

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



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Prince's Building
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26 November 2010

The Directors
China Auto System Technologies Limited

DBS Asia Capital Limited
CIMB Securities (HK) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to China Auto System Technologies Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 (the “**Relevant Period**”), and the combined balance sheets of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, and the balance sheet of the Company as at 30 June 2010, together with the notes thereto (the “**Financial Information**”), for inclusion in the prospectus of the Company dated 26 November 2010 (the “**Prospectus**”). The control of, and all of the equity interests in, Nanjing Aotecar Refrigerating Co., Ltd. 南京奥特佳冷機有限公司 (“**Aotecar Nanjing**”) were acquired by the Group, through a series of transactions, on 29 December 2007. The financial information relating to Aotecar Nanjing before it came under the control of the Group for the year ended 31 December 2007 is set out in Appendix IB to the Prospectus.

The Company was incorporated in the Cayman Islands on 25 May 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 10 November 2010 as detailed in “History, Development and Reorganisation” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company as it neither has carried on any business since the date of incorporation nor is subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 30 of Section C. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) or the relevant accounting rules and regulations applicable to enterprises in the PRC.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “**Underlying Financial Statements**”). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below and in accordance with the accounting policies set out in

Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 and the state of affairs of the Company as at 30 June 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2009, together with the notes thereon (the **"Corresponding Financial Information"**), for which the directors are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A. 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 (**"Lukou Airport"**), Fang Brothers Investments 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 Limited (**"CITIC Capital China"**)) and CDH China Management Company Limited (acting on behalf of CDH Cool Limited (**"CDH Cool"**)) (**"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 the 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 China United Air System Limited (“CUAS”) set up in accordance with the Loan Agreement, which indirectly owned entire equity interests in Aotecar Refrigerating (Hong Kong) Limited (“**Aotecar Hong Kong**”) through Aotecar International Holdings Limited (“**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 Limited (“**CDH Auto**”) (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 and 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 Yonggui, as supplemented by two supplemental agreements detailed in “History, Development and Reorganisation” in the Prospectus, CUAS transferred 5% equity interests in Aotecar International to Mr. Qian Yonggui 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 Yonggui by issuing shares to Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Mr. Qian Yonggui. 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 Yonggui, 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.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B below respectively include the results of operations of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 31 December 2007, for the period from their respective dates of incorporation/establishment to 30 June 2010) as if the current group structure had been in existence throughout the entire Relevant Period. The combined balance sheets of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 as set out in Section B below have been prepared to present the state of affairs of the companies comprising the Group as at respective dates as if the current group structure had been in existence as at the respective dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Details of the principal subsidiaries, in which the Company has direct and indirect interests as at the date of this report, are set out in note 30 of Section C of this report.

B. COMBINED FINANCIAL INFORMATION**1. Combined income statements**

	Section C Note	Years ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Turnover	3	378,387	797,026	313,419	642,583
Cost of sales		(282,849)	(585,137)	(229,995)	(475,024)
Gross profit		95,538	211,889	83,424	167,559
Other revenue and net income	4	4,008	1,973	108	3,913
Distribution expenses		(25,179)	(42,227)	(17,147)	(33,166)
Administrative expenses		(25,848)	(33,639)	(16,162)	(25,232)
Other operating expenses		(5,749)	(5,593)	(2,766)	(2,916)
Profit from operations		42,770	132,403	47,457	110,158
Finance costs	5(a)	(5,078)	(6,600)	(3,400)	(6,249)
Profit before taxation		37,692	125,803	44,057	103,909
Income tax	6(a)	(6,723)	(23,350)	(8,532)	(20,389)
Profit for the year/period		<u>30,969</u>	<u>102,453</u>	<u>35,525</u>	<u>83,520</u>
Attributable to:					
Equity shareholders of the Company ...		30,969	101,699	35,488	82,562
Non-controlling interests		—	754	37	958
Profit for the year/period		<u>30,969</u>	<u>102,453</u>	<u>35,525</u>	<u>83,520</u>
Earnings per share (RMB)					
Basic earnings per share (RMB)	10	<u>0.041</u>	<u>0.136</u>	<u>0.047</u>	<u>0.110</u>

2. Combined statements of comprehensive income

	Section C Note	Years ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Profit for the year/period		30,969	102,453	35,525	83,520
Other comprehensive income	11				
Exchange differences on translation of financial statements of subsidiaries outside mainland China		14,672	(320)	(172)	1,183
Total comprehensive income for the year/period		<u>45,641</u>	<u>102,133</u>	<u>35,353</u>	<u>84,703</u>
Attributable to:					
Equity shareholders of the Company ...		45,641	101,379	35,316	83,745
Non-controlling interests		<u>—</u>	<u>754</u>	<u>37</u>	<u>958</u>
Total comprehensive income for the year/period		<u>45,641</u>	<u>102,133</u>	<u>35,353</u>	<u>84,703</u>

3. Combined balance sheets

	Section C	At 31 December			At 30 June
	Note	2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	12	105,301	132,262	227,669	284,943
Lease prepayments	13	26,725	27,447	48,774	48,815
Intangible assets	14	69,928	64,535	59,141	56,445
Goodwill	15	39,895	39,895	39,895	39,895
Deferred tax assets	23(b)(ii)	—	—	993	1,637
		<u>241,849</u>	<u>264,139</u>	<u>376,472</u>	<u>431,735</u>
Current assets					
Inventories	16	71,731	84,008	115,940	151,681
Trade and other receivables	17	146,077	193,525	440,950	581,578
Income tax refundable	23(a)	3,247	—	—	—
Pledged deposits	18	20,691	11,332	31,166	8,682
Cash	19	7,116	34,726	16,560	91,012
		<u>248,862</u>	<u>323,591</u>	<u>604,616</u>	<u>832,953</u>
Current liabilities					
Trade and other payables	20	94,770	103,920	283,070	349,443
Amounts due to related parties	29(c)	224,060	209,419	221,224	17
Interest-bearing borrowings	21	55,855	102,707	173,771	508,537
Income tax payables	23(a)	—	1,594	10,866	17,069
Provision	24	7,985	8,312	21,678	35,678
Deferred income	25	—	—	1,533	1,533
		<u>382,670</u>	<u>425,952</u>	<u>712,142</u>	<u>912,277</u>
Net current liabilities		<u>(133,808)</u>	<u>(102,361)</u>	<u>(107,526)</u>	<u>(79,324)</u>
Total assets less current liabilities		<u>108,041</u>	<u>161,778</u>	<u>268,946</u>	<u>352,411</u>
Non-current liabilities					
Deferred income	25	—	—	2,680	1,913
Deferred tax liabilities	23(b)(ii)	18,425	18,770	19,075	17,623
		<u>18,425</u>	<u>18,770</u>	<u>21,755</u>	<u>19,536</u>
Net assets		<u>89,616</u>	<u>143,008</u>	<u>247,191</u>	<u>332,875</u>
Capital and reserves					
Share capital	26(a)	—	—	—	1
Reserves		<u>89,616</u>	<u>142,608</u>	<u>243,987</u>	<u>327,732</u>
Total equity attributable to equity					
shareholders of the Company		89,616	142,608	243,987	327,733
Non-controlling interests		<u>—</u>	<u>400</u>	<u>3,204</u>	<u>5,142</u>
Total equity		<u>89,616</u>	<u>143,008</u>	<u>247,191</u>	<u>332,875</u>

4. Balance sheet of the Company

	Section C Note	At 30 June 2010 RMB'000
Current assets		
Trade and other receivables	17	<u>3,615</u>
		<u>3,615</u>
Current liabilities		
Amount due to subsidiary	29(c)	<u>(9,007)</u>
		<u>(9,007)</u>
Net current liabilities		<u>(5,392)</u>
Net liabilities		<u>(5,392)</u>
Capital and reserves		
Share capital	26(a)	—
Accumulated losses		<u>(5,392)</u>
Total equity		<u>(5,392)</u>

