production Base.

For the financial year ended 31 December 2007, our capital expenditure was mainly attributable to the addition of certain machinery and equipment.

Planned capital expenditure

Our planned capital expenditure is expected to comprise of capacity expansion for the expansion project of production base, including purchases and installation of machinery and equipment for the New Production Base and the establishment of a new production base.

Based on the current plan, the forecast capital expenditure is RMB63.6 million for the six months period ending 31 December 2010. The source of fund will mainly be from the Global Offering. Please refer to "Future Plans and Use of Proceeds – Use of proceeds" in this prospectus for further information.

Pledged deposits

Aotecar Nanjing and our Group (as the case may be) had pledged bank deposit balances of RMB20.7 million, RMB11.3 million, RMB31.2 million and RMB8.7 million as at the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010. The pledged bank deposits were pledged for the issuance of commercial bills and letters of credit.

Certain financial ratios

	Aotecar Nanjing	The Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
Gearing ratio (%)	15.4	53.1	40.3	40.2
Return on equity (%)	23.7	26.6	52.5	N/A
Current ratio	1.5	0.8	0.8	0.9
Quick ratio	1.1	0.6	0.7	0.7

Gearing ratio

Gearing ratio is calculated based on total borrowings and other payables to related parties divided by the total assets at the end of the respective year/period. The gearing ratio decreased from 40.3% as at 31 December 2009 to 40.2% as at 30 June 2010 due to increase in borrowings and other payables to related parties from RMB395.0 million as at 31 December 2009 to RMB508.6 million as at 30 June 2010, an increase of RMB113.6 million or 28.7%, mainly due to the additional bank borrowings from BNP Paribas Hong Kong Branch of US$31.0 million for the settlement of payables to CUAS and Mr. Qian and a loan of HK$93.0 million from DBS Bank Ltd., Hong Kong Branch, whereas the total assets of the Group increased from RMB981.1 million as at 31 December 2009 to RMB1,264.7 million as at 30 June 2010, an increase of RMB283.6 million or 28.9%.

The gearing ratio decreased slightly from 53.1% as at 31 December 2008 to 40.3% as at 31 December 2009. Despite the increase in borrowings and other payables to related parties from RMB312.1 million to RMB395.0 million, an increase of RMB82.9 million or 26.5% during 2009, the increase in the total assets of the Group during 2009 was also significant, from RMB587.7 million to RMB981.1 million, an increase of RMB393.4 million or 66.9%.

The significant increase in gearing ratio from 15.4% as at 31 December 2007 to 53.1% as at 31 December 2008 was mainly due to the increase in other payable to CUAS of RMB203.1 million as a result of the transfer of equity interests in Aotecar Nanjing to our Group by Fang Brothers. Please refer to "History, Development and Reorganisation – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong" in this prospectus for more details. The increase in gearing ratio was also due to the increase in the total bank borrowings from RMB55.9 million as at 31 December 2007 to RMB102.7 million as at 31 December 2008, an increase of RMB46.8 million or 83.9%. The total assets of Aotecar Nanjing only increased from RMB363.4 million as at 31 December 2007 to RMB587.7 million as at 31 December 2008 of our Group, an increase of RMB224.3 million or 61.7%. As a result, the increase in the gearing ratio was significant.

Return on equity

Return on equity is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total equity of the relevant year expressed as a percentage. Our return on equity increased from 26.6% for the year ended 31 December 2008 to 52.5% for the year ended 31 December 2009 is mainly due to the substantial increase in the profit for the year from RMB31.0 million for the year ended 31 December 2008 to RMB102.5 million for the year ended 31 December 2009, an increase of RMB71.5 million or 230.8%. At the same time the average total equity increased by 67.7%.

Our return on equity increased from 23.7% for the year ended 31 December 2007 to 26.6% for the year ended 31 December 2008. The increase was mainly due to the average total equity decreased by 34.0% while the profit for the year only decreased from RMB41.7 million for the year ended 31 December 2007 to RMB31.0 million for the year ended 31 December 2008, a decrease of 25.8%.