5. Combined statements of changes in equity

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 26(a))	PRC statutory reserves (Note 26(b))	Capital reserve (Note 26(c))	Translation reserve (Note 26(d))	Retained earnings (Note 26(e))	Total	
At 1 January 2008	—	—	89,616	—	—	89,616	89,616
Changes in equity for 2008:							
Capital contribution by non-controlling shareholder of the subsidiary ...	—	—	—	—	—	400	400
Equity-settled share-based transactions (note 5 (b)(ii)) ..	—	—	3,163	—	—	—	3,163
Other contribution by equity shareholders (note 5 (b)(ii)) ..	—	—	4,188	—	—	—	4,188
Total comprehensive income for the year	—	—	—	14,672	30,969	45,641	45,641
Appropriation to reserves	—	5,210	—	—	(5,210)	—	—
At 31 December 2008	—	5,210	96,967	14,672	25,759	142,608	143,008
Changes in equity for 2009:							
Capital contribution by non-controlling shareholder of the subsidiary ...	—	—	—	—	—	2,050	2,050
Total comprehensive income for the year	—	—	—	(320)	101,699	101,379	102,133
Appropriation to reserves	—	10,810	—	—	(10,810)	—	—
At 31 December 2009	—	16,020	96,967	14,352	116,648	243,987	247,191

APPENDIX IA
ACCOUNTANTS' REPORT OF THE GROUP

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	PRC statutory reserves	Capital reserve	Translation reserve	Retained earnings	Total		
	(Note 26(a))	(Note 26(b))	(Note 26(c))	(Note 26(d))	(Note 26(e))			
At 1 January 2010 ...	—	16,020	96,967	14,352	116,648	243,987	3,204	247,191
Changes in equity for the period:								
Capital contribution by equity shareholder	1	—	—	—	—	1	—	1
Capital contribution by non-controlling shareholder of the subsidiary	—	—	—	—	—	—	980	980
Total comprehensive income for the period	—	—	—	1,183	82,562	83,745	958	84,703
Appropriation to reserves	—	—	—	—	—	—	—	—
At 30 June 2010	<u>1</u>	<u>16,020</u>	<u>96,967</u>	<u>15,535</u>	<u>199,210</u>	<u>327,733</u>	<u>5,142</u>	<u>332,875</u>
	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	PRC statutory reserves	Capital reserve	Translation reserve	Retained earnings	Total		
	(unaudited) (Note 26(a))	(unaudited) (Note 26(b))	(unaudited) (Note 26(c))	(unaudited) (Note 26(d))	(unaudited) (Note 26(e))	(unaudited)	(unaudited)	(unaudited)
At 1 January 2009 ...	—	5,210	96,967	14,672	25,759	142,608	400	143,008
Changes in equity for the period:								
Capital contribution by non-controlling shareholder of the subsidiary	—	—	—	—	—	—	2,050	2,050
Total comprehensive income for the period	—	—	—	(172)	35,488	35,316	37	35,353
Appropriation to reserves	—	—	—	—	—	—	—	—
At 30 June 2009	<u>—</u>	<u>5,210</u>	<u>96,967</u>	<u>14,500</u>	<u>61,247</u>	<u>177,924</u>	<u>2,487</u>	<u>180,411</u>

6. Combined cash flow statements

	Section C Note	Years ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Operating activities					
Profit before taxation		37,692	125,803	44,057	103,909
Adjustments for:					
Impairment losses on trade receivables	17(b)	520	1,949	1,866	—
Depreciation of property, plant and equipment	12	12,539	17,630	7,461	11,876
Amortisation of lease prepayments	13	598	599	229	400
Amortisation of intangible assets	14	5,393	5,394	2,697	2,696
Interest income	4	(234)	(127)	(50)	(136)
Loss on sale of property, plant and equipment	4	244	262	171	69
Finance costs	5(a)	5,078	6,600	3,400	6,249
Equity-settled share-based payment expenses	5(b)(ii)	3,163	—	—	—
Other staff costs settled by equity shareholders	5(b)(ii)	4,188	—	—	—
Foreign exchange (gains)/losses		(1,221)	1	1	—
Profit before changes in working capital		67,960	158,111	59,832	125,063
Increase in inventories		(12,277)	(31,932)	(3,535)	(35,741)
Increase in trade and other receivables		(47,969)	(249,374)	(109,836)	(128,566)
Decrease/(increase) in pledged deposits		9,359	(19,834)	(1,827)	22,484
Increase in trade and other payables		7,003	165,564	75,554	70,271
Increase/(decrease) in amounts due to related parties		31	11,747	7,831	(11,761)
Increase in discounted bank acceptance bills		6,073	50,834	21,008	8,279
Increase in provision		327	13,366	7,845	14,000
Increase/(decrease) in deferred income		—	4,213	—	(767)
Cash generated from operating activities		30,507	102,695	56,872	63,262
Finance costs paid		(4,484)	(7,095)	(3,096)	(5,944)
Income tax paid	23(a)	(1,537)	(14,766)	(3,865)	(16,282)
Net cash generated from operating activities		24,486	80,834	49,911	41,036

APPENDIX IA
ACCOUNTANTS' REPORT OF THE GROUP

	Section C	Years ended 31 December		Six months ended 30 June	
	Note	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Investing activities					
Acquisition of property, plant and equipment and lease prepayments . . .		(40,052)	(121,222)	(49,729)	(86,036)
Proceeds from sale of property, plant and equipment		541	77	99	161
Interest received		234	127	50	136
Net cash used in investing activities		<u>(39,277)</u>	<u>(121,018)</u>	<u>(49,580)</u>	<u>(85,739)</u>
Financing activities					
Proceeds from bank loans		72,000	122,001	29,000	426,486
Repayment of bank loans		(30,000)	(101,772)	(35,771)	(100,000)
Repayment of amounts due to related parties		—	—	—	(208,302)
Capital contributions from non-controlling shareholder		400	2,050	2,050	980
Net cash generated from/(used in) financing activities		<u>42,400</u>	<u>22,279</u>	<u>(4,721)</u>	<u>119,164</u>
Net increase/(decrease) in cash		27,609	(17,905)	(4,390)	74,461
Cash at the beginning of the year/period	19	7,116	34,726	34,726	16,560
Effect of foreign exchange rate changes		1	(261)	—	(9)
Cash at end of year/period	19	34,726	16,560	30,336	91,012

C NOTES TO COMBINED FINANCIAL INFORMATION**1. Significant accounting policies****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which collective term includes International Accounting Standards (“**IAS**”) and related interpretations, promulgated by the International Accounting Standards Board (the “**IASB**”). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting periods prior to 1 January 2010. The revised and new accounting standards and interpretations issued but yet effective for the accounting periods prior to 1 January 2010 are set out in note 34.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries (together referred to as the “**Group**”) and has been prepared based on the combined financial statements of Aotecar International and its subsidiaries in accordance with IAS 27, Consolidated and Separate Financial Statements, where a parent reorganizes the structure of its group by establishing a new entity as its parent company, as further explained in Section A.

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the year ending 31 December 2011, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(c) Basis of measurement

The Financial Information is presented in Renminbi (“**RMB**”), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 33.

(e) Basis of combination**(i) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the Financial Information from the date that control commences until the date that control ceases.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity shareholders of the Company.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with notes 1 (n) or (o) depending on the nature of the liability.

(ii) Transactions eliminated on combination

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(f) **Foreign currency**

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (“**functional currency**”). The Financial Information is presented in RMB (“**presentation currency**”)

(ii) Foreign currency transactions

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(iii) **Foreign operations**

The assets and liabilities of foreign operations are translated from their functional currencies to RMB at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates approximating exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of comprehensive income.

(g) **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 (see note 1(k)(ii)).

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.

(h) **Property, plant and equipment**

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k) (ii)).

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 (see note 1(u)).

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.

(i) 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 (see note 1(k) (ii)).

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.

(j) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 1(k) (ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(k) Impairment of assets**(i) 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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- goodwill;
- property, plant and equipment;
- lease prepayments; and
- intangible assets.

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

In respect of assets other than goodwill, 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.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k) (i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised

and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash

Cash represents cash and cash equivalents which comprise cash at bank and on hand and demand deposits with banks and other financial institutions.

(q) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of benefits in connection with the transfer of shares to employees by equity shareholders for services rendered to the Group is recognised as staff costs to the extent that the fair value of shares transferred exceeds the amounts of consideration paid and payable by the employees with a corresponding increase in a capital reserve within equity. The fair value of shares transferred is measured at grant date taking into account the terms and conditions upon which the shares were transferred. Where the employees are entitled to the benefits immediately at the grant date, the total amount of benefits is recognised immediately at that date.

The fair value of share options granted to employees is recognised as staff costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the

options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) 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.

(t) 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.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of automotive compressors.

(a) Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale of automotive compressors in mainland China and over 90% of the Group's identified assets and liabilities were located in mainland China, no geographical information is presented.

(b) Information about major customers

The Group's customer base is diversified and included only four customers with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 27(a).

Revenues of a customer which amounted to 10 percent or more of the Group's revenue for the year/period is set out below:

	Years ended 31 December		Six months ended 30 June	
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2009 <i>RMB'000</i> <i>(unaudited)</i>	2010 <i>RMB'000</i>
Customer A	65,776	140,930	49,893	95,241
Customer B	38,367	N/A	N/A	N/A
Customer C	N/A	82,787	N/A	N/A
Customer D	N/A	N/A	N/A	69,939

3. Turnover

The principal activities of the Group are manufacturing and sale of automotive compressors.

Turnover represents the sales value of goods supplied to customers.

4. Other revenue and net income

	Years ended 31 December		Six months ended 30 June	
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2009 <i>RMB'000</i> <i>(unaudited)</i>	2010 <i>RMB'000</i>
Other revenue				
Interest income	234	127	50	136
Government grants	1,320	933	152	2,620
Others	1,500	810	90	1,229
	<u>3,054</u>	<u>1,870</u>	<u>292</u>	<u>3,985</u>
Other net income				
Loss on sale of property, plant and equipment	(244)	(262)	(171)	(69)
Net foreign exchange gains/(losses)	1,198	365	(13)	(3)
	<u>954</u>	<u>103</u>	<u>(184)</u>	<u>(72)</u>
	<u>4,008</u>	<u>1,973</u>	<u>108</u>	<u>3,913</u>

5. Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Interest on bank loans	3,935	5,358	2,723	4,618
Interest on discounted bills	1,143	1,242	677	1,631
	<u>5,078</u>	<u>6,600</u>	<u>3,400</u>	<u>6,249</u>

(b) Staff costs

		Years ended 31 December		Six months ended 30 June	
		2008	2009	2009	2010
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salaries, wages, and other benefits	(ii)	25,944	46,768	19,680	38,246
Contributions to defined contribution retirement plan	(i)	1,267	1,956	842	1,288
Equity-settled share-based payment expenses	(ii), 22	<u>3,163</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>30,374</u>	<u>48,724</u>	<u>20,522</u>	<u>39,534</u>

Note

- (i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the “**scheme**”) organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 18% to 21% of the eligible employees' salaries.

The government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

The Group also participates in a Mandatory Provident Fund Scheme (the “**MPF scheme**”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the plan vest immediately.

- (ii) Pursuant to the share transfer agreement dated 11 September 2008 (the “**Share Transfer Agreement**”) entered into between CUAS, Aotecar International and Mr. Qian Yonggui, the general manager of Aotecar Nanjing, and the first and second supplemental share transfer agreements dated 7 June 2010 and 15 July 2010 respectively (the “**Supplemental Agreements**”), i) CUAS agreed to transfer to Mr. Qian Yonggui its 3% beneficial interest in the issued share capital of Aotecar International and its creditor’s right to an amount of USD 920,212 owed by Aotecar Hong Kong for an aggregate deferred consideration of USD 1,145,485 on 11 September 2008, and ii) CUAS granted Mr. Qian Yonggui a conditional option to acquire from CUAS a further 2% beneficial interest in the issued share capital of Aotecar International and its creditor’s right to an amount of USD 613,475 owed by Aotecar Hong Kong at an aggregate exercise price of USD 2 when certain performance conditions were met in 2008. There are no terms and conditions in connection with any future services of Mr. Qian Yonggui attached to the above benefit transfer.

Given the terms and conditions set out in the Share Transfer Agreement and the Supplemental Agreements, the benefits of RMB 1,281,000 in connection with the transfer of CUAS’s 3% beneficial interest in the issued share capital of Aotecar International, being the difference of the fair value of the 3% beneficial interest transferred and the net consideration of USD 225,273 paid and payable by Mr. Qian Yonggui on 11 September 2008, were accounted for as an equity-settled share-based payment transaction and recognised as staff costs in 2008.

The share option granted to Mr. Qian Yonggui to acquire from CUAS its 2% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 was accounted for as an equity-settled share-based payment transaction. The fair values of the share option as at 11 September 2008 and the option granted to Mr. Qian Yonggui to acquire CUAS’s creditor’s right to an amount of USD 613,475 owed by Aotecar Hong Kong as at 31 December 2008 were RMB 1,882,000 and RMB 4,188,000, respectively. These amounts were recognised as staff costs during the vesting period in 2008 when the relevant performance conditions were met. Mr. Qian Yonggui exercised these options on 22 June 2010.

(c) Other items

	Note	Years ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Amortisation					
– lease prepayments	13	598	599	299	400
– intangible assets	14	5,393	5,394	2,697	2,696
Depreciation of property, plant and equipment	12	12,539	17,630	7,461	11,876
Impairment losses on trade receivables	17(b)	520	1,949	1,866	—
Auditors' remuneration					
– audit services		566	665	332	512
– other services		20	7	4	169
Research and development costs		1,919	3,019	878	513
Increase in provision	24	13,068	27,239	10,654	20,223
Cost of inventories	16(b),(i)	282,849	585,137	229,995	475,024
Note					

- (i) Cost of inventories includes RMB 20,379,000, RMB 39,651,000, RMB 13,109,000 and RMB 28,260,000 relating to staff costs, depreciation and amortisation for each of the two years ended 31 December 2008 and 2009 and for the six-month periods ended 30 June 2009 and 30 June 2010 respectively, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. Income tax

(a) Income tax in the combined income statements represents:

	Years ended 31 December		Six months ended 30 June	
	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Current tax—PRC income tax				
Adjustment for prior year	—	191	—	472
Provision for current year	6,378	23,847	9,317	22,013
	6,378	24,038	9,317	22,485
Deferred tax				
Origination and reversal of temporary differences	345	(688)	(785)	(2,096)
	6,723	23,350	8,532	20,389

(b) Reconciliation between income tax and profit before taxation at applicable tax rate:

	Years ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	37,692	125,803	44,057	103,909
Tax at the PRC's statutory income tax rate of 25%	9,423	31,451	11,014	25,977
Effect of tax rate differential (i)	(5,293)	(13,264)	(4,664)	(11,011)
Tax credit for purchase of domestic equipment (ii)	(553)	—	—	—
Adjustments for prior year's income tax	—	191	—	472
Effect of non-deductible expenses	1,203	7	86	114
Effect of non-taxable income	—	(43)	—	—
Effect of unused tax losses not recognised	—	—	—	190
Effect of PRC dividend withholding tax (iii)	1,943	5,008	2,096	4,647
Actual income tax	6,723	23,350	8,532	20,389

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong Profit Tax has been made for the subsidiary located in Hong Kong as the subsidiary did not have any assessable profit subject to Hong Kong Profit Tax during the Relevant Period.

The PRC's statutory income tax rate, effective from 1 January 2008, is 25%.