Current ratio

Current ratio is calculated by dividing current assets by current liabilities. Our current ratio remained stable at 0.8 as at 31 December 2008 and 31 December 2009 and 0.9 as at 30 June 2010.

The current ratio of Aotecar Nanjing decreased from 1.5 as at year ended 31 December 2007 to 0.8 as at year ended 31 December 2008 of our Group. The main reason was a payable due to CUAS of RMB203.1 million arising from the acquisition of Aotecar Nanjing by our Group. The payable balance was classified as a current liability as at 31 December 2008.

Quick ratio

Quick ratio is calculated by dividing current assets less inventories by current liabilities. Our quick ratio increased from 0.6 as at 31 December 2008 to 0.7 as at 31 December 2009 and remained stable at 0.7 as at 30 June 2010. The increase was mainly due to our rapid business growth in 2009. Our quick ratio increased more than our current ratio between 2008 and 2009 as we experienced an increase in the inventories.

The decrease in the quick ratio of Aotecar Nanjing from 1.1 as at year ended 31 December 2007 to 0.6 as at year ended 31 December 2008 of our Group. The decrease was mainly due to the increase in other payable to CUAS of RMB203.1 million as a result of the transfer of equity interests in Aotecar Nanjing to our Group by Fang Brothers in December 2007. Please refer to "History, Development and Reorganisation – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong" in this prospectus for more details. The amount was classified as a current liability as at 31 December 2008.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, after taking into account the financial resources available to us including the estimated net proceeds of the Global Offering, the available credit facilities and our internally generated funds, our Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

As at 31 December 2007, 2008 and 2009 and the Latest Practicable Date, the Group had not provided any guarantees to third parties and related companies. We have not entered into any derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in speculative transactions involving derivatives.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Credit risk

Our exposure to credit risk is primarily attributable to trade and other receivables. Our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days to 120 days from the date of billing.

Our Group's exposure to credit risk is mainly influenced by the individual characteristics of each customer. The industry in which the customers operate also influences their credit risks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. The Group does not provide any guarantee, which would expose our Group to credit risk.

Liquidity risk

We are exposed to liquidity risk arising from the ability to meet our financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our Group's reputation.

Our Group's policy is to regularly monitor the current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Interest rate risk

Our exposure to interest rate risk arises primarily from cash, pledged deposits and interest-bearing borrowings, issued at variable rates and at fixed rates, exposing the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The interest rate profile of Aotecar Nanjing's and our Group's (as the case may be) net borrowings at the balance sheet dates is as follows:

	Aotecar Nanjing		**Our Group**					
	As at 31 December						**As at 30 June**	
	2007		**2008**		**2009**		**2010**	
	Effective interest rate % (annual)	*RMB'000*	*Effective interest rate % (annual)*	*RMB'000*	*Effective interest Rate % (annual)*	*RMB'000*	*Effective interest rate % (annual)*	*RMB'000*
Fixed rate borrowings								
Bank loans	6.57	30,000	6.33–7.35	38,000	5.10–5.31	110,000	5.10–6.11	145,000
Bank advances under discounted bills	6.93–9.65	6,864	2.93–5.83	12,937	2.10–5.11	63,771	1.86–5.37	72,051
		36,864		50,937		173,771		217,051
Net variable rate borrowings								
Bank loans	6.57	18,991	5.63–7.30	51,770	—	—	0.82–1.89	291,486
Less: cash	0.72	(7,116)	0.36	(34,726)	0.36	(16,560)	0.36	(91,012)
pledged deposits	3.78	(20,691)	1.98	(11,332)	1.98	(31,166)	1.98	(8,682)
		(8,816)		5,712		(47,726)		191,792
Total net borrowings		28,048		56,649		126,045		408,843
Net fixed rate borrowings as a percentage of total net borrowings		131%		90%		138%		53%

Foreign currency risk

Our Group's exposure to currency risk at the balance sheet dates arises from recognised assets or liabilities denominated in a currency other than RMB to which they relate. For presentation purposes, the amount of the exposure is shown in RMB, translated using the spot rate at the year/ period end date.