- Aotecar Nanjing, being a foreign invested enterprise engaged in manufacturing activities in a coastal economic development zone, was granted a preferential income tax rate of 24% and was also entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective ("**2+3 tax holiday**") based on the then effective tax regulations prior to 1 January 2008. Aotecar Nanjing started its tax holiday in 2004.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "**new CIT Law**"), which took effect on 1 January 2008. The 2+3

tax holiday is grandfathered under the new CIT Law and its relevant regulations. Further, Aotecar Nanjing is recognised as a High and New Technology Enterprise under the new CIT Law for a period of 3 years from 2008 to 2010. According to the grandfathering regulations, where the grandfathered preferential income tax policies and the preferential policies prescribed under the new CIT Law overlap, an enterprise shall choose to carry out the most preferential policy, but shall not enjoy multiple preferential policies. Aotecar Nanjing has chosen to complete the 2+3 tax holiday until its expiry in 2008. Accordingly, Aotecar Nanjing is subject to income tax rate at 12.5% for 2008, at 15% for 2009 and 2010, and at 25% from 2011 onwards.

- The income tax rate applicable for Nanjing Aotecar Xiangyun Refrigerating Co., Ltd. and Nanjing Aotecar Changheng Casting Co., Ltd. (**“Aotecar Casting”**) is 25%.
- (ii) Pursuant to the tax rules and regulations of the PRC, Aotecar Nanjing is entitled to a tax credit of 40% of the capital expenditure on purchase of domestic equipment.
- (iii) Under the new CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the arrangement between the mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (**“Mainland China/HKSAR DTA”**), a qualified Hong Kong tax resident which holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%, provided that Hong Kong tax resident meets the conditions under Guo Shui Han [2009] No.601 on “How to Understand and Recognise the “Beneficial Owner” in Double Taxation Agreements” (**“Circular 601”**), issued by the State Administration of Taxation on 27 October 2009.

7. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2008							
	Directors' fees	Salaries, allowances and benefits in kind (note 5 (b) (ii))	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 22)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Director</i>							
Mr. Qian Yonggui	—	4,423	300	41	4,764	3,163	7,927
<i>Non-executive Directors</i>							
Mr. Fang Kenneth							
Hung	—	—	—	—	—	—	—
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
	—	4,423	300	41	4,764	3,163	7,927
Year ended 31 December 2009							
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 22)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Director</i>							
Mr. Qian Yonggui	—	262	1,600	—	1,862	—	1,862
<i>Non-executive Directors</i>							
Mr. Fang Kenneth							
Hung	—	—	—	—	—	—	—
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
	—	262	1,600	—	1,862	—	1,862
Six months ended 30 June 2009 (unaudited)							
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 22)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Director</i>							
Mr. Qian Yonggui	—	128	—	—	128	—	128
<i>Non-executive Directors</i>							
Mr. Fang Kenneth							
Hung	—	—	—	—	—	—	—
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
	—	128	—	—	128	—	128

	Six months ended 30 June 2010						
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 22)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive Director</i>							
Mr. Qian Yonggui	—	134	—	—	134	—	134
<i>Non-executive Directors</i>							
Mr. Fang Kenneth Hung							
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
<i>Independent non-executive directors</i>							
Mr. Cheung Man Sang . .	—	—	—	—	—	—	—
Mr. Lai Ni Hium							
Mr. Zhao Chunming	—	—	—	—	—	—	—
	<u>—</u>	<u>134</u>	<u>—</u>	<u>—</u>	<u>134</u>	<u>—</u>	<u>134</u>

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is the director of the Company for the Relevant Period whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Years ended 31 December		Six months ended 30 June	
	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Salaries and other emoluments	618	684	333	347
Discretionary bonuses	440	1,420	710	1,403
Retirement scheme contributions	108	113	52	77
	<u>1,166</u>	<u>2,217</u>	<u>1,095</u>	<u>1,827</u>

The emoluments of these four individuals with the highest emoluments are within the band Nil to HKD 1 million for the Relevant Period.

9. Dividends

No dividend was declared or paid by the Company during the Relevant Period to its equity shareholders.

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Relevant Period and on the 750,000,000 shares of the Company in issue and issuable, comprising 14,737 ordinary shares in issue as at the date of the Prospectus, 749,985,263 ordinary shares to be issued pursuant to the capitalisation issue as detailed in “Corporate reorganisation” under “Statutory and General Information” in Appendix VI to the Prospectus, as if the shares were outstanding throughout the Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period, and therefore, diluted earnings per share are not presented.

11. Other comprehensive income

The component of other comprehensive income does not have any significant tax effect for each of the years ended 31 December 2008 and 2009 and for the six-month periods ended 30 June 2009 and 30 June 2010.

12. Property, plant and equipment — The Group

	Plant and buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress “CIP”	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2008	12,799	121,447	1,742	2,347	5,621	143,956
Additions	—	17,600	272	1,064	21,349	40,285
Transfer from CIP	7,522	—	—	—	(7,522)	—
Disposals	—	—	—	(969)	—	(969)
At 31 December 2008	20,321	139,047	2,014	2,442	19,448	183,272
At 1 January 2009	20,321	139,047	2,014	2,442	19,448	183,272
Additions	75	85,537	896	1,426	25,442	113,376
Transfer from CIP	21,584	8,628	—	—	(30,212)	—
Disposals	—	(898)	(800)	(198)	—	(1,896)
At 31 December 2009	41,980	232,314	2,110	3,670	14,678	294,752
At 1 January 2010	41,980	232,314	2,110	3,670	14,678	294,752
Additions	419	63,556	308	408	4,689	69,380
Transfer from CIP	17,976	871	—	—	(18,847)	—
Disposals	—	(21)	—	(272)	—	(293)
At 30 June 2010	60,375	296,720	2,418	3,806	520	363,839
Accumulated depreciation:						
At 1 January 2008	(1,746)	(35,232)	(900)	(777)	—	(38,655)
Charge for the year	(582)	(11,542)	(165)	(250)	—	(12,539)
Written back on disposals	—	—	—	184	—	184
At 31 December 2008	(2,328)	(46,774)	(1,065)	(843)	—	(51,010)
At 1 January 2009	(2,328)	(46,774)	(1,065)	(843)	—	(51,010)
Charge for the year	(921)	(16,148)	(261)	(300)	—	(17,630)
Written back on disposals	—	808	720	29	—	1,557
At 31 December 2009	(3,249)	(62,114)	(606)	(1,114)	—	(67,083)
At 1 January 2010	(3,249)	(62,114)	(606)	(1,114)	—	(67,083)
Charge for the period	(498)	(11,029)	(166)	(183)	—	(11,876)
Written back on disposals	—	1	—	62	—	63
At 30 June 2010	(3,747)	(73,142)	(772)	(1,235)	—	(78,896)
Net book value:						
At 30 June 2010	56,628	223,578	1,646	2,571	520	284,943
At 31 December 2009	38,731	170,200	1,504	2,556	14,678	227,669
At 31 December 2008	17,993	92,273	949	1,599	19,448	132,262
At 31 December 2007	11,053	86,215	842	1,570	5,621	105,301

As at 30 June 2010, the application of the property ownership certificates of certain buildings with a carrying amount of approximately RMB 51,047,000 was still in progress.

Property, plant and equipment with carrying amounts of RMB 6,455,000, RMB 6,106,000, RMB 5,756,000 and RMB 5,581,000 were pledged as collateral for the Group's bank loans as at 31 December 2007, 31 December 2008, 31 December 2009, and 30 June 2010, respectively (see note 21).

13. Lease prepayments

	<u>The Group</u> <u>RMB'000</u>
<i>Cost:</i>	
At 1 January 2008	26,725
Additions	<u>1,320</u>
At 31 December 2008	28,045
At 1 January 2009	28,045
Additions	<u>21,926</u>
At 31 December 2009	49,971
At 1 January 2010	49,971
Additions	<u>441</u>
At 30 June 2010	<u>50,412</u>
<i>Accumulated amortisation:</i>	
At 1 January 2008	—
Charge for the year	<u>(598)</u>
At 31 December 2008	<u>(598)</u>
At 1 January 2009	(598)
Change for the year	<u>(599)</u>
At 31 December 2009	<u>(1,197)</u>
At 1 January 2010	(1,197)
Change for the period	<u>(400)</u>
At 30 June 2010	<u>(1,597)</u>
<i>Carrying amount:</i>	
At 30 June 2010	<u>48,815</u>
At 31 December 2009	<u>48,774</u>
At 31 December 2008	<u>27,447</u>
At 31 December 2007	<u>26,725</u>
(i) Lease prepayments represented cost of land use rights in respect of land located in the PRC, on which the Group's plant and building were built. The Group was granted land use rights for a period of 50 years.	
(ii) Land use rights with carrying amounts of RMB 26,725,000, RMB 26,127,000, RMB 25,528,000 and RMB 25,229,000 were pledged as collateral for the Group's bank loans as at 31 December 2007, 31 December 2008, 31 December 2009, and 30 June 2010 respectively (see note 21).	

14. Intangible assets

	The Group		
	<i>Core technology</i>	<i>Customer relationships</i>	<i>Total</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:			
At 1 January 2008, 31 December 2008 31 December 2009 and 30 June 2010	47,984	21,944	69,928
Accumulated amortisation:			
At 1 January 2008	—	—	—
Charge for the year	(3,199)	(2,194)	(5,393)
At 31 December 2008	(3,199)	(2,194)	(5,393)
At 1 January 2009	(3,199)	(2,194)	(5,393)
Charge for the year	(3,199)	(2,195)	(5,394)
At 31 December 2009	(6,398)	(4,389)	(10,787)
At 1 January 2010	(6,398)	(4,389)	(10,787)
Charge for the period	(1,599)	(1,097)	(2,696)
At 30 June 2010	(7,997)	(5,486)	(13,483)
Net book value:			
At 30 June 2010	39,987	16,458	56,445
At 31 December 2009	41,586	17,555	59,141
At 31 December 2008	44,785	19,750	64,535
At 31 December 2007	47,984	21,944	69,928

The amortisation charge for the Relevant Period is included in “Other operating expenses” in the combined income statements.

15. Goodwill

	The Group
	<i>RMB'000</i>
Cost:	
At 1 January 2008, 31 December 2008, 31 December 2009 and 30 June 2010	39,895
Accumulated impairment losses:	
At 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010	—
Carrying amount:	
At 30 June 2010	39,895
At 31 December 2009	39,895
At 31 December 2008	39,895
At 31 December 2007	39,895

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the group's cash-generating units (CGU) identified according to country of operation and reportable segment as follows:

	The Group			
	At 31 December			At 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aotecar Nanjing	<u>39,895</u>	<u>39,895</u>	<u>39,895</u>	<u>39,895</u>

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections are 21%, 18.5%, 17% and 17% as at 31 December 2007, 2008, 2009 and 30 June 2010. The discount rates used are pre-tax and are determined based on the weighted average cost of capital for comparable companies, adjusted for specific risks relating to the relevant segment.

16. Inventories

(a) Inventories in the combined balance sheets comprised:

	The Group			
	At 31 December			At 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	27,637	29,255	30,987	35,313
Work in progress	7,059	5,378	21,464	22,694
Finished goods	<u>37,035</u>	<u>49,375</u>	<u>63,489</u>	<u>93,674</u>
	<u>71,731</u>	<u>84,008</u>	<u>115,940</u>	<u>151,681</u>

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group			
	Years ended 31 December		Six months ended 30 June	
	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Carrying amount of inventories sold	<u>282,849</u>	<u>585,137</u>	<u>229,995</u>	<u>475,024</u>

17. Trade and other receivables

	The Group				The Company
	At 31 December			At 30 June 2010	At 30 June 2010
	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade receivables	116,912	137,406	311,259	410,559	—
Less: allowance for doubtful debts (note 17(b))	(2,187)	(1,293)	(2,617)	(2,617)	—
	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	3,615
Amounts due from related parties (note 29(c))	—	11,510	19,218	25,014	—
	<u>146,077</u>	<u>193,525</u>	<u>440,950</u>	<u>581,578</u>	<u>3,615</u>

All of the trade and other receivables (including amounts due from related parties) are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivable (net of allowance for doubtful debts) with the following ageing analysis based on the invoice date as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010.

	The Group			
	At 31 December			At 30 June 2010
	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
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	<u>142,553</u>	<u>172,278</u>	<u>413,978</u>	<u>533,410</u>

Trade and bills receivable are due within 90 days to 120 days from the date of billing. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	The Group		
	At 31 December		At 30 June
	2008 RMB'000	2009 RMB'000	2010 RMB'000
At the beginning of the year/period	(2,187)	(1,293)	(2,617)
Impairment loss recognised	(520)	(1,949)	—
Uncollectible amounts written off	1,414	625	—
At the end of the year/period	<u>(1,293)</u>	<u>(2,617)</u>	<u>(2,617)</u>

At 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, the Group's trade debtors of RMB 2,688,000, RMB 2,954,000, RMB 2,738,000 and RMB 2,680,000 were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB 2,187,000, RMB 1,293,000, RMB 2,617,000 and RMB 2,617,000 were recognised at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010. The Group does not hold any collateral over these balances.

(c) *Trade debtors and bills receivable that are not impaired:*

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group			
	At 31 December			At 30 June
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Neither past due nor impaired	125,833	140,694	385,828	445,498
Less than 1 month past due	7,214	9,049	16,911	56,766
1 to 3 months past due	5,854	10,819	6,377	20,791
3 to 12 months past due	2,877	9,973	4,271	10,292
Over 12 months past due	274	82	470	—
	<u>16,219</u>	<u>29,923</u>	<u>28,029</u>	<u>87,849</u>
Total	<u>142,052</u>	<u>170,617</u>	<u>413,857</u>	<u>533,347</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances

are still considered fully recoverable. The Group does not hold any collateral over these balances.

18. Pledged deposits

Pledged deposits can be analysed as follows:

	The Group			
	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantee deposits for issuance of commercial bills and letters of credit	20,691	11,332	31,166	8,682

19. Cash

	The Group			
	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	6,827	34,358	16,413	90,291
Cash on hand	289	368	147	721
	<u>7,116</u>	<u>34,726</u>	<u>16,560</u>	<u>91,012</u>

Cash include cash at bank and on hand of RMB 7,116,000, RMB 34,721,000, RMB 8,736,000 and RMB 21,892,000 held in mainland China as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 respectively. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

20. Trade and other payables

	The Group			
	At 31 December			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
	<u>94,770</u>	<u>103,920</u>	<u>283,070</u>	<u>349,443</u>

An ageing analysis of trade and bill payables of the Group is as follows:

	The Group			
	At 31 December			At 30 June
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within 1 month	34,773	42,630	125,706	108,394
Over 1 month but less than 3 months	24,536	28,013	80,536	131,908
Over 3 months but less than 6 months	20,121	13,983	25,880	42,012
Over 6 months but less than 1 year	1,667	1,010	1,578	2,680
Over 1 year	2,238	1,987	1,381	770
	<u>83,335</u>	<u>87,623</u>	<u>235,081</u>	<u>285,764</u>

21. Interest-bearing borrowings

		The Group			
		At 31 December			At 30 June
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Bank loans					
– Secured	(i)	30,000	40,000	40,000	250,518
– Unsecured	(ii)	18,991	49,770	70,000	185,968
Bank advances under discounted bills	(iii)	6,864	12,937	63,771	72,051
		<u>55,855</u>	<u>102,707</u>	<u>173,771</u>	<u>508,537</u>

- (i) As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, secured bank loans of RMB 30,000,000, RMB 40,000,000, RMB 40,000,000 and RMB 40,000,000 were secured by the following assets:

	The Group			
	At 31 December			At 30 June
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Property, plant and equipment	6,455	6,106	5,756	5,581
Lease prepayments	26,725	26,127	25,528	25,229

As at 30 June 2010, a bank loan of RMB 210,518,000 was secured by CUAS's pledged deposits of USD 31,000,000 (see note 29(b)).

- (ii) As at 30 June 2010, bank loans of RMB 50,000,000 were personally guaranteed by Mr. Qian Yonggui (see note 29(b)).
- (iii) The Group's discounted bank acceptance bills have been accounted for as collateralised bank advance, and the corresponding discounted bills receivable are included in "bills receivable" (see note 17).