(Expressed in RMB'000)

	Aotecar Nanjing		Our Group					
	As at 31 December						As at 30 June	
	2007		2008		2009		2010	
	USD	*JPY*	*USD*	*JPY*	*USD*	*JPY*	*USD*	*JPY*
Trade and other receivables	—	—	—	4,664	—	—	3,315	—
Cash and cash equivalents	2,104	975	298	—	1	125	10,050	2,043
Pledged deposits	2	—	2	—	476	—	2	—
Trade and other payables	—	—	—	—	—	(6,644)	—	(7,485)
Interest-bearing borrowings	(18,992)	—	(17,770)	—	—	—	—	—
Net exposure	(16,886)	975	(17,470)	4,664	477	(6,519)	13,367	(5,442)

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Our properties were revalued at RMB114.3 million as at 31 August 2010 by Savills Valuation and Professional Services Limited. Details of the valuation are summarised in Appendix IV to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules are set out below:

	RMB'000 (unaudited)
Net book value of property interests of our Group as at 30 June 2010	
– Plant and buildings	56,628
– Lease prepayments	48,815
	105,443
Less: property interests not included in the valuation(1)	(16,103)
Revised net book value of property interests as at 30 June 2010	89,340
Movements for the two months ended 31 August 2010	
Additions	17,810
Depreciation	(286)
Revised net book value as at 31 August 2010	106,864
Valuation surplus as at 31 August 2010	7,406
Valuation as at 31 August 2010 as per Appendix IV to this prospectus	114,270

Note:

(1) These property interests mainly represented those without valid title and/or ownership documents and therefore had been excluded for valuation purpose.

DIVIDEND POLICY

No dividend was declared during the Track Record Period. We may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as we may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our Shareholders in general meeting may approve and make any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to them to be justified by our profits. No dividend shall be declared or payable except out of our profits or reserves set aside from profits in our Directors' discretion. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for such purpose in accordance with the Companies Law and our Articles of Association. Any declaration of dividends may or may not reflect our prior declarations of dividends and any dividend recommendation will be at the absolute discretion of our Board.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRSs. Some of our subsidiaries in China, which are foreign-invested enterprises, set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of our subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Our Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

DISTRIBUTABLE RESERVES

There had been no distributable reserves available for distribution to our Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS STATEMENT

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2010. It is prepared based on our net assets as at 30 June 2010 as set out in the Accountants' Report in Appendix IA to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix IA to this prospectus. The pro forma financial information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial positions of the Group had the Global Offering been completed as at 30 June 2010 or any future dates.

	Audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000 (1)	*RMB'000* (2)	*RMB'000*	*RMB* (3)	*HK$*
Based on an Offer Price of HK$2.35 per Share	231,393	481,809	713,202	0.71	0.81
Based on an Offer Price of HK$3.05 per Share	231,393	631,480	862,873	0.86	0.98

Notes:

(1) *The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2010 is extracted from the Accountants' Report set out in Appendix IA to this prospectus.*

(2) *The estimated net proceeds from the Global Offering are based on an Offer Price of HK$2.35 and HK$3.05 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.*

(3) *The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 1,000,000,000 Shares in issue immediately after the Global Offering without taking into account any Share which may be issued upon the exercise of the Over-allotment Option.*

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

The following set forth certain unaudited profit forecast data for the year ending 31 December 2010. For the principal bases and assumptions, please refer to "Profit Forecast" in Appendix III to this prospectus for further details.

Forecast combined profit after taxation attributable to equity shareholders of the Company for the year ending 31 December 2010	Not less than RMB139.8 million (equivalent to HK$159.4 million)
Unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010	Not less than RMB0.14 (equivalent to HK$0.16)

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Company since 30 June 2010, being the last date of our latest audited financial results as set out in "Accountants' Report of the Group" in Appendix IA to this prospectus.