22. Equity-settled share-based transactions

In order to recognise the contribution of Mr. Qian Yonggui to the Group, CUAS transferred its 3% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 and granted a conditional option to Mr. Qian Yonggui to acquire from CUAS a further 2% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 when certain performance conditions were met in 2008 (see note 5 (b) (ii)).

The estimate of the fair value of equity interest in Aotecar International was primarily determined by income approach and cross checked by market approach.

Under the income approach, the fair value depends on the present value of future economic benefits attributed to the equity shareholders at the time when they obtain the beneficial interest. Indication of that value is developed by discounting projected future net cash flows available for payment of equity shareholders' interest to its present value.

Under the market approach, the fair value was determined through a formula based on multiples for comparable companies. These multiples were applied to the performance of Aotecar International and its subsidiaries based on forecasted figures which were available at the grant date.

The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The significant inputs into the model in addition to the exercise price (see note 5(b)(ii)) are the following:

- Fair value of 2% beneficial interest in the issued share capital of Aotecar International at 11 September 2008 RMB 1,882,000
- Expected volatility 50%
- Vesting date 31 December 2008
- Dividend yield —
- Risk-free interest rate 1.9%

The Group recorded total equity-settled share-based payment expenses of RMB 3,163,000 for the year ended 31 December 2008 (see note 5(b)(ii)).

23. Income tax in the combined balance sheets — The Group**(a) Current tax in the combined balance sheets represents:**

	At 31 December		At 30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	(3,247)	1,594	10,866
Adjustment for prior year	—	191	472
Provision for PRC income tax (note 6(a))	6,378	23,847	22,013
PRC income tax paid	(1,537)	(14,766)	(16,282)
At end of the year/period	<u>1,594</u>	<u>10,866</u>	<u>17,069</u>

(b) *Deferred tax assets and liabilities recognised:*

- (i) The components of deferred tax assets (liabilities) recognised in the combined balance sheets and the movements during the year/period are as follows:

	Inventories	Lease prepayments	Allowance for bad debt	Other payables	Amortisation of intangible assets	Provision for product warranties	Deferred income	PRC dividend withholding tax	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:									
At 1 January 2008	(400)	(4,976)	273	399	(14,719)	998	—	—	(18,425)
Charged/ (credited) to profit or loss ...	<u>400</u>	<u>56</u>	<u>(79)</u>	<u>397</u>	<u>575</u>	<u>249</u>	<u>—</u>	<u>(1,943)</u>	<u>(345)</u>
At 31 December 2008	<u>—</u>	<u>(4,920)</u>	<u>194</u>	<u>796</u>	<u>(14,144)</u>	<u>1,247</u>	<u>—</u>	<u>(1,943)</u>	<u>(18,770)</u>
At 1 January 2009	—	(4,920)	194	796	(14,144)	1,247	—	(1,943)	(18,770)
Charged/ (credited) to profit or loss ...	<u>—</u>	<u>67</u>	<u>199</u>	<u>1,703</u>	<u>822</u>	<u>2,005</u>	<u>900</u>	<u>(5,008)</u>	<u>688</u>
At 31 December 2009	<u>—</u>	<u>(4,853)</u>	<u>393</u>	<u>2,499</u>	<u>(13,322)</u>	<u>3,252</u>	<u>900</u>	<u>(6,951)</u>	<u>(18,082)</u>
At 1 January 2010	—	(4,853)	393	2,499	(13,322)	3,252	900	(6,951)	(18,082)
Charged/ (credited) to profit or loss ...	<u>—</u>	<u>34</u>	<u>—</u>	<u>2,645</u>	<u>295</u>	<u>3,884</u>	<u>(115)</u>	<u>(4,647)</u>	<u>2,096</u>
At 30 June 2010	<u>—</u>	<u>(4,819)</u>	<u>393</u>	<u>5,144</u>	<u>(13,027)</u>	<u>7,136</u>	<u>785</u>	<u>(11,598)</u>	<u>(15,986)</u>

(ii) Reconciliation to combined balance sheets

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised on the combined balance sheet	—	—	993	1,637
Net deferred tax liabilities recognised on the combined balance sheet	<u>(18,425)</u>	<u>(18,770)</u>	<u>(19,075)</u>	<u>(17,623)</u>
	<u>(18,425)</u>	<u>(18,770)</u>	<u>(18,082)</u>	<u>(15,986)</u>

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of accumulative tax losses of Aotecar Hong Kong amounting to RMB1,149,000 as at 30 June 2010 as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

24. Provision

Provision for product warranties

	The Group
	<i>RMB'000</i>
At 31 December 2007	7,985
Additional provision made	13,068
Provision utilised	<u>(12,741)</u>
At 31 December 2008	8,312
Additional provision made	27,239
Provision utilised	<u>(13,873)</u>
At 31 December 2009	21,678
Additional provision made	20,223
Provision utilised	<u>(6,223)</u>
At 30 June 2010	<u><u>35,678</u></u>

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within two years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two years prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

25. Deferred income

Government grants

	The Group		
	At 31 December		At 30 June
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	—	—	4,213
Received during the year/period	—	4,600	—
Released to the income statement	—	<u>(387)</u>	<u>(767)</u>
At end of the year/period	<u>—</u>	<u>4,213</u>	<u>3,446</u>
Current	—	1,533	1,533
Non-current	—	<u>2,680</u>	<u>1,913</u>
	<u>—</u>	<u><u>4,213</u></u>	<u><u>3,446</u></u>

26. Capital, reserves and dividends**(a) Share capital**

The Company was incorporated on 25 May 2010 with an authorised share capital of HKD 100,000 comprising 10,000,000 shares of HKD 0.01 each. On 25 May 2010, one share was allotted and issued as nil paid to the initial subscriber, which was transferred to Fang Brothers on 8 June 2010. On same date, 699, 3600, 870 and 1830 shares were allotted and issued to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively, as nil paid.

For the purpose of this report, the share capital of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 represented the capital of Aotecar International which was the then holding company of the companies now comprising the Group.

(b) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the PRC subsidiaries, and were approved by the board of directors.

General reserve fund

PRC subsidiaries are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity shareholders.

General reserve fund can be used to make good previous year's losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the registered capital.

(c) Capital reserve

The capital reserve comprises the following:

- contributions by Fang Brothers when the Group acquired the entire equity interests in Aotecar Nanjing (see note 31); and
- transfers of CUAS's equity interests in Aotecar International and CUAS's creditor's right to amounts owed by Aotecar Hong Kong to Mr. Qian Yonggui as compensation benefits (see note 5(b)(ii)).

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operation outside mainland China which are dealt with in accordance with the according policies set out in note 1(f).

(e) Distributable reserves

The Company was incorporated on 25 May 2010. There were no reserves available for distribution to equity shareholders as at 30 June 2010.

On the basis set out in Section A above, the aggregate amount of distributable reserves as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 of the companies now comprising the Group were Nil, RMB 25,759,000, RMB 116,648,000 and RMB 199,210,000 respectively.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the debt-to-capital ratio. Net debt is calculated as bank loans less pledged deposits and cash. Capital comprises all components of equity.

During the Relevant Period, the Group's strategy was to maintain the debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders or raise new debt financing.

The net debt-to-capital ratio at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 was as follows:

	Section C Note	At 31 December			At 30 June 2010
		2007 RMB'000	2008 RMB'000	2009 RMB'000	RMB'000
Interest-bearing borrowings	21	55,855	102,707	173,771	508,537
Total debt		55,855	102,707	173,771	508,537
Less: Cash	19	(7,116)	(34,726)	(16,560)	(91,012)
Pledged deposits	18	(20,691)	(11,332)	(31,166)	(8,682)
Net debt		<u>28,048</u>	<u>56,649</u>	<u>126,045</u>	<u>408,843</u>
Capital		89,616	142,608	243,987	327,733
Debt-to-capital ratio		31%	40%	52%	125%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, pledged deposits and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. 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.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry in which the customers operate also influences its credit risks. The amounts due from the Group's largest customer and the five largest customers are as follows:

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Largest customer	24,415	37,331	87,385	76,131
Five largest customers	81,047	90,158	241,019	279,634

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 guarantees, which would expose the Group to credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor 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.

The following table details the remaining contractual maturities at balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2007

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	6.57	30,000	30,898	30,898	—	—
Unsecured bank loans	6.57	18,991	19,514	19,514	—	—
Bank advances under discounted bills	6.93-9.65	6,864	6,864	6,864	—	—
Trade and other payables		94,770	94,770	94,770	—	—
Amounts due to related parties ..		224,060	224,060	224,060	—	—
		<u>374,685</u>	<u>376,106</u>	<u>376,106</u>	<u>—</u>	<u>—</u>

At 31 December 2008

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	5.63-7.35	40,000	41,393	1,177	40,216	—
Unsecured bank loans	6.33-7.30	49,770	51,716	31,185	20,531	—
Bank advances under discounted bills	2.93-5.83	12,937	12,937	12,937	—	—
Trade and other payables		103,920	103,920	103,920	—	—
Amounts due to related parties		209,419	209,419	209,419	—	—
		<u>416,046</u>	<u>419,385</u>	<u>358,638</u>	<u>60,747</u>	<u>—</u>

At 31 December 2009

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	5.31	40,000	41,298	1,062	40,236	—
Unsecured bank loans	5.10-5.31	70,000	71,423	51,326	20,097	—
Bank advances under discounted bills	2.10-5.11	63,771	63,771	63,771	—	—
Trade and other payables		283,070	283,070	283,070	—	—
Amounts due to related parties		221,224	221,224	221,224	—	—
		<u>678,065</u>	<u>680,786</u>	<u>620,453</u>	<u>60,333</u>	<u>—</u>

At 30 June 2010

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	0.82-5.31	250,518	250,974	250,974	—	—
Unsecured bank loans	1.89-6.11%	185,968	188,313	152,802	35,511	—
Bank advances under discounted bills	1.86-5.37	72,051	72,051	72,051	—	—
Trade and other payables		349,443	349,443	349,443	—	—
Amounts due to related parties		17	17	17	—	—
		<u>857,997</u>	<u>860,798</u>	<u>825,287</u>	<u>35,511</u>	<u>—</u>

(c) *Interest rate risk*

The Group's 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.

(i) Interest rate profile

The interest rate profile of the Group's net borrowings at the balance sheet date is as follows:

	At 31 December						At 30 June	
	2007		2008		2009		2010	
	<i>Effective interest rate %</i>	<i>RMB'000</i>	<i>Effective interest rate %</i>	<i>RMB'000</i>	<i>Effective interest rate %</i>	<i>RMB'000</i>	<i>Effective interest rate %</i>	<i>RMB'000</i>
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
		<u>36,864</u>		<u>50,937</u>		<u>173,771</u>		<u>217,051</u>
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)
		<u>(8,816)</u>		<u>5,712</u>		<u>(47,726)</u>		<u>191,792</u>
Total net borrowings ..		<u>28,048</u>		<u>56,649</u>		<u>126,045</u>		<u>408,843</u>
Net fixed rate borrowings as a percentage of total net borrowings		<u>131%</u>		<u>90%</u>		<u>138%</u>		<u>53%</u>

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table demonstrates the sensitivity to cash flow interest rate risk arising from variable rate borrowings held by the Group at the respective balance sheet dates in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expenses or income of such a change in interest rates. The analysis is performed on the same basis during the Relevant Period.

	<u>Increase/(decrease) in basis points</u>	<u>Increase/(decrease) profit after tax and retained profits for the year/period</u> <i>RMB'000</i>
At 31 December 2007		
Basis points	100	(167)
Basis points	(100)	167
At 31 December 2008		
Basis points	100	(453)
Basis points	(100)	453
At 31 December 2009		
Basis points	100	—
Basis points	(100)	—
At 30 June 2010		
Basis points	100	(1,239)
Basis points	(100)	1,239

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China, that are determined largely by supply and demand.

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than Renminbi to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year/period end date.

(Expressed in RMB'000)

	At 31 December						At 30 June	
	2007		2008		2009		2010	
	USD	JPY	USD	JPY	USD	JPY	USD	JPY
Trade and other receivables	—	—	—	4,664	—	—	3,315	—
Cash	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	<u>(16,886)</u>	<u>975</u>	<u>(17,470)</u>	<u>4,664</u>	<u>477</u>	<u>(6,519)</u>	<u>13,367</u>	<u>(5,442)</u>

(ii) Sensitivity analysis

The following table indicates the change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	Increase/(decrease) profit after tax and retained profits for the year/period			
	At 31 December			At 30 June
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
USD				
– 5% depreciation of RMB	(743)	(764)	20	568
– 5% appreciation of RMB	743	764	(20)	(568)
JPY				
– 5% depreciation of RMB	43	204	(277)	(231)
– 5% appreciation of RMB	(43)	(204)	277	231

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 due to the short maturities of those instruments.

28. Commitments**(a) Capital commitments**

Capital commitments outstanding at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 not provided for in the Financial Information were as follows:

	The Group			At 30 June 2010
	At 31 December			
	2007 RMB'000	2008 RMB'000	2009 RMB'000	RMB'000
Contracted for	572	43,236	15,024	37,615

(b) Lease commitments

At 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			At 30 June 2010
	At 31 December			
	2007	2008	2009	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	—	517
After 1 year but within 5 years	—	—	—	—
After 5 years	—	—	—	—
	—	—	—	517
	—	—	—	—

29. Material related party transactions**(a) Name and relationship with related parties**

During the Relevant Period, transactions with the following parties are considered as related party transactions:

<u>Name of related party</u>	<u>Relationship</u>
China United Air Systems Limited ("CUAS")	The holding company of Aotecar International during the Relevant Period and before the group reorganisation completed on 10 November 2010
Nanjing Xiezhong Auto-air conditioner (Group) Co., Ltd. (" Xiezhong Nanjing ")	Subsidiary of CUAS
Nanjing Changheng Casting Co., Ltd. (" Changheng Casting ")	Non-controlling equity holder of Aotecar Casting
Wu Peirong	Director of Aotecar Casting
Qian Yonggui	Shareholder of the Company after the group reorganisation completed on 10 November 2010, executive director of the Company and General Manager of Aotecar Nanjing

(b) Transactions with related parties

Transactions with related parties during the Relevant Period are as follows:

	Years ended 31 December		Six months ended 30 June	
	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
<i>Recurring transactions:</i>				
Sales of goods				
— Xiezhong Nanjing	8,236	31,869	9,853	21,408
<i>Non-recurring transactions:</i>				
Purchase of raw materials and finished goods				
— Changheng Casting	—	1,359	1,359	—
Purchase of plant and equipment				
— Changheng Casting	—	473	473	—
Loans from related parties				
— Xiezhong Nanjing ⁽ⁱ⁾	—	37,000	15,000	15,179
— Wu Peirong ⁽ⁱⁱ⁾	—	3,370	1,750	3,260
	—	40,370	16,750	18,439
Repayment of loans from related parties				
— Xiezhong Nanjing ⁽ⁱ⁾	—	37,000	15,000	15,179
— Wu Peirong ⁽ⁱⁱ⁾	—	—	—	6,630
	—	37,000	15,000	21,809
Repayment of amounts due to related parties ..				
— CUAS and Qian Yonggui ⁽ⁱⁱ⁾	—	—	—	208,302
Interest expenses paid to related parties				
— Xiezhong Nanjing ⁽ⁱ⁾	—	263	13	—
Payment made on behalf by related parties				
— CUAS ⁽ⁱⁱ⁾	31	5	5	70
— Changheng Casting ⁽ⁱⁱ⁾	—	550	472	—
	31	555	477	70

- (i) The loans borrowed from Xiezhong Nanjing during the Relevant Period were at an annual interest rate of 6.1065% for a term varying from 7 days to 2 months.
- (ii) The transactions with these related parties during the Relevant Period were interest-free.

Other than notes (i) and (ii) mentioned above, the directors consider that the above related party transactions during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

Guarantee/security issued by related parties

During the six months ended 30 June 2010, the Group's bank loans of RMB 210,518,000 and RMB 50,000,000 were secured and guaranteed by CUAS's pledged deposit of USD 31,000,000 and Mr. Qian Yonggui respectively (see note 21).

The pledged deposit by CUAS is to be released when the Group repays the bank loans within one month after the Listing of the shares of the Company on the Stock Exchange or by 31 December 2010, whichever is earlier.

The directors have confirmed the guarantee issued by Mr. Qian Yonggui will be released and replaced by a guarantee provided by the Company upon listing of the Company's shares on the Stock Exchange.

(c) *Amounts due from/(to) related parties*

At 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, the Group had the following balances with related parties:

	The Group			
	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from				
– Xiezhong Nanjing	—	8,710	19,218	22,729
– Changheng Casting	—	2,800	—	—
	—	11,510	19,218	22,729
Other receivables from				
– CUAS	—	—	—	2,285
Other payables to				
– CUAS	(224,060)	(203,137)	(203,199)	(17)
– Qian Yonggui	—	(6,282)	(14,105)	—
– Changheng Casting	—	—	(550)	—
– Wu Peirong	—	—	(3,370)	—
	(224,060)	(209,419)	(221,224)	(17)

Amounts due from/(to) the above related parties are unsecured and interest-free.

Other payables due to CUAS as at 30 June 2010 were fully settled by cash in July 2010.

Amount due to subsidiary

	The Company
	At 30 June 2010 RMB'000
Other payables to	
– Aotecar Hong Kong	(9,007)

Amount due to Aotecar Hong Kong was unsecured and interest-free.

*(d) Transactions with management**Key management personnel remuneration*

Remuneration for key management personnel of the Group, including transactions with Mr. Qian Yonggui as disclosed in note 5(b)(ii), amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Note	Years ended 31 December		Six months ended 30 June	
		2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Short-term employee benefits		6,345	5,016	2,485	4,344
Equity compensation benefits	22	3,163	—	—	—
Total		<u>9,508</u>	<u>5,016</u>	<u>2,485</u>	<u>4,344</u>

30. Particulars of subsidiaries

At the date of this report, the Company had direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

<u>Name</u>	<u>Place of incorporation and operation</u>	<u>Date of incorporation</u>	<u>Particulars of issued share capital</u>	<u>Attributable equity interest</u>	<u>Principal activities</u>	<u>Auditor</u>	<u>Period/Year of audit</u>
Aotecar International	British Virgin Islands	16 January 2007	100 shares of USD 1 each	100%	Investment holding	PC Yu & C Yip KPMG	Period from 16 January 2007 to 31 December 2008 2009
Aotecar Hong Kong (Formerly known as "Wealth Gear Limited")	Hong Kong	30 October 2007	1 share of HKD 1 each	100%	Investment holding	PC Yu & C Yip KPMG	Period from 30 October 2007 to 31 December 2008 2009
Aotecar Nanjing	P.R. China	16 May 2000	USD 20.46 million	100%	Production of auto compressors	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	2007 2008 2009
Nanjing Aotecar Xiangyun Refrigerating Co., Ltd.	P.R. China	27 June 2008	USD 12 million	100%	Production of auto compressors	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	Period from 27 June 2008 to 31 December 2008 2009
Aotecar Casting	P.R. China	4 December 2008	RMB 7 million	51%	Production of casting parts	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	Period from 4 December 2008 to 31 December 2009

31. Business combination and acquisition of a subsidiary

The Group acquired the entire equity interests in Aotecar Nanjing, through a series of transactions, on 29 December 2007.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the above acquisition as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	<u>Note</u>	<u>Pre-acquisition carrying amount</u>	<u>Fair value recognised on acquisition</u>
		<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	12	105,301	105,301
Lease prepayments	13	6,232	26,725
Intangible assets	14	4,092	69,928
Deferred tax assets		2,125	—
Inventories		68,532	71,731
Trade and other receivables		146,077	146,077
Income tax refundable	23(a)	3,247	3,247
Pledged deposits		20,691	20,691
Cash		7,116	7,116
Trade and other payables		(94,770)	(94,770)
Dividend payable	31(c)	(7,629)	(7,629)
Interest-bearing borrowings		(55,855)	(55,855)
Deferred tax liabilities	23(b)	—	(18,425)
Provision	24	(7,985)	(7,985)
Total net assets acquired		<u>197,174</u>	<u>266,152</u>

Fair value of the entire equity interests in Aotecar Nanjing at the acquisition date

	<u>Note</u>	<u>RMB'000</u>
Consideration transferred to acquire 60.33% equity interests in Aotecar Nanjing from Lukou Airport and other miscellaneous investors		<u>184,759</u>
Fair value of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers	(a)	
– Initial investment costs		40,822
– Fair value adjustment to the acquisition date fair value		<u>80,466</u>
		<u>121,288</u>
		<u>306,047</u>

- (a) The fair value of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers represented liabilities incurred by Aotecar Hong Kong to acquire the same equity interests from Fang Brothers based on Fang Brothers' initial investment costs of RMB 40.8 million and the fair value adjustment to the acquisition-date fair value of RMB 80.5 million.

- (b) The total liabilities incurred in connection with the acquisition of Aotecar Nanjing from Fang Brothers, Lukou Airport and other miscellaneous investors represent amounts of RMB 224.06 million due to CUAS (note 29(c)), which were determined as follows:

	RMB'000
Consideration transferred to acquire 60.33% equity interests in Aotecar Nanjing from Lukou Airport and other miscellaneous investors	184,759
Initial investment costs of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers	40,822
Exchange difference adjustment	(1,521)
	<u>224,060</u>

- (c) The total contributions made by Fang Brothers when the entire equity interests in Aotecar Nanjing were acquired by the Group, are as follows:

	Note	RMB'000
Fair value adjustment of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers to the acquisition date fair value		80,466
Aotecar Hong Kong's right to receive dividend payable to Fang Brothers ...		7,629
Exchange difference adjustment		1,521
	26 (c)	<u>89,616</u>

Goodwill

Goodwill has been recognised as a result of the acquisition as follows:

	Note	RMB'000
Fair value of the entire equity interests in Aotecar Nanjing		306,047
Less: fair value of identifiable assets and liabilities of Aotecar Nanjing		(266,152)
Goodwill	15	<u>39,895</u>

32. Non-adjusting post balance sheet events

The following significant events took place subsequent to 30 June 2010.

(a) Group reorganisation

Subsequent to 30 June 2010, the companies now comprising the Group underwent and completed a group reorganisation on 10 November 2010 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the group reorganisation are set out in "History, Development and Reorganisation" in the Prospectus. As a result of the group reorganisation, the Company became the holding company of the Group.

(b) Share options

Pursuant to the written resolution of the shareholders of the Company passed on 20 September 2010, the Company has conditionally adopted a Share Option Scheme

and a Pre-IPO Share Option Scheme. The principal terms of the Share Option Scheme and the Pre-IPO Share Option Scheme are set out in "Share Option Schemes" of Appendix VI "Statutory and General Information" to the Prospectus.

(c) Capital contribution

Aotecar Nanjing's equity holder approved on 15 July 2010 the increase in Aotecar Nanjing's registered capital from USD 14.46 million to USD 20.46 million, which was fully paid on 3 August 2010. Aotecar Nanjing obtained a revised approval certificate and a revised business licence on 22 July 2010 and 16 August 2010 respectively.

33. Significant accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the Financial Information are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Warranty provision

As explained in note 24, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

34. New standards and interpretations not yet adopted

At the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the accounting periods prior to 1 January 2010 and which have not been adopted in preparing the Financial Information.

	<u>Effective for accounting periods beginning on or after</u>
Amendments to IAS 32, Financial instruments:	
Presentation – Classification of rights issues	1 February 2010
IFRIC 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosure for first-time adopters	1 July 2010
Revised IAS 24, Related party disclosures	1 January 2011
Amendments to IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
IFRS 9, Financial instruments: Basis for conclusions on IFRS 9 Amendments to other IFRSs and guidance on IFRS 9	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2010.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong