



China Auto System Technologies Limited

中國汽車系統技術有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 1283

Global Offering

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Joint Sponsors



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



China Auto System Technologies Limited

中國汽車系統技術有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	: 250,000,000 Shares (subject to the
under the Global Offering	Over-allotment Option)
Number of Public Offering Shares	: 25,000,000 Shares (subject to adjustment)
Number of International Offering Shares	: 225,000,000 Shares (subject to adjustment and
	the Over-allotment Option)
Offer Price	: not more than HK\$3.05 per Offer Share and
	expected to be not less than HK\$2.35 per Offer
	Share (payable in full on application in Hong
	Kong dollars, subject to refund on final
	pricing, plus brokerage of 1%, SFC
	transaction levy of 0.003% and Stock
	Exchange trading fee of 0.005%)
Nominal Value	: HK\$0.01 per Share
Stock Code	: 1283

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Joint Sponsors



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached to it the documents specified in "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around 2 December 2010 and, in any event, not later than 7 December 2010. The Offer Price will be not more than HK\$3.05 and is currently expected to be not less than HK\$2.35 unless otherwise announced. Applicants for the Public Offering Shares are required to pay, on application, the maximum Offer Price of HK\$3.05 for each Public Offering Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is finally determined to be lower than HK\$2.35 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the other Underwriters) may, with consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$2.35 to HK\$3.05 per Offer Share) at any time on or before the morning of the last day for lodging applications under the Public Offering. In such case, notices of the reduction in the number of the Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) not later than the morning of the last day for lodging applications under the Public Offering. Such notice will also be available at our website at www.chinaautosystem.com and the website of the Stock Exchange at www.hkexnews.hk. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company by 7 December 2010, the Global Offering (including the Public Offering) will not proceed and will lapse. Further details are set out in "Structure and Conditions of the Global Offering" and "How to Apply for Public Offering Shares" in this prospectus.

The obligations of the Public Offering Underwriters under the Public Offering Underwriting Agreement to procure subscribers for or themselves to subscribe for the Public Offering Shares are subject to termination by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) if certain grounds arise before 8:00 a.m. on the day that trading in the Offer Shares is due to commence on the Stock Exchange. These grounds are set out in "Underwriting – Underwriting arrangements and expenses – Public Offering – Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US state securities laws. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S.

EXPECTED TIMETABLE ⁽¹⁾

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at <u>www.hkeipo.hk</u> ⁽²⁾	11:30 a.m. on Wednesday, 1 December 2010
Application lists open ⁽³⁾	11:45 a.m. on Wednesday, 1 December 2010
Latest time to lodge WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Wednesday, 1 December 2010
Latest time to complete payment for the HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s) ⁽³⁾	12:00 noon on Wednesday, 1 December 2010
Application lists close ⁽²⁾	12:00 noon on Wednesday, 1 December 2010
Price Determination Date ⁽⁵⁾	Thursday, 2 December 2010
Announcement of:	
• the final Offer Price; • the basis of allotment and the results of applications in the Public Offering; and • the indications of level of interest in the International Offering	
to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on or before	Wednesday, 8 December 2010
Results of allocations in the Public Offering (including the successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (<u>www.chinaautosystem.com</u> and <u>www.hkexnews.hk</u>) (for further details – please refer to “How to Apply for Public Offering Shares – Results of allocations” in this prospectus) from	Wednesday, 8 December 2010
Results of allocations in the Public Offering will be available at <u>www.tricor.com.hk/ipo/result</u> with a “search by ID” function	Wednesday, 8 December 2010
e-Auto Refund payment instructions in respect of wholly or partially unsuccessful applications to be despatched on or before ^(6 and 11)	Wednesday, 8 December 2010
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before ^(7, 8, 9 and 11)	Wednesday, 8 December 2010
Share certificates to be posted or deposited into CCASS on or before ^(7 to 10)	Wednesday, 8 December 2010
Dealings in Shares on the Stock Exchange to commence at 9:30 a.m. on	Thursday, 9 December 2010

Notes:

- ⁽¹⁾ All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in “Structure and Conditions of the Global Offering” in this prospectus. We will publish an announcement in case there is any change to the expected timetable of the Public Offering shown above.
- ⁽²⁾ You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications under the Public Offering. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications under the Public Offering, at which time the application lists will close.
- ⁽³⁾ If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 1 December 2010, the application lists will not open on that day. Please refer to “How to Apply for Public Offering Shares – Effect of bad weather on the opening of the application lists” in this prospectus.
- ⁽⁴⁾ Applicants who apply for Public Offering Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Public Offering Shares – Applying by giving electronic application instructions to HKSCC” in this prospectus.

EXPECTED TIMETABLE ⁽¹⁾

- (5) *The Price Determination Date is expected to be on or around Thursday, 2 December 2010 and in any event not later than Tuesday, 7 December 2010. If, for any reason, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.*
- (6) *Applicants who apply through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on or around Wednesday, 8 December 2010. Applicants who apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions to the designated HK eIPO White Form Service Provider on or around Wednesday, 8 December 2010, by ordinary post and at their own risk.*
- (7) *Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offering Shares or more may indicate in their Application Forms that they wish to collect refund cheques (where applicable) and Share certificates (where applicable) in person from the Hong Kong Share Registrar, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 8 December 2010. Applicants being individuals who opt for personal collection must not authorise any other persons to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the company's chop. Identification documents and (where applicable) authorisation documents acceptable to the Hong Kong Share Registrar must be produced at the time of collection. Further information is set out in "How to Apply for Public Offering Shares – Despatch/collection of share certificates and refund cheques" in this prospectus. Part of your Hong Kong identity card number/passport number, or, if you are a joint applicant, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.*
- (8) *Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offering Shares or more and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques (if any) for applicants who apply on **YELLOW** Application Forms are the same as those for applicants who apply on **WHITE** Application Forms.*
- (9) *Uncollected Share certificates and/or refund cheques (if any) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms. Further information is set out in "How to Apply for Public Offering Shares – Despatch/collection of share certificates and refund cheques" in this prospectus.*
- (10) *Share certificates for the International Offering Shares to be distributed via CCASS are expected to be deposited into CCASS on Wednesday, 8 December 2010 for credit to the respective CCASS Participant's stock accounts designated by the International Underwriters, the placees or their agents, as the case may be.*
- (11) *Refund Cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price as finally determined is less than the price payable on application.*

Share certificates will only become valid if the Global Offering becomes unconditional and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Thursday, 9 December 2010. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before the Share certificates become valid do so entirely at their own risk.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different with what is contained in this prospectus and the Application Forms. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Joint Sponsors, the Sole Global Coordinator, any of the Underwriters, any of their directors or any other persons or parties involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

OVERVIEW

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

Compressor is a key component of an automobile air-conditioning system. The scroll compressor is the latest generation compressor and the production of it accounted for 20.3% of the total production of automobile air-conditioning compressors in the PRC in 2009. Earlier generations of compressors include piston compressor, swash plate compressor and rotary vane compressor. Due to the development of new generations of compressors, the use of piston compressor is generally fading out from the PRC market. Both swash plate compressor and scroll compressor are suitable for use in various types of displacement vehicles, while the rotary vane compressor is more suitable for the use in small-displacement vehicles. As compared with swash plate compressor, scroll compressor has the benefits of higher cooling efficiency and volume ratio, lighter weight and lower power consumption, and its market share in the PRC increased from 1.9% in 2002 to 20.3% in 2009 in terms of production volume according to the Ourview Report. According to the same report, scroll compressors are not only widely used in traditional gasoline and diesel engine vehicles, they are especially suitable for the use in electric vehicles. According to the PRC national standard for

Notes:

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

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

SUMMARY

“Automobile Air-conditioning Electrically Driven Compressor Assembly” (汽車空調用電動壓縮機總成), an electrically driven compressor used in vehicles should comprise both a scroll compressor and an electric motor.

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

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

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

SUMMARY

The following table shows our revenue by product type during the Track Record Period. For details, please refer to ‘Financial Information’ in this prospectus:

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

Note:

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

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

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

SUMMARY

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

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

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

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

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

SUMMARY

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

The following table sets forth the revenue breakdown by our customers during the Track Record Period:

Type of Customers	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Automobile										
manufacturers	196,552	63.6	254,109	67.2	468,860	58.8	172,959	55.2	358,691	55.8
Air-conditioning										
system suppliers . . .	59,437	19.2	67,584	17.9	212,245	26.6	80,949	25.8	150,516	23.4
Automobile part										
distributors	39,996	13.0	40,238	10.6	82,369	10.4	47,828	15.3	96,799	15.1
Others	12,830	4.2	16,456	4.3	33,552	4.2	11,683	3.7	36,577	5.7
Total	<u>308,815</u>	<u>100.0</u>	<u>378,387</u>	<u>100.0</u>	<u>797,026</u>	<u>100.0</u>	<u>313,419</u>	<u>100.0</u>	<u>642,583</u>	<u>100.0</u>

For the six months ended 30 June 2010, most of our revenues were generated from 41 automobile manufacturers, 35 air-conditioning system suppliers and 104 automobile part distributors.

During the Track Record Period, we sold most of our products directly to automobile manufacturers and air-conditioning system suppliers. These air-conditioning system suppliers incorporated our products into their automobile air-conditioning systems and sold the entire automobile air-conditioning system to the automobile manufacturers. In addition, we also derived part of our income from sales of our products to automobile part distributors, who distributed our products to the automobile after-sales market.

Revenue generated from our customers can be divided into the following categories:

A. Automobile manufacturers that are:

- (a) domestic enterprises accounted for 87.3%, 91.0%, 92.5% and 93.7% of the total revenue generated by automobile manufacturers during the Track Record Period, respectively; and
- (b) foreign-invested enterprises accounted for 12.7%, 9.0%, 7.5% and 6.3% of the total revenue generated by automobile manufacturers during the Track Record Period, respectively.

B. Air-conditioning system suppliers that are:

- (a) domestic enterprises accounted for 75.9%, 73.8%, 72.6% and 79.9% of the total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively; and

SUMMARY

- (b) foreign-invested enterprises accounted for: 24.1%, 26.2%, 27.4% and 20.1% of the total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively.

C. Automobile part distributors located in:

- (a) Eastern China⁽¹⁾ accounted for 33.6%, 46.8%, 48.0% and 53.2% of the total revenue generated by automobile part distributors during the Track Record Period, respectively;
- (b) Northern China⁽²⁾ accounted for 13.6%, 14.3%, 7.9% and 7.1% of the total revenue generated by automobile part distributors during the Track Record Period, respectively;
- (c) Southwest China⁽³⁾ accounted for 7.3%, 7.7%, 9.7% and 7.8% of the total revenue generated by automobile part distributors during the Track Record Period respectively;
- (d) Central and Southern China⁽⁴⁾ accounted for 16.6%, 19.3%, 20.7% and 13.0% of the total revenue generated by automobile part distributors during the Track Record Period, respectively; and
- (e) Overseas accounted for 29.0%, 11.9%, 13.6% and 18.8% of the total revenue generated by automobile part distributors during the Track Record Period, respectively.

We also generated a small portion of our revenue from overseas sales. We mainly export our products to the US, Japan, Malaysia and other Southeast Asia regions.

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

Our pricing to all customers is based on a variety of factors, including raw material prices, production costs, overhead sales volume, past relationship and the specifications of different

Notes:

- (1) Eastern China: Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
- (2) Northern China: Beijing, Tianjin, Hebei Province, Liaoning Province, Jilin Province, Shaanxi Province and Heilongjiang Province
- (3) Southwest China: Chongqing, Sichuan Province and Guizhou Province
- (4) Central and Southern China: Henan Province, Hubei Province, Hunan Province, Guangdong Province and Guangxi Autonomous Region

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customers. We do not have different pricing strategies for different types of customers. For each specific sales order, our sales department determines the appropriate pricing for that order based on our internal pricing criteria which would be reviewed every three months. Orders with special production requirements are jointly reviewed by the relevant departments, such as the production department and the quality control department, and approved by our general manager before a price quotation is provided to the customer. Since our major customers are automobile manufacturers from whom we generate most of our revenue, we do not offer discount to distributors in exchange for committed sales volume, and we do not have a practice of sales rebate.

In the event that there is an increase in cost, instead of passing the increased cost to our customers, we would endeavour to maintain our cost through products R&D, optimising our production processes, reducing our procurement costs and leveraging off our growing scale as mentioned in “Business – Business strategies – Maintaining our cost advantages” in this prospectus.

Information published by CAAM suggests that passenger vehicle sales have cooled down since April 2010, even though the PRC automobile production for the seven months ended 31 July 2010 amounted to 10.2 million units, representing an increase of 43.6% over the same period last year. Although we anticipate our revenue for the second half of 2010 will likely decrease as compared with the first half of 2010, given our recent production levels, and in light of government support to boost demand for the new energy vehicles sector (please refer to “Industry Overview – New energy automobile” in this prospectus for the government support policies), which is the future focus of the automobile market and one of our competitive strengths, together with our own proprietary technologies, our robust growth in production capacity, stringent cost control and experienced management team as set out in “Business – Competitive strengths” in this prospectus, we believe our Group will continue to grow and maintain its leading position as a supplier of automobile air-conditioning compressors to leading automobile manufacturers.

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

Note:

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

SUMMARY

R&D capabilities in order to maintain our competitiveness in the industry. Please refer to “Business – Research and development” in this prospectus for details of our R&D strategies.

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

The table below sets out the estimated production capacity and utilisation rates of our production facilities located at the Old Production Base and the New Production Base. For details of computation, please refer to “Business – Production facilities and production capacity” in this prospectus.

	Estimated Production Capacity (’000 sets)			Actual Production Volume (’000 sets)			Utilisation Rate (%)	
	Old Production Base	New Production Base	Total	Old Production Base	New Production Base	Total	Old Production Base	New Production Base
31 December 2007 .	714	—	714	634	—	634	88.8	—
31 December 2008 .	984	—	984	869	—	869	88.3	—
31 December 2009 .	1,256	620	1,876	1,294	576	1,870	103.0	92.9
30 June 2010	697	814	1,511	709	818	1,527	101.7	100.5

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

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OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

- Leading position and strong brand recognition in the PRC automobile air-conditioning compressor industry
- Advanced products and technologies
- Long established and stable business relationships with the leading domestic automobile manufacturers
- Strong R&D capabilities
- Cost advantages
- Advanced production facilities and measures
- Stringent quality control
- Experienced, stable and committed management team

OUR STRATEGIES

We aim to become a competitive automobile air-conditioning compressor supplier in the global market. We intend to achieve this by focusing on the following strategies:

- Further strengthening our leading position in the small-displacement vehicle and domestic self-owned brand vehicle markets and increasing our sales to Sino-foreign joint venture automobile brands
- Strengthening our R&D capabilities
- Increasing our investment in electric vehicle air-conditioning compressors
- Increasing our production capacities
- Maintaining our cost advantages
- Gradually expanding our sales in overseas markets

SUMMARY

SUMMARY FINANCIAL INFORMATION

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

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

Summary Income Statement Data

	Aotecar Nanjing	Our Group			
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Turnover	308,815	378,387	797,026	313,419	642,583
Cost of sales	(226,655)	(282,849)	(585,137)	(229,995)	(475,024)
Gross profit	82,160	95,538	211,889	83,424	167,559
Other revenue and net income	2,059	4,008	1,973	108	3,913
Distribution expenses	(21,377)	(25,179)	(42,227)	(17,147)	(33,166)
Administrative expenses	(14,999)	(25,848)	(33,639)	(16,162)	(25,232)
Other operating expenses	(2,491)	(5,749)	(5,593)	(2,766)	(2,916)
Profit from operations	45,352	42,770	132,403	47,457	110,158
Finance costs	(4,088)	(5,078)	(6,600)	(3,400)	(6,249)
Profit before taxation	41,264	37,692	125,803	44,057	103,909
Income tax	479	(6,723)	(23,350)	(8,532)	(20,389)
Profit for the year/period	41,743	30,969	102,453	35,525	83,520
Attributable to:					
Equity shareholders of the Company	41,743	30,969	101,699	35,488	82,562
Non-controlling interests	—	—	754	37	958
Profit for the year/period	41,743	30,969 ⁽¹⁾	102,453	35,525	83,520
Basic earnings per share ⁽²⁾ (RMB)	N/A	0.041	0.136	0.047	0.110

Notes:

⁽¹⁾ The decrease in our profit for the year ended 31 December 2008 as compared with the year ended 31 December 2007 was mainly due to certain non-recurring items, including: (i) an one-off compensation benefit given to Mr. Qian amounting to RMB7.4 million, representing fair value adjustments in relation to the transfer by CUAS to Mr. Qian of a 3% beneficial interest and an option over a further 2% interest in both the issued share capital of Aotecar International and the loan to Aotecar Hong Kong, in recognition of the past contributions of Mr. Qian to the growth and development of the Group and as an incentive of his continued efforts; (ii) a tax credit of RMB5.3 million in the year ended 31 December 2007; and (iii) an increase in the amortisation charges of intangible assets of RMB3.1 million as a result of the acquisition of Aotecar Nanjing by our Group in December 2007. Please refer to "Financial Information" in this prospectus for further explanations.

⁽²⁾ The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Track Record Period and on the assumption of 750,000,000 Shares being in issue or issuable, comprising 14,737 Shares in issue as at the date of this prospectus, 749,985,263 Shares to be issued pursuant to the Capitalisation Issue, as detailed in "Further Information About The Company – Written resolutions of the Shareholders passed on 9 November 2010" in Appendix VI to this prospectus, as if the Shares were outstanding throughout the Track Record Period. There were no dilutive potential ordinary shares during the Track Record Period, and therefore, diluted earnings per share are not represented.

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Summary Statement of Financial Information Data

	Aotecar Nanjing	Our Group				
		As at 31 December				As at 30 June
	2007	2007	2008	2009		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2010</i>	
					<i>RMB'000</i>	
Non-current assets	117,750	241,849	264,139	376,472	431,735	
Current assets	245,663	248,862	323,591	604,616	832,953	
Current liabilities	166,239	382,670	425,952	712,142	912,277	
Net current assets/(liabilities)	79,424	(133,808)	(102,361)	(107,526)	(79,324)	
Total assets less current liabilities	197,174	108,041	161,778	268,946	352,411	
Non-current liabilities	—	18,425	18,770	21,755	19,536	
Net assets	197,174	89,616	143,008	247,191	332,875	

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

During the Track Record Period, the management of the Group and Aotecar Nanjing remained substantially the same and Aotecar Nanjing engaged in substantially the same principal business activities as the Group. Therefore, the financial information presented in the prospectus can be used for analytical and comparison purposes even though the financial information of Aotecar Nanjing and the Group were presented under separate accountants’ reports. For details, please refer to the “Financial Information – Basis of preparation” in this prospectus for a reconciliation of the balance sheets between Aotecar Nanjing and our Group.

Summary Statement of Cash Flows Data

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

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DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

Forecast combined profit after taxation attributable to equity shareholders of the Company for the year ending 31 December 2010 ⁽¹⁾	Not less than RMB139.8 million (equivalent to HK\$159.4 million)
Unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010 ⁽²⁾	Not less than RMB0.14 (equivalent to HK\$0.16)

Notes:

- ⁽¹⁾ The bases and assumptions on which the above profit forecast for the year ending 31 December 2010 has been prepared are summarised in "Profit Forecast" in Appendix III to this prospectus. Our forecast combined profit after taxation attributable to equity shareholders of the Company for the year ending 31 December 2010 prepared by our Directors is based on the audited combined financial statements of our Group for the six months ended 30 June 2010, the unaudited combined management accounts of our Group for the three months ended 30 September 2010 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in "Accountants' Report of the Group" as set out in Appendix IA to this prospectus.
- ⁽²⁾ The calculation of the unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010 is based on the forecast combined results of our Group for the year ending 31 December 2010, assuming the Global Offering had been completed on 1 January 2010 and a total of 1,000,000,000 Shares were in issue during the entire period, taking no account of any additional income our Group may have earned from the estimated net proceeds from the Global Offering, or any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

DIVIDEND POLICY

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

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRSs. Some of our subsidiaries in China, which are foreign-

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invested enterprises, set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of our subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

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

USE OF PROCEEDS

We estimate that the net proceeds to our Company from the Global Offering, after deducting the underwriting commissions and estimated expenses in relation to the Global Offering payable by us, will be HK\$634.6 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$2.70 per Share, being the midpoint of the Offer Price range set out in this prospectus. We intend to use the net proceeds for the following purposes:

- (i) HK\$222.1 million or 35.0% of the net proceeds will be used for (i) our capacity expansion plans which include the expansion project of our New Production Base and the establishment of a new production base; and (ii) selective acquisitions and investments which either supplement our existing business or fit into our long-term strategy:
 - We plan to use HK\$144.8 million or 22.8% of the net proceeds for the capacity expansion plan of the New Production Base, mainly for purchases and installation of machinery and equipment and/or construction of factory and office buildings and staff quarters, and we expect that the aggregate annual production capacity will increase from 3.0 million sets of compressors to 4.0 million sets of compressors by mid 2011 after the expansion;
 - We plan to use HK\$45.6 million or 7.2% of the net proceeds for the acquisition of land for the establishment of a new production base. It is intended that the new production base will be established in Nanjing or its adjacent areas for the production of automobile air-conditioning compressors. As at the Latest Practicable Date, our Group was in the course of identifying an appropriate site for the new production base and it is expected that such can be identified by the end of 2011; and
 - We plan to use HK\$31.7 million or 5.0% of the net proceeds for acquisitions and investments primarily related to the manufacturing of automobile air

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conditioning compressors and, to a lesser degree, related to other auto component system providers in the PRC. We plan to selectively target acquisitions or investments that will strengthen our leading position in the manufacturing of automobile air-conditioning compressors in the PRC. We would also selectively target other auto component providers that we could leverage on our extensive customers network in the auto industry in the PRC. No specific acquisition candidates or investment opportunities had been identified as at the Latest Practicable Date;

- (ii) HK\$334.2 million or 52.7% of the net proceeds will be used for loan repayment. For details of the loans, please refer to “Financial Information – Indebtedness” in this prospectus:
- HK\$241.2 million or 38.0% of the net proceeds will be used for the repayment of borrowings from BNP Paribas Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan was used to settle the indebtedness due to CUAS and Mr. Qian in June 2010. The loan facility shall be repaid within one month after the Listing or by 31 December 2010, whichever is earlier, and the applicable interest rate for any outstanding loan amount under the facility is BNP Paribas Hong Kong Branch’s cost of funds (determined conclusively by BNP Paribas Hong Kong Branch at its sole discretion) plus 0.2% per annum. The Group intends to repay the amount due to BNP Paribas Hong Kong Branch immediately after Listing; and
 - HK\$93.0 million or 14.7% of the net proceeds will be used for the repayment of borrowings from DBS Bank Ltd., Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan has been used for general working capital purpose. The tenure of the loan facility is 24 months from the date of the relevant loan agreement (being 11 June 2010) and the applicable interest rate for any outstanding loan amount under the facility is HIBOR plus 1.5% per annum;
- (iii) HK\$31.7 million or 5.0% of the net proceeds will be used to support and strengthen our product R&D capability in respect of our existing product portfolio and potential new products, including (i) enhancing our R&D facilities to improve the quality of our electric compressors and to produce compressors with smaller size for meeting the changing market needs; (ii) collaborating with third party institutions, such as universities in the PRC and overseas to develop new technologies and/or products; and (iii) expediting the commercialisation of our R&D results; and
- (iv) HK\$46.6 million or 7.3% of the net proceeds will be used for working capital and other general purposes.

Although from time to time, we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we did not have any finalised understanding, commitments or agreements, and we had not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with

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respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term deposits with financial institutions in Hong Kong and/or the PRC.

If the Offer Price is finally determined at the lower end of the indicative Offer Price range, being HK\$2.35 per Offer Share, the net proceeds from the Global Offering will be decreased by HK\$85.3 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). In such case, our Directors intend to apply HK\$241.2 million or 43.9% and HK\$82.4 million or 15.0% of the net proceeds towards repayment of loans from BNP Paribas Hong Kong Branch and DBS Bank Ltd., Hong Kong Branch respectively and to apply HK\$45.6 million or 8.3% of the net proceeds towards acquisition of land for the establishment of a new production base. The Directors intend to apply the remaining net proceeds of the Global Offering in the same manner as mentioned above with the difference being adjusted to the other items above on a pro rata basis.

If the Offer Price is finally determined at the higher end of the indicative Offer Price range, being HK\$3.05 per Offer Share, the net proceeds of the Global Offering will be increased by HK\$85.3 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). Our Directors intend to allocate the additional net proceeds for the purposes described in (i) (solely for the purposes of capacity expansion plan of the New Production Base and for acquisition and investments as mentioned under item (i) above), (iii) and (iv) above on a pro rata basis.

If the Over-allotment Option is exercised in full, we estimate we would receive additional net proceeds of HK\$98.7 million, assuming an Offer Price of HK\$2.70 per Share, being the midpoint of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Over-allotment Option will be applied to the purposes described in (i) (solely for the purposes of capacity expansion plan of the New Production Base and for acquisition and investments under item (i) above), (iii) and (iv) above on a pro rata basis.

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds described above.

NET CURRENT LIABILITIES POSITION

As at 31 December 2007, 2008, 2009 and 30 June 2010, the Group recorded net current liabilities of RMB133.8 million, RMB102.4 million, RMB107.5 million and RMB79.3 million, respectively. The net current liabilities of the Group were mainly due to short term bank borrowings and amounts due to CUAS and Mr. Qian, being related parties of the Group. During the Track Record Period, the aggregate amounts due to CUAS and Mr. Qian amounted to RMB224.1 million, RMB209.4 million, RMB217.3 million and RMB17,000.0, majority of which were due to the acquisition of Aotecar Nanjing by the Group from Fang Brothers in December 2007. For details, please refer to “History, Development and Reorganisation” in this prospectus. As at 30 September 2010, all the amounts due to related parties had been repaid.

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

We obtained a bank loan of USD31.0 million from BNP Paribas Hong Kong Branch to repay the amounts due to CUAS and Mr. Qian in June 2010. Upon Listing, we will repay the bank loan of USD31.0 million from BNP Paribas Hong Kong Branch in full by proceeds from the Global Offering. If the amounts due to CUAS and Mr. Qian were excluded from the current liabilities for the three years ended 31 December 2009, we would record net current assets of RMB90.3 million, RMB107.1 million and RMB109.8 million respectively as at the three years ended 31 December 2009. Our Directors are of the opinion that taking into account the estimated net proceeds from the Global Offering, we will record a net current assets position after the Global Offering. In addition, the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this prospectus.

As at the Latest Practicable Date, we had not experienced any liquidity issues in the ordinary course of business.

NON-COMPLIANCE OF THE GROUP

As all of our operations are in China, we are required to conduct our business in compliance with the PRC laws and regulations. However, certain of our activities were or are not in compliance with the relevant PRC laws and regulations.

Lands and properties

Aotecar Nanjing

Aotecar Nanjing has failed to obtain relevant construction project planning permits (建設工程規劃許可證), construction licences (建設工程施工許可證) and building ownership certificates for certain building structures at the Old Production Base and may be required to demolish those buildings and pay a fine equivalent to not more than 10% of the construction costs, which is RMB1,183,200.0. In relation to parts which cannot be demolished, any realty or unlawful gains received from those parts may be confiscated. Aotecar Nanjing received a letter from Qinhuai Government confirming that they had liaised with other relevant competent governmental authorities to seek that no further fine or enforcement action would be imposed on Aotecar Nanjing and to ensure that Aotecar Nanjing would not incur any economic loss due to new fine or punishment, and that the Qinhuai Government would bear full responsibilities to ensure that Aotecar Nanjing would not suffer any economic loss. Therefore, our PRC Legal Advisers considered that as Qinhuai Government will take measures to ensure the above matters, the risk of any future fine/penalty being imposed on us is low, and the financial and operational impacts on our Group due to such non-compliance is minimal. Our Directors consider that since only a gross floor area of 4,465.5 sq. m. is used for production on the said building structures and Aotecar Xiangyun has agreed to let Aotecar Nanjing relocate its production lines to the New Production Base, which is estimated to take no more

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than 10 days at a cost of around RMB400,000.0, the non-compliance would not have material financial and operational impact on the Group.

Also, Aotecar Nanjing leased out a gross floor area of 2,996.0 sq. m. before it obtained relevant construction permits and building ownership certificates for the leased property and may be liable for an administrative penalty from RMB500.0 to RMB2,000.0 and may be required to rectify the non-compliance. Since the lessee has actual knowledge of the non-compliance, as advised by the PRC Legal Advisers, Aotecar Nanjing would not be liable for the compensation as stipulated in the lease contract if the lease is ruled invalid by the courts. Also, the amount of the administrative penalty would be relatively small. As such, the PRC Legal Advisers and the Directors are of the view that the non-compliance would not have material financial and operational impact on the Group.

Aotecar Xiangyun

Aotecar Xiangyun failed to obtain a land use rights certificate before constructing buildings on the New Production Base. As a result, a fine of RMB804,000.0 was imposed on Aotecar Xiangyun which has been paid in full. Since we have subsequently obtained the relevant certificate, the PRC Legal Advisers advised that we would not be penalised again for the above non-compliance. Also, we were late in making full payment for our acquisition of the New Production Base and a surcharge of RMB246,680.0 was imposed. Similarly, since the consideration and the surcharge had been fully settled, the PRC Legal Advisers advised that there is no risk that we would be required to make any additional payment for the late payment.

Aotecar Xiangyun also failed to obtain construction project planning permits (建設工程規劃許可證) and construction licences (建築工程施工許可證) before constructing buildings on the New Production Base. As advised by the PRC Legal Advisers, Aotecar Xiangyun may receive a demolition order and any realty or unlawful gains from parts which cannot be demolished may be confiscated. It may also be imposed of a fine equivalent to not more than 10% of the construction costs. Aotecar Xiangyun obtained the relevant construction project planning permits (建設工程規劃許可證) for all buildings on 14 July 2010 and 16 September 2010. In addition, it obtained the relevant construction licences (建築工程施工許可證) for all buildings on 28 October 2010 and 18 November 2010. It shall arrange for the application for building ownership certificate(s) by the end of November 2010, and is expected to obtain the same by the end of 2010. As advised by our PRC Legal Advisers, since Aotecar Xiangyun has already obtained the land use rights certificate, the construction project planning permits (建設工程規劃許可證) and the construction licences (建築工程施工許可證), there should not be any legal impediment for Aotecar Xiangyun to obtain the building ownership certificate(s) subject to the submission of all the necessary documents in compliance with the required procedures in accordance with the PRC laws. As such, the Directors are of the view that the above would not have material financial and operational impact on the Group.

Aotecar Casting

Aotecar Casting leased the Hengxi Lands and the Hengxi Leased Factory from Changheng Casting pursuant to the Hengxi Lease. As those lands are collective construction lands, Changheng Casting is required to obtain consent from the owners of the collective land owners and to complete relevant certification procedures before leasing the Hengxi Lands and the Hengxi Leased Factory to

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Aotecar Casting. Since the legal requirements have not been fulfilled, the Hengxi Lease may become void and the rights of Aotecar Casting in the Hengxi Lands and the Hengxi Leased Factory may not be protected under the PRC law.

In respect of the Hengxi Owned Factory, since Changheng Casting had not obtained the relevant land use right certificate and the building ownership certificate at the time when it transferred the Hengxi Owned Factory to Aotecar Casting, the PRC Legal Advisers advised that the transfer had not been duly registered in accordance with PRC laws, and therefore Aotecar Casting is not entitled to the immovable property right in the Hengxi Owned Factory. As to the Hengxi Workshop, since the relevant construction permits and certificates were not obtained before the construction of Hengxi Workshop, there is a risk that the relevant governmental authorities may order demolition of the Hengxi Workshop within a prescribed time and confiscate any realty or unlawful gain from parts which cannot be demolished and may further impose a fine of equivalent to not more than 10% of the construction costs, which is RMB161,600.0.

In order to rectify the title issues of the Hengxi Lands and the Hengxi Properties, Aotecar Casting has contacted its lessor, Changheng Casting, and asked for its assistance in contacting the relevant authorities with a view to complete the relevant certification procedures. Changheng Casting has agreed to offer its help in discussing the same with the relevant parties.

Aotecar Casting produces brake discs, static plates, front end covers and cases in the properties situated on Hengxi Lands. To minimise the financial and operation risks of Aotecar Casting in the event that it will be required to vacate from the properties on the Hengxi Lands due to title issues, Aotecar Nanjing had entered into memoranda of understanding with two existing suppliers, which are independent third parties, to provide products currently produced by Aotecar Casting at properties on the Hengxi Land to the Group at prevailing market prices at the relevant times. Given that the products produced at properties on the Hengxi Land are not highly technically complicated products and only involve general aluminium casting procedures, our Directors consider that the transfer from producing our own brake discs, static plates, front end covers and cases to purchasing them from third party suppliers, if necessary, would only have minimal impact on our overall operations and production costs.

Details of our land and properties are set out in the “Business – Properties” and “Appendix IV – Property Valuation” in this prospectus.

Leased staff quarters

Aotecar Xiangyun

Aotecar Xiangyun has leased a total of 450.0 sq.m. staff quarters from a landlord who could not provide the relevant building title document for review. As such, our PRC Legal Advisers advised that the lease for the relevant leased quarters may be invalid and unenforceable under the PRC law. However, Aotecar Xiangyun as lessee would not be liable for any civil or criminal responsibilities or any administrative penalty. Nevertheless, the lease has not been registered at the relevant authority and the PRC Legal Advisers advised that Aotecar Xiangyun may be liable for a fine of RMB100.0 to RMB1,000.0 for the non-registration though the non-registration would not affect the validity of the lease.

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Moreover, our Directors consider that the lease of Aotecar Xiangyun is only short-term for staff quarters and any early termination would not materially affect the finance and operations of the Group.

Details of our leased staff quarters are set out in the “Business – Properties” and “Appendix IV – Property Valuation” in this prospectus.

Social Insurance and housing provident fund contributions

Aotecar Nanjing and Aotecar Casting have failed to make sufficient Social Insurance and housing provident fund contributions for and on behalf of our employees due to different levels of acceptance of the Social Insurance and housing provident fund schemes by employees. The amounts of unpaid contributions to Social Insurance of Aotecar Nanjing and Aotecar Casting for the financial years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010 were RMB185,000, RMB922,000, RMB1,682,000 and RMB1,332,000 respectively, while the amounts of the unpaid contributions to housing provident funds of Aotecar Nanjing and Aotecar Casting for the financial years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010 were RMB79,000, RMB424,000, RMB754,000 and RMB557,000 respectively. According to the PRC Legal Advisers, the amount of the maximum fine/penalty that may be imposed on our Group for the non-compliance with Social Insurance regulations is three times of the amount equivalent to the salary amount not reported to the relevant Social Insurance authorities, but no fine will be imposed on the unpaid housing provident contribution after Aotecar Nanjing and Aotecar Casting open housing provident fund accounts with the competent authorities. In the event that the administrative penalties were imposed on the Company in any particular financial year, the Company’s profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us.

Aotecar Nanjing had obtained a written confirmation from the Social Insurance Collection and Payment Administration Centre of Nanjing (南京市社會保險徵繳管理中心), the competent Social Insurance authority, on 12 October 2010, which confirmed that Aotecar Nanjing had duly contributed Social Insurance for its employees since its incorporation and Aotecar Nanjing had no record of overdue contributions. Aotecar Nanjing further obtained a written confirmation from the Provincial Institutions Housing Provident Fund Administration Centre of Jiangsu Province (江蘇省省級機關住房資金管理中心) on 13 October 2010, which confirmed that Aotecar Nanjing had duly contributed housing provident fund without any record of being sanctioned for any overdue contribution or non-compliance and there is no record of overdue contribution of Aotecar Nanjing.

Similarly, Aotecar Casting had obtained a written confirmation from the Social and Labour Insurance Administration of Nanjing City Jiangning District (南京市江寧區社會勞動保險所) on 13 August 2010, which confirmed that Aotecar Casting had duly contributed Social Insurance for its employees since its incorporation without any record of being sanctioned for any non-compliance and the basis and percentage of Social Insurance contribution complied with the requirements of the PRC law. Aotecar Casting further obtained a written confirmation from the Housing Provident Fund Administration Centre of Nanjing (南京住房公積金管理中心), the competent housing provident fund authority, on 14 September 2010, which confirmed that Aotecar Casting had promptly and duly contributed housing provident fund for its employees without any non-compliance with laws, regulations or local rules related to housing provident fund. Our PRC Legal Advisers confirmed that

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the aforementioned are competent Social Insurance and housing provident fund authorities. On the basis of the above, our PRC Legal Advisers are of the view that the risk of the Group being required to contribute the unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the advice from our PRC Legal Advisers above, the Directors consider that the financial impact to the Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendices IA and IB to this prospectus. As advised by the PRC Legal Advisers, according to the general practice in Nanjing, the contribution basis can only be adjusted in July every year. Aotecar Nanjing will adjust the amount of contribution basis to the required level in July 2011.

In relation to Aotecar Casting, it had entered into Labor Service Despatch Agreements (勞務派遣合同) with Nanjing Baiye, which would provide foundry and general operational workers to Aotecar Casting as required with effect from 26 September 2010 and would bear the liability to make sufficient Social Insurance and housing provident fund contributions for and on behalf of each dispatched worker. Aotecar Casting only need to pay the labour service fees to Nanjing Baiye as agreed and stipulated in the Labor Service Despatch Agreements. On the basis as above, our Directors consider that such non-compliance would only have minimal financial and operational impacts on the Group. For details, please refer to “Business – Employees – Social Insurance and housing provident fund contributions” in this prospectus.

Environmental assessment and approvals

Aotecar Casting failed to conduct any environmental impact assessment prior to construction and to apply for environmental protection facilities verification approval from the local environmental protection bureau. Our PRC Legal Advisers advised that the relevant environmental authority may impose a fine from RMB50,000.0 to RMB200,000.0 for failure to conduct the environmental impact assessment prior to construction, and a suspension order plus a fine of not more than RMB50,000.0 for not having applied for environmental protection facilities approval. Aotecar Casting had retrospectively applied for the required environmental impact assessment approval and had obtained a verbal confirmation from Nanjing Jiangning District Environmental Bureau (南京市江寧區環境保護局) that a grace period of two years from May 2010 had been granted for improvement, during which no penalties or order of suspension will be imposed on Aotecar Casting. As at the Latest Practicable Date, Aotecar Casting had commenced the study for the deployment of improved environmental-friendly measures, utilising cleaner energies such as electricity or gas rather than coke (the “**Environmental Improvement Project**”). A task force comprises of three senior staff had been formed for the Environment Improvement Project and it had been in close contacts with the relevant local authorities for the improvements in Aotecar Casting. In accordance with the procedures in the Environment Improvement Project, Aotecar Casting would need about two years to complete the project. If required, the Group will also engage an environmental consultancy firm to advise on the effectiveness of the plan to ensure an effective implementation of the improvement plan.

On 14 October 2010, Aotecar Casting obtained a letter from Nanjing Jiangning District Environmental Bureau (南京市江寧區環境保護局) stating there is no circumstances which would trigger penalties to be imposed on Aotecar Casting for violation of environmental laws. In order to mitigate the possible impact to the Group in the event that a suspension order is imposed, Aotecar Nanjing had entered into two memoranda of understanding with two existing suppliers, being independent third parties, who agreed to supply necessary production parts to the Group which are currently

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produced by Aotecar Casting at prevailing market prices at the relevant times if a suspension order was imposed. Given the above, our Directors are of the view that such non-compliance would not have material financial and operational impact on the Group. For details, please refer to “Business – Safety and environmental matters – Environmental protection” in this prospectus.

Production licence

Aotecar Xiangyun failed to obtain a production licence between March 2009 upon its commencement of production and July 2010. The maximum fine/penalty would be confiscation of products so produced and the resultant income gained and a fine of up to three times the value of the manufactured products. In the event that the administrative penalties were imposed on the Company in any particular financial year, the Company’s profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us. However, on the basis that (i) Aotecar Xiangyun has properly rectified its non-compliance by obtaining a valid production licence on 2 July 2010, (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 12 October 2010 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with production licence and administration of product quality, and Aotecar Xiangyun’s products are in line with the relevant national quality standards, and (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the said production licence, our PRC Legal Advisers advised that the risk of any fine or penalty in relation to the above historical non-compliance is low, and our Directors consider that such historical non-compliance would not have any operational and financial impacts on the Group. For details, please refer to “Regulatory Overview – Production licence of industrial products and implementation procedures”.

For those non-compliance of the Group mentioned in “Summary – Non-compliance of the Group” in this prospectus, the Company’s PRC Legal Advisers considered that most of the risks of future fines or penalties being imposed on the Group were low. Taking into account the advice from the PRC Legal Advisers, the Directors consider the financial and operational impact on the Group is minimal and would not affect our future expansion plan and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendices IA and IB to this prospectus.

The non-compliance incidents as mentioned above were mainly due to inadvertent error of the Group and a lack of a very comprehensive understanding in certain rules and regulations in the PRC. In order to prevent future non-compliance, we have adopted an internal control system and retained an independent external advisory firm to conduct follow-up reviews on our measures and policies. Also, we have established a new position of compliance officer, who will report to the Board directly on a monthly basis to ensure that the Group’s operations are in compliance with applicable laws, rules and regulations, to strengthen the existing internal control framework and to recommend remedial plans to the Board should there be any internal control deficiencies. Mr. Chui Wing Fai, our Company Secretary has been appointed as our compliance officer. In addition to professional qualifications and solid experience in finance and accounting, Mr. Chui also possesses experience in managing, overseeing, coordinating and handling regulatory compliance, corporate governance and corporate secretarial matters of both listed and unlisted companies with operations in Hong Kong

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and the PRC. Mr. Chui will have access to external professionals retained or to be retained by the Group from time to time if applicable, including the compliance adviser, external legal counsel, auditors and other advisers as necessary and will report directly to the Board. We have retained Chen & Co. Law Firm as our PRC legal advisers in respect of legal and regulatory compliance matters in the PRC, and Chen & Co., Law Firm will provide training to all of our Directors in relation to the compliance of PRC laws and regulations applicable to our Group's operations. For details, please refer to "Business – Measures to prevent future non-compliance" in this prospectus.

In view of the above advice and opinion given by the PRC Legal Advisers and after taking into consideration the remedial actions taken by the Group, the adoption of the internal control systems and the Group's management has shown a positive attitude of improving the corporate governance of the Group, the Joint Sponsors concur with the Director's view that the aforementioned non-compliance incidents were not intentional and that the non-compliances would not individually and collectively affect the Group's business operations and financial position.

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering.

Risks relating to our business

- We rely on certain major customers for a significant portion of our revenue.
- We may be subject to requests from customers to reduce prices from time to time which may affect our ability to maintain steady gross profit margins.
- We may face increases in the prices of raw materials, parts and components.
- We may face simultaneous increases in the prices of raw materials, parts and components and requests from customers for price reductions.
- We may lack adequate production capacity to meet market demand for our products.
- We may not be able to sustain historical financial performance and growth.
- We may not be able to attract and retain members of our senior management team and other key personnel.
- The interests of our Controlling Shareholders may be different from those of our other Shareholders.
- We may fail to pass the approval process for new products or maintain existing approvals of our customers.

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- Our entry into international markets may expose us to certain risks.
- We may not be able to obtain sufficient capital in a timely manner and/or on acceptable terms for implementation of our business strategies.
- We may face potential product liability claims or suffer losses due to product recall.
- A subsidiary of our Group had once conducted business prior to obtaining a production licence.
- Changes in interest rates may affect our financing costs.
- We had net current liabilities as at 31 December 2007, 2008, 2009 and 30 June 2010.
- We rely on certain major suppliers.
- We rely on a stable supply of labour at reasonable cost.
- We have limited insurance coverage.
- We may be subject to penalties under relevant PRC laws and regulations due to failure to make full Social Insurance and housing provident fund contributions for our employees.
- We are subject to potential changes or discontinuation of the preferential tax treatments in the PRC currently available to us.
- There are uncertainties under the New EIT Law.
- Our business is subject to operational risks.
- We may fail to adequately protect our proprietary technology, product designs and technical know-how.
- Registration of our Group's logo as a trademark is pending approval.
- We do not have valid titles or rights to use certain properties occupied by us.
- We are exposed to environmental liabilities.

Risks relating to our industry

- We operate in a competitive industry and face intense competition from our competitors.
- The automobile air-conditioning compressor industry is characterised by a decreasing trend of average selling price.
- Market demand for our products may be affected by a slowdown in the growth rate of the PRC automobile industry.

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- Changes in automobile industrial policies may adversely affect our financial condition and results of operations.
- The development trend of automobiles may create pressure on our production facilities and affect our business.
- There may be changes in the existing laws and regulations or additional or stricter laws and regulations on environmental protection and safety matters in the PRC.
- Global financial crisis and economic downturn may have a material and adverse effect on our business, results of operations and financial condition.

Risks relating to conducting business in the PRC

- Any adverse change in the political and economic policies of the PRC Government may materially and adversely affect our business, financial condition and operating results and may result in our inability to sustain our growth and expansion strategies.
- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.
- As a foreign company, our acquisition of PRC companies may take longer and be subject to higher levels of scrutiny by the PRC Government.
- Implementation of the PRC Labour Contract Law and other labour-related regulations in China may materially and adversely affect our business, financial condition and operating results.
- PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.
- Our Company is a holding company that relies on payments from our subsidiaries for funding.
- Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business, financial condition, operating results and our ability to remit payments.
- It may be difficult to effect service of process upon some of our Directors and executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.
- Shortage of fuels and utilities in the PRC could affect our business.

Risks relating to the Global Offering

- An active trading market for the Shares may fail to develop or be sustained, which could have a material adverse effect on the market and liquidity of the Shares.

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- The trading prices of the Shares may be volatile following the completion of the Global Offering and the Offer Price may not be indicative of subsequent trading price.
- Purchasers of the Offer Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- There may be a dilutive effect on the earnings per Share associated with the Share Option Schemes and an impact on future earnings.
- Certain facts and statistics from official sources contained in this prospectus have come from various publicly available sources whose reliability cannot be assumed or assured.
- Acts of God, acts of war, epidemics, such as severe acute respiratory syndrome (SARS) or influenza (including H5N1 and H1N1), and other disasters may affect our business and operations as well as the Global Offering.

OFFER STATISTICS

We have compiled the Global Offering statistics on the assumption that the Over-allotment Option is not exercised. The indicative offer prices of HK\$2.35 and HK\$3.05 per Offer Share do not include the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, which are payable by investors under the Global Offering.

	Based on indicative Offer Price of HK\$2.35 per Offer Share	Based on indicative Offer Price of HK\$3.05 per Offer Share
Our market capitalisation upon completion of the Global Offering ⁽¹⁾	HK\$2,350.0 million	HK\$3,050.0 million
Unaudited pro forma adjusted net tangible assets per Share as at 30 June 2010 ⁽²⁾	HK\$0.81	HK\$0.98

Notes:

- (1) The calculation of the market capitalisation is based on the assumption that 1,000,000,000 Shares will be in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued under the Over-allotment Option).
- (2) The unaudited pro forma adjusted net tangible assets per Share in the above table is calculated after the adjustments referred to in "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" in Appendix II to this prospectus and on the basis of 1,000,000,000 Shares in issue immediately following the Global Offering (excluding any Shares which may be issued under the Over-allotment Option).

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms have the following meanings. Certain other terms are explained in the “Technical Glossary” in this prospectus.

“Accountants’ Reports”	the Accountants’ Reports included in Appendices IA and IB to this prospectus
“Aotecar Casting”	Nanjing Aotecar Changheng Casting Co., Ltd. (南京奥特佳長恒鑄造有限公司), a company established in the PRC on 4 December 2008 which is owned as to 51% by Aotecar Nanjing and 49% by Changheng Casting and is principally engaged in the manufacture of assembly parts for our compressor production
“Aotecar Hong Kong”	Aotecar Refrigerating (Hong Kong) Limited (奧特佳冷機(香港)有限公司) (formerly known as Wealth Gear Limited (富昕有限公司)), a company incorporated in Hong Kong on 30 October 2007 wholly-owned by Aotecar International and is engaged in investment holding
“Aotecar International”	Aotecar International Holdings Limited (奧特佳國際控股有限公司), a company incorporated in the BVI on 16 January 2007 wholly-owned by our Company and is engaged in investment holding
“Aotecar Nanjing”	Nanjing Aotecar Refrigerating Co., Ltd. (南京奥特佳冷機有限公司), a company established in the PRC on 16 May 2000 wholly-owned by Aotecar Hong Kong and is principally engaged in the manufacture and sales of automobile air-conditioning compressors
“Aotecar Xiangyun”	Nanjing Aotecar Xiangyun Refrigerating Co., Ltd. (南京奥特佳祥雲冷機有限公司), a company established in the PRC on 27 June 2008 wholly-owned by Aotecar Hong Kong and is principally engaged in the manufacture and sales of automobile air-conditioning compressors
“Application Forms”	white, yellow and green application forms, or where the context so requires, any of them which is used in relation to the Public Offering
“Articles of Association” or “Articles”	the articles of association of the Company as amended from time to time
“associates”	has the meaning ascribed to it in the Listing Rules
“Board of Directors” or “Board”	the board of Directors

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“Business Day”	a day, other than a Saturday, Sunday or public holiday, on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 749,985,263 Shares upon capitalisation of an amount of HK\$7,499,852.63 standing to the credit of the share premium account of our Company referred to in “History, Development and Reorganisation” of this prospectus
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant and general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CDH Auto”	CDH Auto Limited, a company incorporated in the BVI on 29 May 2008 wholly-owned by CDH China Fund III, L.P. and is engaged in investment holding. Mr. Wang Zhenyu, our Director, is a director of CDH Auto
“CDH Cool”	CDH Cool Limited, a company incorporated in the BVI on 9 January 2007 wholly-owned by CDH China Growth Capital Fund II, L.P. and is engaged in investment holding. Mr. Wang Zhenyu, our Director, is a director of CDH Cool
“Changheng Casting”	Nanjing Changheng Casting Co., Ltd. (南京長恆鑄造有限公司), a company established in the PRC on 1 March 2002, which holds 49% of Aotecar Casting and is owned as to 70% by Nanjing Jida Information Technology Services Centre (南京吉大信息技術服務中心), a sole proprietorship enterprise (個人獨資企業) established in the PRC which is owned by Mr. Wu Peirong, and 30% by Ms. Lu Manling, and is

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	principally engaged in the manufacture and sale of alloy casting and R&D of relevant machinery products
“CIMB”	CIMB Securities (HK) Limited, a licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“CITIC Capital China”	CITIC Capital China Limited (formerly known as Total Rise Investments Limited), an exempted company incorporated in the Cayman Islands with limited liability on 18 April 2007 wholly-owned by CITIC Capital China Fund I and is engaged in investment holding and is a Controlling Shareholder of our Company
“CITIC Capital China Fund I”	CITIC Capital China Partners, L.P. (formerly known as CITIC China Partners L.P.), an exempted limited partnership registered under the laws of Cayman Islands on 30 June 2005, a private equity fund focusing on private equity investments in China with limited partners mainly comprised of international institutional investors, and is a Controlling Shareholder of our Company
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”	China Auto System Technologies Limited (中國汽車系統技術有限公司) (formerly known as China Greenway System Technologies Limited (中國綠源系統技術有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 25 May 2010 under the Companies Law and is engaged in investment holding
“connected person”	has the meaning ascribed to it in the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it in the Listing Rules, and in this prospectus unless the context otherwise requires, refers to CITIC Capital China and CITIC Capital China Fund I
“CUAS”	China United Air Systems Limited (中國聯合空調系統有限公司) (formerly known as Fulljoy Enterprises Limited (富昕企業有限公司)), a company incorporated in the BVI on

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	8 January 2008 which is owned as to 10% by Fang Brothers, 51.43% by CITIC Capital China, 12.43% by CDH Cool and 26.14% by CDH Auto and is engaged in investment holding
“Danyang Yongyue”	Nanjing Jiangning Danyang Yongyue Casting Manufacturer (南京市江寧區丹陽勇躍鑄造廠), a company established in the PRC and is principally engaged in the manufacture and sale of aluminium casting, auto parts and power accessories
“DBS”, “Sole Global Coordinator”, “Sole Bookrunner” or “Sole Lead Manager”	DBS Asia Capital Limited, a licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Director(s)”	director(s) of our Company
“Fang Brothers”	Fang Brothers (China) Limited (肇豐(中國)有限公司) (formerly known as Fang Brothers Investments Limited (肇豐投資有限公司)), a company incorporated in Hong Kong on 18 November 1993 wholly-owned by Fang Brothers Holdings and is engaged in investment holding. Mr. Kenneth Fang and Mr. Gao Chunhe, our Directors, are directors of Fang Brothers
“Fang Brothers Holdings”	Fang Brothers Holdings Limited (肇豐集團有限公司) (formerly known as KF Enterprise Limited (凱豐企業有限公司)), a company incorporated in the BVI on 4 January 2008 which is owned as to 50% by Mr. Kenneth Fang and 50% by his family members and is engaged in investment holding. Mr. Kenneth Fang, our Director, is a director of Fang Brothers Holdings
“GDP”	gross domestic products
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Global Offering”	the Public Offering and the International Offering
“Green Application Forms”	the Application Form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of our Company at that time. For the avoidance of doubt, for the period prior to 29 December 2007, “Group”, “our Group”, “we”, “us” or “our” represents Aotecar Nanjing only

DEFINITIONS

“Hengxi Lands”	two parcels of lands located at No.11 Ningyang Street, Danyang Community, Hengxi Street, Jiangning District, Nanjing, Jiangsu Province, the PRC
“Hengxi Lease”	the lease agreement dated 25 December 2008 entered into between Aotecar Casting as lessee and Changheng Casting as lessor in respect of the Hengxi Lands and the Hengxi Leased Factory
“Hengxi Leased Factory”	one of the two factory buildings located on the Hengxi Lands that is leased by Aotecar Casting from Changheng Casting
“Hengxi Owned Factory”	one of the two factory buildings located on the Hengxi Lands that was acquired by Aotecar Casting from Changheng Casting and is owned by Aotecar Casting
“Hengxi Properties”	the Hengxi Owned Factory, the Hengxi Leased Factory and the Hengxi Workshop
“Hengxi Workshop”	workshop located on the Hengxi Lands that was built and is occupied by Aotecar Casting
“HK\$” or “HK dollar”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for Public Offering Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar of our Company
“IFRSs”	International Financial Reporting Standards

DEFINITIONS

“independent third party(ies)”	a person(s) or company(ies) who/which is or are independent of and not connected with our Company and our connected persons
“International Offering”	the conditional placing of the International Offering Shares by the International Underwriters on behalf of our Company at the Offer Price outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S as further described in “Structure and Conditions of the Global Offering” in this prospectus
“International Offering Shares”	the 225,000,000 new Shares being offered by our Company for subscription under the International Offering subject to adjustment and together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option as further described in “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriters”	the several underwriters of the International Offering
“International Underwriting Agreement”	the conditional underwriting agreement expected to be entered into on or about the Price Determination Date, between, among others, our Company, our executive Director, CITIC Capital China, DBS, CIMB and the International Underwriters in respect of the International Offering, particulars of which are set forth in “Underwriting” in this prospectus
“Joint Sponsors”	DBS and CIMB
“JPY”	Japanese yen, the lawful currency of Japan
“Latest Practicable Date”	19 November 2010, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board
“Listing Date”	the date expected to be on or about 9 December 2010, on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of the GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company (as amended from time to time)
“MOFCOM” or “MOFTEC”	The PRC Ministry of Commerce (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation (中華人民共和國對外貿易經濟合作部)
“Mr. Fang” or “Mr. Kenneth Fang”	Mr. Fang Kenneth Hung, a non-executive Director
“Mr. Qian”	Mr. Qian Yonggui, an executive Director and our chief executive officer
“NPC”	National People’s Congress of the PRC
“New EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as promulgated on 16 March 2007 and effective from 1 January 2008
“New Production Base”	our production base located at the industrial complex, Moling Street Industrial Zone, Jiangning District, Nanjing, Jiangsu Province, the PRC, and operated by Aotecar Xiangyun
“Nanjing Baiye”	Nanjing Baiye Labour Service Company Limited (南京百業勞務經紀有限公司), a company established in the PRC and is principally engaged in providing services as a labour service agent for labour service transfer and management and for labour security as well as employment training
“Nanjing Yunhai”	Nanjing Yunhai Special Metals Co., Ltd. (南京雲海特種金屬股份有限公司), a company listed on Shenzhen Stock Exchange (Stock Code: 002182), and an independent third party
“Offer Price”	the final HK dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be subscribed for and issued pursuant to the Public Offering, to be determined as

DEFINITIONS

	further described in “Structure and Conditions of the Global Offering – Pricing and allocation” of this prospectus
“Offer Shares”	the Public Offering Shares and the International Offering Shares, together with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Old Production Base”	our production base located at No. 103 Daming Road, Qinhuai District, Nanjing, Jiangsu Province, the PRC and occupied by Aotecar Nanjing
“Over-allotment Option”	the option to be granted by our Company to the Sole Global Coordinator, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Price Determination Date until 30 days after the last day for the lodging of applications under the Public Offering to require our Company to issue up to an aggregate of additional 37,500,000 Shares, representing in aggregate 15% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Offering, if any
“Ourview Consultancy”	Beijing Ourview Consultancy Company Limited (北京奧爾威諮詢有限公司), a company established in the PRC on 15 September 2004 which is an independent third party and is one of the PRC consultancy firms specialising in market research relating to automobile parts and automobile electronics products in the PRC.
“Ourview Report”	Analysis Report on Industry Development of Automobile Air-conditioning Compressor Industry in the PRC (中國汽車空調壓縮機行業發展分析報告) dated 15 July 2010 issued by Ourview Consultancy and commissioned by us
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China. Except where the context requires, geographical references in this prospectus to the PRC or China exclude Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Chen & Co. Law Firm, our legal advisers as to PRC laws
“Pre-IPO Share Options”	options granted to eligible persons under the Pre-IPO Share Option Scheme

DEFINITIONS

“Pre-IPO Share Option Scheme”	the share option scheme adopted by our Company by way of written resolutions of our Shareholders dated 20 September 2010, the principal terms of which are summarised in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in Appendix VI to this prospectus
“Price Determination Date”	the date, expected to be on or around 2 December 2010, on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than 7 December 2010
“Public Offering”	the offer of the Public Offering Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustment as described in “Structure and Conditions of the Global Offering” in this prospectus) for cash at the Offer Price, payable in full on application and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offering Shares”	the 25,000,000 new Shares offered by us for subscription under the Public Offering, representing 10% of the initial number of the Offer Shares subject to adjustment as described in “Structure and Conditions of the Global Offering” in this prospectus
“Public Offering Underwriters”	the underwriters of the Public Offering listed in “Underwriting – Underwriters – Public Offering Underwriters” in this prospectus
“Public Offering Underwriting Agreement”	the underwriting agreement dated 25 November 2010 relating to the Public Offering entered into between among others, our Company, our executive Director, CITIC Capital China, DBS, CIMB and the Public Offering Underwriters
“R&D”	research and development
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation effected in anticipation of the Listing which is more particularly described in “History, Development and Reorganisation” of this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the PRC State Administration of Foreign Exchange (中國國家外匯管理局), the PRC Government agency responsible for matters relating to foreign exchange administration

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to written resolutions passed by our Shareholders on 9 November 2010, a summary of the principal terms of which is set out in “Share Option Schemes – Summary of the terms of the Share Option Scheme” in Appendix VI to this prospectus
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Share Option Scheme
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Social Insurance”	contribution for various funds in the PRC, including pension insurance, medical insurance, unemployment insurance, occupational injuries insurance, maternity insurance
“sq.m.”	square metre(s)
“Stabilising Manager”	DBS
“Standing Committee”	Standing Committee of the NPC
“State” or “PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement to be entered into on or around the Price Determination Date between the Stabilising Manager and CITIC Capital China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Repurchases (as amended from time to time)
“Track Record Period”	the period comprising the three financial years ended 31 December 2009 and the six months ended 30 June 2010

DEFINITIONS

“Underwriters”	the Public Offering Underwriters and the International Underwriters
“Underwriting Agreements”	the Public Offering Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America, including its territories and possessions
“US Securities Act”	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$”, “USD” or “US dollars”	United States dollars, the lawful currency of the United States
“WFOE”	wholly foreign-owned enterprise established in the PRC
“Xiezhong Hong Kong”	Xiezhong Auto-Airconditioner (Hong Kong) Limited (協眾汽車空調(香港)有限公司), a company incorporated in Hong Kong on 21 May 2008 wholly-owned by Xiezhong International and is engaged in investment holding
“Xiezhong International”	Xiezhong International Holdings Limited (協眾國際控股有限公司), a company incorporated in the BVI on 14 May 2008 which is owned as to 60% by CUAS and 40% by Sunrise International Investment Management Inc. and is engaged in investment holding
“Xiezhong Nanjing”	Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. (南京協眾汽車空調集團有限公司), a company established in the PRC on 15 April 2002 wholly-owned by Xiezhong Hong Kong and is principally engaged in the manufacture and sale of automobile air-conditioning systems and accessories in the PRC

Any discrepancies in any table between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of companies and entities established in China have been included in this prospectus in English by way of translation if such Chinese entities do not have an English names as part of their legal names, and if there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese version shall prevail.

Unless expressly stated or the context requires otherwise, all data in this prospectus is as at the date of this prospectus.

DEFINITIONS

Unless the context requires otherwise, translation of US\$ into HK\$ and RMB into HK\$ is made in this prospectus for illustration purpose only, at the rates of US\$1.00 = HK\$7.78 and RMB1.00 = HK\$1.14.

No representation is made that any amount in US\$, HK\$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments whether expressed in words or in Arabic numerals. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

TECHNICAL GLOSSARY

This glossary contains certain definitions of automakers, automobile manufacturers brands and technical terms used in this prospectus in connection with our Company and our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

“Brilliance”	Huachen Automotive Group Holdings Company Limited (華晨汽車集團控股有限公司)
“BYD”	BYD Auto Co., Ltd. (比亞迪汽車有限公司) and Shenzhen BYD Auto Co., Ltd. (深圳市比亞迪汽車有限公司) or any of them
“CAAM”	China Association of Automobile Manufacturers (中國汽車工業協會)
“CCCAP”	China Certification Centre for Automotive Products
“Chang’an Automobile”	Chongqing Changan Automobile Company Limited (重慶長安汽車股份有限公司)
“Chery”	Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司)
“China FAW”	China FAW Group Corporation (中國第一汽車集團公司)
“compressor”	a mechanical device that increases the pressure of a gas by reducing its volume
“Dongfeng Motor”	Dong Feng Motor Corporation Passenger Vehicle Company (東風汽車集團股份有限公司乘用車分公司)
“DPCA”	Dongfeng Peugeot Citroen Automobile Co., Ltd. (神龍汽車有限公司)
“FAW-Haima”	FAW Haima Automobile Co., Ltd. (一汽海馬汽車有限公司)
“FAW-Tianjin”	Tianjin FAW Xiali Automobile Co., Ltd. (天津一汽夏利汽車股份有限公司)
“FIAT”	Fiat Group Automobiles S.P.A.
“Foton”	Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司)
“Geely”	Geely Automobile Holdings Limited (浙江吉利汽車有限公司)
“Hafei Auto”	Hafei Automobile Industry Group Co., Ltd. (哈飛汽車股份有限公司)
“ISO”	International Organisation for Standardisation, a worldwide federation of national standard bodies from all over the world

TECHNICAL GLOSSARY

“ISO 9001”	the international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC176) in 1987
“ISO/TS 16949”	the particular set of requirement standards for the application of ISO9001 for automotive production and relevant service part organisations
“KLM”	Xiamen Golden Dragon Bus Co., Ltd. (廈門金龍旅行車有限公司)
“KLU”	Xiamen King Long United Automotive Industry Co., Ltd. (廈門金龍聯合汽車工業有限公司)
“large-displacement vehicles”	vehicles with engine volume of 2.5 litres or more
“NAVECO”	NAVECO Ltd. (南京依維柯汽車有限公司)
“Peugeot-Citroen”	PSA Peugeot Citroën
“piston compressors (活塞式壓縮機)”	air compressors that uses a piston and inlet and outlet check valves to allow fluid through pneumatic system for compression
“platform-based design approach”	an integration oriented design approach emphasising systematic reuse, for developing complex products based upon platforms and compatible hardware and software virtual component, intended to reduce development risks, costs and time to market
“rotary vane compressors (旋葉式壓縮機)”	compressors using rotors with a number of blades inserted in radial slots in the rotors for compression
“SGMW”	SAIC GM Wuling Automobile Co., Ltd. (上汽通用五菱汽車股份有限公司)
“scroll compressors (渦旋式壓縮機)”	compressors using two interleaved spiral-like vanes for compression
“small-displacement vehicles”	vehicles with engine volume of 1.6 litres or less
“swash plate compressors (斜盤式壓縮機)”	compressors using pistons which are moved by a swash plate mounted on a shaft for compression

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

- our business goals and strategies and our various measures to implement them;
- our capital expenditure plans;
- our planned use of proceeds;
- our operations and business prospects, including development plans for our existing and new businesses;
- our ability to attract and retain customers;
- our projects under construction or planning;
- our financial condition;
- availability of bank loans and other forms of financing;
- estimates of operating costs;
- our dividend policy;
- the future growth and developments of, and competitive environment in, our industry;
- the regulatory environment for our industry in general; and
- the general economic trend and conditions.

The words “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “going forward”, “forecast”, “intend”, “may”, “ought to”, “plan”, “potential”, “project”, “seek”, “will”, “would”, “with a view to” and similar expressions and the negative of these words, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of our Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in “Risk Factors” in this prospectus, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us or our Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial condition may be materially and adversely affected and actual outcomes may differ materially from those described in this prospectus as anticipated, believed, estimated or expected.

FORWARD-LOOKING STATEMENTS

You should read thoroughly this prospectus and the documents that we refer to in this prospectus with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements (other than our profit forecast for the financial year ending 31 December 2010 set out in the “Financial Information” section of this prospectus) by these cautionary statements. Other sections of this prospectus include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that most of our business is located in the PRC and we are governed by a legal and regulatory environment which may in some respects differ from that prevails in other jurisdictions. Our business, financial condition and operating results may be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We rely on certain major customers for a significant portion of our revenue.

During the Track Record Period, we derived a significant portion of our revenue from a few major customers. For the three years ended 31 December 2009 and the six months ended 30 June 2010, sales to the largest customer of our Group represented 18.5%, 17.4%, 17.7% and 14.8%, respectively of our total revenue, and sales to the five largest customers of our Group, in aggregate, accounted for 50.0%, 47.1%, 49.0% and 47.2%, respectively of our total revenue. We cannot assure you that we will be able to maintain or improve our relationships with these customers and they may terminate their respective relationships with us at any time.

We generally enter into framework agreements with our major customers. While our major customers provide non-binding estimates of purchase quantities at the beginning of each year, purchase orders with prices and quantities are placed on a regular basis. As a result, we cannot benefit from long-term sales orders for our products which would otherwise be provided under long-term contracts. In circumstances where any of our customers, particularly our key customers, have materially reduced, revised, delayed or cancelled their orders with us or terminated their business relationships with us, we might not be able to obtain replacement orders on similar terms in a timely manner from other customers. The occurrence of any of the foregoing events would materially and adversely affect our business and revenue.

We may be subject to requests from customers to reduce prices from time to time which may affect our ability to maintain steady gross profit margins.

During the Track Record Period, the average selling prices of our air-conditioning compressors were RMB471.3, RMB415.1, RMB389.3 and RMB381.0 per set respectively. The average selling prices of our products decreased by 11.9%, 6.2% and 2.1% for the two years ended 31 December 2009 and six months ended 30 June 2010 respectively. The decrease was mainly attributable to requests from customers to reduce prices from time to time since we operate in a competitive industry and due to the effect from economics of scale and effective cost control where we were able to offer our products at a lower price to maintain our market competitiveness. Despite the decrease in average selling price, we were able to maintain steady gross profit margins at 26.6%, 25.2%, 26.6% and 26.1% respectively during the Track Record Period. However, we may be subject to further requests from customers to reduce prices in future and may have to further accommodate their requests. Under such circumstances, if we are unable to maintain a proportionate increase in sales volume and/or scale of operations, we might not be able to maintain steady gross profit margins and our business and revenue may be adversely affected.

RISK FACTORS

We may face increases in the prices of raw materials, parts and components.

We manufacture automobile air-conditioning compressors by processing and assembling various parts and components. Most of the parts we use in our production are made from aluminium. We also source aluminium ingots directly to produce certain parts which we consider to be core in our production process namely brake discs, static plates, front end covers and cases. During the Track Record Period, the cost of raw materials, parts and components accounted for 89.0%, 89.1%, 89.8% and 89.8% of the total cost of sales of our Group, respectively. The prices of our supplies are usually determined monthly according to prevailing market conditions and are therefore subject to fluctuations as a result of various factors such as fluctuations in commodity prices.

The average price of our major raw material, aluminium parts and components, was RMB77.7, RMB74.1, RMB65.0 and RMB68.5 per set (which includes brake discs, static plates, front end covers and cases) respectively during the Track Record Period. Other major raw materials we need for our production include clutches and crankshafts. In relation to clutches, the average price was RMB79.0, RMB75.2, RMB74.8 and RMB72.8 per set respectively during the Track Record Period, while the average price of crankshafts was RMB13.1, RMB12.8, RMB12.2 and RMB11.9 per set respectively during the Track Record Period.

We also source aluminium ingots for use by Aotecar Casting following its incorporation on 4 December 2008 and the average price of aluminium for the year ended 31 December 2009 and for the six months ended 30 June 2010 was RMB13.4 and RMB15.1 per kilogram respectively. During the Track Record Period, we recorded a stable gross profit margin of 26.6%, 25.2%, 26.6% and 26.1% respectively. There is no assurance that the prices of our raw materials, parts and components will not fluctuate materially in the future. In the event that the prices of our supplies significantly increase and we are not able to cover such increases by reductions in other production costs or pass such costs to our customers, our profitability, financial condition and results of operations could be adversely affected.

We may face simultaneous increases in the prices of raw materials, parts and components and requests from customers for price reductions.

There is no assurance that the prices of our raw materials, parts and components will not fluctuate materially and our customers will not ask for prices adjustment in the future. In the event that the prices of our supplies significantly increase and we are at the same time face with requests from customers for price reductions, we may not be able to pass such increases in raw material costs to our customers. If we are not able to cover such increases by reduction in other production costs or if we are unable to maintain a proportionate increase in sales volume and/or scale of productions, we might not be able to maintain steady gross profit margins and our profitability, financial condition and results of operations could be adversely affected.

We may lack adequate production capacity to meet market demand for our products.

Utilisation rates of production facilities for compressor production by our Group during the Track Record Period was 88.8%, 88.3%, 103.0% and 101.7%, respectively for our Old Production Base and 92.9% and 100.5% for our New Production Base respectively for the year ended 31 December 2009 and for the six months ended 30 June 2010. For further details of our utilisation

RISK FACTORS

rates, please refer to “Business – Production facilities and production capacity” in this prospectus. In anticipation of our business expansion, we plan to increase our production capacity to meet further market demand and will allocate a significant portion of the net proceeds from the Global Offering to this end. Our expansion plan is subject to a number of financial, operational and market risks that could significantly alter our ability to meet our expansion goals, cause delay in implementation of the expansion plan or lead to an increase in expansion costs. These risks include the inability to procure, or delays in procuring, production equipment, the inability to recruit or retain suitable talented personnel, increased costs due to compliance with environmental or other regulations, delays in obtaining or the inability to obtain government approvals, increases in financing costs or the inability to raise requisite funds, economic downturns and increased competition. We cannot assure you that we will be able to successfully implement our expansion plan and effectively and fully satisfy increasing demand for our products. To the extent that our production capacities fail to meet our current and additional future production demands, we may lose business and thus jeopardise our reputation, financial results and our growth prospects.

We may not be able to sustain historical financial performance and growth.

We experienced substantial growth in revenue during the Track Record Period, and our profit fluctuated during the same period. During the Track Record Period, the total revenue of our Group was RMB308.8 million, RMB378.4 million, RMB797.0 million and RMB642.6 million, respectively. We attribute such rapid growth to the successful implementation of our business plans in the past. However, the changes in our revenue and profit during the Track Record Period may not be indicative of our future performance.

As disclosed under “Business – Business strategies” in this prospectus, we plan to adopt a number of strategies, including expansion of market share and production capacity, optimisation of production process and enhancement of R&D to strengthen our leading position in the PRC scroll automobile air-conditioning compressor industry. The successful implementation of our business plans depends on a number of factors which may or may not be within our control, including but not limited to whether the automobile industry, particularly in the PRC, will continue to grow at a pace anticipated by our Directors, whether we will be able to timely and effectively capture the opportunities associated with such growth, the level of competition arising from other automobile air-conditioning compressor manufacturers, our ability to manage our business growth strategically and cost-effectively, our ability to cope with any increase in product demands, our ability to enhance our R&D capabilities and the availability of funds to finance our strategic plans. There is no assurance that we can successfully manage any of these factors. If we fail to implement our business plans, our business prospects, financial conditions and results of operations may be adversely affected.

We may not be able to attract and retain members of our senior management team and other key personnel.

Our management team has extensive experience in and in-depth market knowledge of the PRC automobile air-conditioning compressor industry. Our future performance and success depends to a significant extent on our ability to attract, retain and motivate our senior management team and other key personnel, such as Mr. Qian, our chief executive officer and executive Director

RISK FACTORS

and Mr. Yi Fengshou, Mr. Zhao Chengzhou, Mr. Liu Shantong and Mr. Yu Heyuan of our senior management. They have over ten years' experience working with companies within the Group and had joined us upon the establishment of our first operating subsidiary, Aotecar Nanjing, in 2000. Further information on our Directors and senior management is set forth in "Directors, Senior Management and Employees" in this prospectus. There is no assurance that we will be able to retain members of our senior management team and other key personnel or recruit additional competent personnel for our future development. Moreover, we do not maintain insurance for the loss of any key personnel. Any loss of key personnel without immediate and adequate replacement may limit our competitiveness, affect our production processes, reduce our manufacturing quality or cause customer dissatisfaction, any of which would adversely affect our financial condition, results of operations and growth prospects.

The interests of our Controlling Shareholders may be different from those of our other Shareholders.

Immediately following the Global Offering and the Capitalisation Issue, our Controlling Shareholders will beneficially own 36.64% of our issued share capital, assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the exercise of the Pre-IPO Share Options and any options which may be granted under the Share Option Scheme.

As our Controlling Shareholders are professional private equity investors, they will concentrate on their own economic return when considering any policy decisions in respect of our Group, including overall strategic and investment decisions, dividend plans, issuances of securities, adjustments of capital structure and acquisition or disposal of assets and can affect our decision and exert influence over our business through its voting rights. The interest of our Controlling Shareholders may differ from the interest of our other Shareholders. Subject to the applicable laws and regulations, we cannot assure you that our Controlling Shareholders will not dispose of its Shares should there be any change of its own investment plan, cause us to enter into transactions, or take, or refrain from taking, other actions or make any decisions that may conflict with the interests of our other Shareholders.

We may fail to pass the approval process for new products or maintain existing approvals of our customers.

Before embarking on the sale of new products or sales to new customers, we must first go through customer approval processes and become an approved supplier of a particular automobile manufacturer. One of our business strategies is to strengthen our sales in the PRC domestic market and expand into the international market. We cannot assure you that we will always succeed in obtaining approvals for new products from our customers, obtaining approval from new customers or remain as a qualified supplier of our existing products. During the Track Record Period, we have no record of failing to pass an existing customer's approval process for a new product or failing to maintain existing customer approvals due to our product quality. If we fail to become an approved supplier to potential customers as originally planned or fail to remain as a qualified supplier for our customers, our results of operations and our business plans and prospects may be adversely affected.

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Our entry into international markets may expose us to certain risks.

Our plan to expand our business to the global market and increase our sales to international automobile brands may expose us to certain risks including among others:

- changes in foreign laws and regulations that may limit sales of certain products or repatriation of profits;
- exposure to currency fluctuations;
- potential imposition of trade or foreign exchange restrictions or increased tariffs;
- potential liability claims; and
- difficulty in collecting international accounts receivable.

We may not be able to obtain sufficient capital in a timely manner and/or on acceptable terms for implementation of our business strategies.

The automobile air-conditioning compressor industry is capital intensive and requires significant expenditure on machinery acquisitions, utilities and supporting infrastructure, as well as significant working capital in order to manage our planned increase in production capacity. From time to time, our business plans may change due to changing circumstances, new business developments, investment opportunities or unforeseen circumstances. If we require additional funds and cannot obtain funding when required under commercially acceptable terms, we may not be able to fully fund the capital expenditures necessary to improve or purchase additional facilities and equipment, which could impede the implementation of our business strategies or prevent us from entering into transactions that would benefit our business, which may in turn materially and adversely affect our financial condition, results of operations and business prospects. In addition, if we raise additional funding we will incur debt, our interest and debt repayment obligations will increase and we may be subject to additional restrictive covenants which could limit our ability to take certain steps, such as obtaining other financing and our ability to use excess cash from operations.

We may face potential product liability claims or suffer losses due to product recall.

Our business nature exposes us to the risk of product liability claims that is inherent in the R&D, manufacturing and marketing of our automobile air-conditioning compressors. As a developer and manufacturer of automobile air-conditioning compressors, we may be subject to product liability claims due to product defects. A substantial claim or a substantial number of claims relating to our products could have a material and adverse impact on our business, financial condition and results of operations. During the Track Record Period, the provision of our Group for product warranties amounted to RMB10.9 million, RMB13.1 million, RMB27.2 million and RMB20.2 million, respectively. The amount of provisions utilised during the Track Record Period amounted to RMB10.7 million, RMB12.7 million, RMB13.9 million and RMB6.2 million, respectively. In line with general industry practice, we have not obtained insurance coverage for product liability or implemented any other protection scheme. If our products prove to be defective and result in losses

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to our customers, we may be liable to product liability claims under the law of the PRC or other jurisdictions in which our products are sold. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and businesses and result in negative publicity. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount of damages. Though we may be able to recover part of the damages by claims against our suppliers when a product defect is attributable to materials or parts supplied by our suppliers, there is no guarantee of any recovery.

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

A subsidiary of our Group had once conducted business prior to obtaining a production licence.

One subsidiary of our Group, Aotecar Xiangyun, once conducted production business prior to the obtaining of the production licence, it may be subject to administrative penalties including confiscation of products so produced and the resultant income gained, and fines of an amount equivalent to three times of the value of the products so produced and the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局) may impose a fine on the past non-compliance. In the event that the administrative penalties were imposed on the Group in any particular financial year, the Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us. However, on the basis that (i) Aotecar Xiangyun has properly rectified its non-compliance by obtaining a valid production licence on 2 July 2010, (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 12 October 2010 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with production licence and administration of product quality, and Aotecar Xiangyun's products are in line with the relevant national quality standards, and (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the said production licence, our PRC Legal Advisers consider the risk of Aotecar Xiangyun being sanctioned due to the above historical non-compliance to be low. Please refer to "Regulatory Overview – Production licence of industrial products and implementation procedures" and "Business – Production licence" of this prospectus for further details.

Changes in interest rates may affect our financing costs.

The interest expenses of our Group related to bank loans and other indebtedness during the Track Record Period were RMB4.1 million, RMB5.1 million, RMB6.6 million and RMB6.2 million, respectively. Most of our borrowings are in the form of interest-bearing short-term loans. Our financing costs and, as a result, our results of operations, are affected by changes in interest rates as most of the loans are short-term in nature. Bank interest rates may increase at the time we renew our bank loans or if and when we seek additional financing when existing loans mature. Any future

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increase in interest rates may materially and adversely affect our business, financial condition and results of operations.

We had net current liabilities as at 31 December 2007, 2008, 2009 and 30 June 2010.

The net current liabilities of our Group were RMB133.8 million, RMB102.4 million, RMB107.5 million and RMB79.3 million as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively. The net current liabilities of the Group were mainly due to short term bank borrowings and amount payable to CUAS and Mr. Qian, being related parties of the Group, majority of which were due to the acquisition of Aotecar Nanjing by the Group from Fang Brothers in December 2007. Further discussion on our net current assets/liabilities during the Track Record Period are set out in “Financial Information – Net current assets/(liabilities)” in this prospectus.

As at the Latest Practicable Date, we had not experienced any liquidity issues in the ordinary course of business. However, there can be no assurance that we will always be able to raise the necessary funds by borrowing from financial institutions to finance our business, operations and capital expenditure. In the event that the financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on reasonable terms, our business and financial position will be adversely affected.

We rely on certain major suppliers.

We rely on a limited group of suppliers for the raw materials, parts and components we use for our production. In particular, we currently source aluminium ingots from a single domestic supplier, namely Nanjing Yunhai. Purchases from the five largest suppliers of our Group accounted for 46.8%, 45.4%, 41.5% and 41.6%, respectively, of our total purchases and purchases from the largest supplier of our Group accounted for 13.9%, 13.1%, 12.7% and 11.6%, respectively of our total purchases, during the Track Record Period. None of our Directors or their associates, or any Shareholders who own more than 5% of our issued share capital, had, to the best of our Directors’ knowledge, any interest in any of our five largest suppliers during the Track Record Period. Should any of our major suppliers cease to supply to us any raw materials, parts or components and suitable replacement cannot be secured on a timely basis, our business may be adversely affected.

We rely on a stable supply of labour at reasonable cost.

Our production, to a certain extent, relies on a stable supply of labour. During the Track Record Period, the direct staff costs of our Group in relation to production (excluding Directors’ remuneration) were RMB11.1 million, RMB14.4 million, RMB31.4 million and RMB26.8 million, respectively.

During the Track Record Period, we had not experienced any labour shortage, strike or dispute, however, there is no guarantee that our supply of labour and average labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to cope with a sudden increase in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operations and prospects would be materially adversely affected. Moreover, if there is a significant increase in our

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labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

We have limited insurance coverage.

No assurance can be given that our insurance coverage is sufficient or that we will not experience any material increase in insurance premium in the future. To the extent that we incur losses that are not covered by our insurance policies or that we are forced to pay higher insurance premium, our financial position may be adversely affected.

We do not maintain any insurance coverage for our operation risks. We maintain a large production operation at our production facilities in the PRC. We have a wide range of manufacturing activities and could in the future experience fires, electricity blackouts or other industrial accidents at our production bases which may result in a suspension of our operations. As we are not insured against operation risks, any of the foregoing events could have a material adverse effect on our financial condition and the results of our operations.

We may be subject to penalties under relevant PRC laws and regulations due to failure to make full Social Insurance and housing provident fund contributions for our employees.

As PRC entities, our subsidiaries are required by PRC laws and regulations to make contributions, by way of staff benefits, to a housing provident fund and various Social Insurance funds, including pension, medical, unemployment, occupational and maternity insurance. As we had adopted an amount less than the average monthly salary received by each employee in the preceding year as the basis for calculation, Aotecar Nanjing and Aotecar Casting have contributed less than what is required under PRC laws and regulations. Further, since many employees of Aotecar Casting are migrant workers from rural areas or other cities other than Nanjing, they are unwilling to participate in Social Insurance and housing provident fund schemes, Aotecar Casting has only made Social Insurance and housing provident funds contributions for some of its employees. Aotecar Casting did not make contributions to housing provident funds for its staff before June 2010.

Due to the shortfall, our PRC Legal Advisers have advised that, whilst no fine is payable with respect to the unpaid contributions of the housing provident fund after Aotecar Nanjing and Aotecar Casting opened the housing provident fund accounts with the competent authorities, the maximum fine/penalty that may be imposed on our Group for the non-compliance with Social Insurance regulations is three times of the amount equivalent to the salary amount not reported to the relevant Social Insurance authorities. We may be required by the relevant authorities to contribute all the unpaid amounts in the prescribed period. A daily overdue fine calculated at 0.2% of any unpaid Social Insurance contributions will be imposed if we failed to contribute in such prescribed period. In the event that the administrative penalties were imposed on our Group in any particular financial year, our Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us.

Aotecar Nanjing had obtained a written confirmation from the Social Insurance Collection and Payment Administration Centre of Nanjing (南京市社會保險徵繳管理中心), the competent Social Insurance authority, on 12 October 2010, which confirmed that Aotecar Nanjing had duly contributed

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Social Insurance for its employees since its incorporation and Aotecar Nanjing had no record of overdue contributions. Aotecar Nanjing further obtained a written confirmation from the Provincial Institutions Housing Provident Fund Administration Centre of Jiangsu Province (江蘇省省級機關住房資金管理中心) on 13 October 2010, which confirmed that Aotecar Nanjing had duly contributed housing provident fund without any record of being sanctioned for any overdue contribution or non-compliance and there is no record of overdue contribution of Aotecar Nanjing.

Similarly, Aotecar Casting had obtained a written confirmation from the Social and Labour Insurance Administration of Nanjing City Jiangning District (南京市江寧區社會勞動保險所) on 13 August 2010, which confirmed that Aotecar Casting had duly contributed Social Insurance for its employees since its incorporation without any record of being sanctioned for any non-compliance and the basis and percentage of Social Insurance contribution complied with the requirements of the PRC law. Aotecar Casting further obtained a written confirmation from the Housing Provident Fund Administration Centre of Nanjing (南京住房公積金管理中心), the competent housing provident fund authority, on 14 September 2010, which confirmed that Aotecar Casting had promptly and duly contributed housing provident fund for its employees without any non-compliance with laws, regulations or local rules related to housing provident fund. Our PRC Legal Advisers confirmed that the aforementioned are competent Social Insurance and housing provident fund authorities. On the basis of the above, our PRC Legal Advisers are of the view that the risk of the companies being required to contribute the unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the above advice from our PRC Legal Advisers, the Directors consider that the financial impact to the Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendices IA and IB to this prospectus. As advised by the PRC Legal Advisers, according to the general practice in Nanjing, the contribution basis can only be adjusted in July every year. Aotecar Nanjing will adjust the amount of contribution basis to the required level in July 2011. For further details as to our employees, please refer to “Business – Employees – Social Insurance and housing provident fund contributions” in this prospectus.

We are subject to potential changes or discontinuation of the preferential tax treatments in the PRC currently available to us.

Our major operating subsidiary, Aotecar Nanjing, enjoyed preferential enterprise income tax rates which were lower than the standard tax rate during the Track Record Period as approved by the relevant tax authorities in the PRC. As an approved foreign invested enterprise, Aotecar Nanjing was exempted from enterprise income tax for its first two profit-making years (after deducting losses incurred in previous years) and entitled to a 50% tax reduction for the three succeeding years. The first profit-making year of Aotecar Nanjing was 2004, therefore, Aotecar Nanjing enjoyed a 50% tax reduction for the three years ended 31 December 2006, 2007 and 2008. Aotecar Nanjing was accredited as a “High and New Technology Enterprise” (高新技術企業) in October 2008 for a term of three years according to the “Administrative Measures on Recognition of High and New Technology Enterprise” (高新技術企業認定管理辦法) (announced by Ministry of Technology, Ministry of Finance and State Administration of Taxation on 14 April 2008, effective as at 1 January 2008), and was therefore further registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate.

Changes to the preferential tax treatment mean that comparisons between our past post-tax financial results may not be meaningful and should not be relied upon as indicators of our future performance. Our qualification as a “High and New Technology Enterprise” (高新技術企業) will be

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subject to annual evaluation and a three-year review by the relevant government authorities in China. There can be no assurance that Aotecar Nanjing will continue to be a “High and New Technology Enterprise” after the current term or the current favourable tax policies available to us will not be withdrawn or revoked by the PRC government or become less favourable. If the current preferential tax treatments are reduced or are no longer available in the future, our results of operations in the future may be adversely affected.

There are uncertainties under the New EIT Law.

Under the New EIT Law and its implementation rules, which became effective on 1 January 2008, the China-sourced income of foreign enterprises, where for example dividends are paid by a PRC subsidiary to its overseas parent, are subject to a withholding tax at a rate of 10%. Pursuant to the “Arrangement between the PRC and the Hong Kong Special Administrative Region on the avoidance of Double Taxation and Prevention of Fiscal Evasion,” (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) effective on 1 January 2007, the rate is 5% if a Hong Kong resident enterprise beneficially owns over 25% of the capital of the PRC company. However, according to the “Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties” (關於印發《非居民享受稅收協定待遇管理辦法（試行）》的通知), which became effective on 1 October 2009, approvals from competent local tax authorities are required for the reduced 5% withholding tax rate to be applied. “The Notice of the State Administration of Taxation on How to Understand and Determine the “Beneficial Owners” in Tax Treaties” (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知) issued in October 2009 provides the guidelines for determining the eligibility for the tax treaty benefit and excludes a tax agent or a conduit company established for the purpose of tax avoidance from being eligible for the tax treaty benefit. Aotecar Hong Kong, which is a Hong Kong company and wholly owns Aotecar Xiangyun and Aotecar Nanjing, has not applied for the reduced withholding tax rate on dividends. We cannot assure you that Aotecar Hong Kong will receive approval for this tax treaty benefit.

Under the New EIT Law, our Company and non-PRC subsidiaries may be classified as a “resident enterprise” of the PRC. Under the New EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implemented rules of the New EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. It is unclear how the PRC tax authorities will determine whether an enterprise should be classified as a “resident enterprise”. If the PRC tax authorities determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest earned on offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands.

In addition to the above uncertainties, there can be no assurance that the PRC Government will not amend or revise taxation laws, rules and regulations to impose stricter tax requirements or higher tax rates, or apply the New EIT Law or any subsequent changes in PRC taxation laws, rules or regulations retrospectively. If these changes occur and/or if such changes are applied retrospectively, they might materially affect our results of operations and financial condition.

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Our business is subject to operational risks.

Our operating results are dependent on the continued operation of our production facilities. Our operations are subject to hazards inherent to manufacturing industries including but not limited to fires, unexpected wear and tear or degradation, mechanical failure or misuse and power outage, unscheduled downtimes, performance below expected levels of output or efficiency, transportation interruptions, other industrial accidents, other environmental risks and terrorist acts.

During the Track Record Period, we had not experienced any material operational problems at our production facilities, however, any future occurrence of material operational problems at our facilities may materially reduce our productivity and profitability during and after the period of such operational difficulties. Some of the hazards may interrupt our operations, may cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage and may result in legal and regulatory liabilities and the imposition of civil or criminal penalties. Furthermore, we may be subject to claims with respect to workplace, workers' compensation and other matters. Consequently, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We may fail to adequately protect our proprietary technology, product designs and technical know-how.

Our principal intellectual property rights cover our proprietary technology, product designs and technical know-how and we have patents, trademarks and copyright. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that third parties will not copy or otherwise obtain and use our intellectual property without authorisation.

We have obtained patents for certain aspects of our proprietary technology and registered certain aspects of our trademarks as referred to "Further information about the business – Our intellectual property rights" in Appendix VI to this prospectus. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringement or keep us away from any challenge by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. In the event that our intellectual property rights cannot be enforced as against an infringement by our competitors or other third parties, our business, marketing plan and profitability could be adversely affected.

Registration of our Group's logo as a trademark is pending approval.

As at the Latest Practicable Date, we are in the process of registering the current "GT" logo of our Group in Hong Kong. For details of the pending trademark application, please see the table set forth in "Further information about the business – Our intellectual property rights – Trademarks" in Appendix VI to this prospectus.

As mentioned above, our Group's brand names and intellectual property rights are important assets of our Group. As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights, and we believe that we have taken all reasonable measures to prevent any infringement of any third-party intellectual property rights in relation to the use of the Company's logo.

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There is no assurance, however, that we will not receive an objection to the pending trademark application. Any claim in relation to the use of the logo by our Group in the future, regardless of its merits, may give rise to increased trademark prosecution and potential litigation costs.

We do not have valid titles or rights to use certain properties occupied by us.

Any dispute or claim in relation to the title to the properties occupied by us, including any litigation involving allegations of illegal or unauthorised use of these properties, may result in us having to relocate our business operations and may materially and adversely affect our operations, financial condition, reputation and future growth. In addition, there can be no assurance that the PRC Government will not amend or revise existing property laws, rules or regulations to require additional approvals, licences or permits, or to impose stricter requirements on the title certificates to be obtained or maintained for the properties occupied by our Group.

As at the Latest Practicable Date, we did not have valid building ownership certificates for 15,020.9 sq.m. in our Old Production Base and 24,921.1 sq.m. in our New Production Base. Also, our lessor did not have valid land use right certificates for the Hengxi Lands (with an aggregate site area of 6,832.0 sq.m.) on which the Hengxi Owned Factory, Hengxi Leased Factory and Hengxi Workshop are located.

Lands and Properties

Aotecar Nanjing

Aotecar Nanjing occupied the Old Production Base with a site area of 27,707.5 sq.m., on which various workshops, offices, warehouses and ancillary facilities were built with a total gross floor area of 21,279.1 sq.m..

While Aotecar Nanjing obtained the valid land use rights certificate for the entire site area, it only obtained building ownership certificates for certain building structures on the land with a total gross floor area of 6,258.3 sq.m. but failed to obtain the said building ownership certificates for the remaining building structures with a total gross floor area of 15,020.9 sq.m. (“**Non-Permitted Old Production Buildings**”) due to failure to obtain relevant construction project planning permits (建設工程規劃許可證) and construction licences (建築工程施工許可證) prior to the construction for the Non-permitted Old Production Buildings. Amongst the Non-Permitted Old Production Buildings, 3,224.0 sq.m. is used as offices and staff canteen, 4,465.5 sq.m. is used as production workshops, 3,742.5 sq.m. is used as warehouses and 592.9 sq.m. is for miscellaneous purposes including building an environment simulation lab with a gross floor area of 400.9 sq.m. and a boiler and pump room with a gross floor area of 192.0 sq.m.. The remaining portion (2,996.0 sq.m.) (“**Leased Portion**”) is leased to an independent third party (“**Lessee**”).

In respect of the Non-Permitted Old Production Buildings:-

- (i) in May 2007, the Nanjing Planning Bureau (南京規劃局) issued a construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 7,000.0 sq.m. were ordered to be suspended (this structure now includes the Leased Portion occupied by the Lessee as well as the building used by Aotecar Nanjing as offices and staff canteen);

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- (ii) in June 2007, the Nanjing Planning Bureau issued another construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 1,000.0 sq.m. were ordered to be suspended (this structure is now being used by Aotecar Nanjing as warehouse);
- (iii) in August 2007, the Nanjing Planning Bureau issued a demolition order against Aotecar Nanjing to demolish a structure having a total gross floor area of 900.0 sq.m. (this structure is now being used by Aotecar Nanjing as warehouse); and
- (iv) in March 2010, the Nanjing Planning Bureau imposed an administrative fine of RMB36,000.0 against Aotecar Nanjing for an unlawful warehouse structure (this structure is now being used by Aotecar Nanjing as workshop with an actual gross area of 1,339 sq.m.), and to require an unconditional demolition of that structure in future if it would be so required for the purpose of town planning. When the Nanjing Planning Bureau imposed the said administrative fine, the Nanjing Planning Bureau had acknowledged and taken into consideration the special and factual circumstances of the matter and decided not to impose the maximum administrative fine of up to 10% of the construction costs of the relevant unlawful structure, and had agreed that the unlawful structure be demolished only when such demolition would become necessary for town planning purposes.

Save for the administrative fine of RMB36,000.0 which Aotecar Nanjing settled in March 2010, up to the Latest Practicable Date, the abovementioned construction suspension notices and demolition orders had not yet been enforced by Nanjing Planning Bureau.

As advised by our PRC Legal Advisers, for those portion of the Non-Permitted Old Production Buildings that have not yet been subject to any administrative fine, there are legal risks that the responsible planning authorities may order demolition of the Non-Permitted Old Production within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB1,183,200.

In respect of our lease with the Lessee for the Leased Portion, since the lease relates to a property which has not duly obtained the relevant construction permits and certificates, including the building ownership certificates, according to our PRC Legal Advisers, the Leased Portion should not have been rented to any third party and the lease may be held as invalid and unenforceable, and Aotecar Nanjing may be subject to an administrative penalty of from RMB500.0 to RMB2,000.0 and may be required to rectify the non-compliance.

Aotecar Xiangyun

Aotecar Xiangyun owned the New Production Base with a site area of 82,843.8 sq.m. (“**Jiangning Land**”). It has constructed various buildings and structures on the Jiangning Land which comprises a workshop, dormitory and staff canteen, power house and ancillary facilities with a total gross floor area of 28,675.6 sq.m. (“**Jiangning Buildings**”), out of which a total gross floor area of 24,921.1 sq.m. of Jiangning Buildings (“**Jiangning Defective Buildings**”) were constructed before Aotecar Xiangyun obtained the relevant construction project planning permit (建設工程規劃許可證) and construction licence (建築工程施工許可證). As such, there were legal risks that

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the relevant governmental authorities may order demolition of Jiangning Defective Buildings within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB3,475,900. Aotecar Xiangyun had subsequently obtained the construction project planning permits (建設工程規劃許可證) for Jiangning Defective Buildings on 14 July 2010 and 16 September 2010. In addition, Aotecar Xiangyun had obtained the construction licences (建築工程施工許可證) for all buildings on 28 October 2010 and 18 November 2010. It shall arrange for the application for building ownership certificate(s) by the end of November 2010, which is expected to be obtained by the end of 2010. As advised by our PRC Legal Advisers, since Aotecar Xiangyun has already obtained the land use rights certificate, the construction project planning permits (建設工程規劃許可證) and the construction licences (建築工程施工許可證), there should not be any legal impediment for Aotecar Xiangyun to obtain the building ownership certificate(s) subject to the submission of all the necessary documents in compliance with the required procedures as required under the PRC laws. As such, our Directors are of the view that such would not have material financial and operational impact on our Group.

Aotecar Casting

Aotecar Casting leased the Hengxi Lands from Chengheng Casting with site areas of 4,840.0 sq.m. and 1,992.0 sq.m., respectively pursuant to the Hengxi Lease. As advised by our PRC Legal Advisers, the Hengxi Lands are collective construction lands. Before Changheng Casting leased the Hengxi Lands to Aotecar Casting, the consent of the collective construction land owners should have been obtained and the relevant certification procedures of collective construction lands should have been completed. Since these legal requirements have not been fulfilled, the Hengxi Lease may become void and the rights of Aotecar Casting in Hengxi Leased Factory may not be protected by law.

In relation to the Hengxi Owned Factory, since Changheng Casting had not obtained the relevant land use right certificate and the building ownership certificate at the time when it transferred the Hengxi Owned Factory to Aotecar Casting, the PRC Legal Advisers advised that the said transfer had not been duly registered in accordance with PRC laws; therefore Aotecar Casting is not entitled to the immovable property right in the Hengxi Owned Factory.

As to the Hengxi Workshop, since the relevant construction permits and certificates were not obtained before the construction of Hengxi Workshop commenced, there is the risk that the relevant governmental authorities may order demolition of the Hengxi Workshop within a prescribed time and confiscate any realty or unlawful gain from parts which cannot be demolished, and may impose a fine of equivalent to not more than 10% of the construction costs, which is RMB161,600. Please refer to “Business – Properties” and “Appendix IV – Property Valuation” in this prospectus for further information on the lands and properties.

Leased Properties

Aotecar Xiangyun

Aotecar Xiangyun have leased a total of 450.0 sq.m. staff quarters from a landlord who could not provide the relevant building title document for review. As such, our PRC Legal Advisers

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advised that the lease for the relevant leased quarters may be invalid and unenforceable under the PRC law. However, Aotecar Xiangyun as lessee would not be liable for any civil or criminal responsibilities or any administrative penalty. Nevertheless, the lease has not been registered at the relevant authority and the PRC Legal Advisers advised that Aotecar Xiangyun may be liable for a fine of RMB100.0 to RMB1,000.0 for the non-registration though the non-registration would not affect the validity of the lease.

Moreover, our Directors consider that the lease of Aotecar Xiangyun is only short-term for staff quarters and any early termination would not materially affect the finance and operations of the Group.

Please refer to “Appendix IV – Property Valuation” in this prospectus for further information on the leased properties.

We are exposed to environmental liabilities

The Environmental Impact Appraisal Law (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the NPC on 28 October 2002 which became effective on 1 September 2003 and the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council and effective as of 29 November 1998, require companies planning construction projects to provide assessment reports on the environmental impact of such projects prior to construction and to apply for approval from the local environmental protection bureau and such companies are also required to apply from the local environmental protection authority for verification of the corresponding environmental protection facilities of the construction projects when such construction projects are completed.

Aotecar Casting finished the construction project without conducting any environmental impact assessment prior to construction and without applying for approval from the local environmental protection bureau. Our PRC Legal Advisers advised that the relevant environmental authority may impose a fine from RMB50,000.0 to RMB200,000.0 on Aotecar Casting if it fails to prepare an environmental impact assessment and to rectify such within a prescribed period required by the relevant environmental authority and Aotecar Casting may be required to complete the rectification on environmental protection facilities within a prescribed period, failing which, Aotecar Casting may be subject to a suspension order and a fine of not more than RMB50,000.0 for not having applied for verification of environmental protection facilities. In order to mitigate the financial risk of a suspension order being imposed, on 16 July 2010 and 25 August 2010, Aotecar Nanjing entered into two memoranda of understanding with two of its existing suppliers, namely Danyang Yongyue and Nanjing Yunhai, which are independent third parties, which provide that, in the event that Aotecar Casting is required to suspend operations or is required to vacate the Hengxi Properties, such suppliers would be willing to be contracted to Aotecar Nanjing to produce the products that are currently produced at the Hengxi Properties. The products to be supplied by Danyang Yongyue and Nanjing Yunhai will be at prevailing market prices at the relevant times.

As at the Latest Practicable Date, neither Aotecar Casting nor any members of our Group had been subject to any fines or suspension order in relation to any breach of environmental laws or regulations. However, the Group will be held liable should any relevant environmental authority take any action against the Group. Furthermore, environmental laws and regulations may become more

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onerous in the future. Stricter interpretations of existing laws may occur leading to enforcement in the PRC. The Group's financial position may be materially and adversely affected if the Group is penalised for violations of environmental laws and regulations as a result of the above-mentioned in the future. For further details of our environmental matters, please refer to "Business – Safety and environmental matters" in this prospectus.

RISKS RELATING TO OUR INDUSTRY

We operate in a competitive industry and face intense competition from our competitors.

We are operating in a competitive industry facing competition from domestic and foreign competitors. There is no assurance that we will be able to fend off all such competition. On the other hand, developing product recognition overseas is expensive and time-consuming and our expansion efforts may be more costly and less profitable than we expect. To the extent that our competitors, whether domestic and foreign, may gain a competitive advantage in terms of pricing, product quality, brand name recognition and financial and technical resources, the market share and profitability of our Group may be adversely affected due to the challenges posed by these competitors. We will focus on our own distinctive production processes to reduce our production cost. Our ability to compete depends on our ability to offer sufficient quantities of high quality products that are suitable for our customers at a more competitive price than that of domestic and foreign competitors. In addition, our competitiveness depends on our ability to maintain our track record of timely deliveries and superior customer service. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

The automobile air-conditioning compressor industry is characterised by a decreasing trend of average selling price.

The average selling price for the automobile air-conditioning compressor market in the PRC has shown a gradually decreasing trend. The average selling prices for our automobile air-conditioning compressors decreased from RMB471.3 per set in 2007 to RMB389.3 per set in 2009 and to RMB381.0 per set for the six months ended 30 June 2010. The reduction in average selling price is on the one hand due to the demands from automobile manufacturers for price reduction to their auto part suppliers including automobile air-conditioning compressors suppliers. On the other hand, as a result of the competitive landscape of the industry, certain compressor manufacturers actively reduce their pricing in order to compete for purchase orders from and maintain their existing supply relationships with the automobile manufacturers. The decrease in average selling price, coupled with the increase in raw material prices, leads to adverse impacts on the profit margins of the automobile air- conditioning compressor manufacturers and causes enormous pressure on their cost management. In the event that we have to reduce our prices to maintain our competitiveness in the market but fail to correspondingly reduce our production costs, our profitability may be adversely affected.

Market demand for our products may be affected by a slowdown in the growth rate of the PRC automobile industry.

There is a direct correlation between our business and automobile production volume and sales, which are dependent on economic policies and market sentiment. The production of

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automobiles in the PRC has grown at a very fast pace in the past due to various factors, including the continued growth of China's economy, ongoing government incentive policies and a relatively low rate of vehicle ownership. However, according to the information published by CAAM, passenger vehicle sales have cooled since April 2010. Any significant reduction in automobile production and sales to our customers would have a material and adverse effect on our business.

There can be no assurance that there will not be changes in market conditions, government policies and other factors leading to a slowdown in demand for automobiles. The decline in demand for automobiles would directly and adversely affect demand for our products and hence our business and financial performance.

Changes in automobile industrial policies may adversely affect our financial condition and results of operations.

Our business is highly affected by the automobile industry particularly in the PRC. Any changes in policies in the automobile industry in the PRC including without limitation, tightening restriction on foreign investment, imposing stricter fuel economy standards and emission standards and increasing fuel prices and taxes on automobile consumption would reduce the demand for automobiles and auto parts including air-conditioning compressors.

Existing PRC automobile industry policies impose certain restrictions on investment by foreign vehicle manufacturers in vehicle production projects in China. Further tightening of these policies could lead to a lower level of participation by foreign vehicle manufacturers in the PRC automobile market, which in turn would decrease the supply of automobiles in the market resulting in lesser demand for automobile air-conditioning compressors.

The PRC Government may adjust the domestic oil supply price by considering several factors, including change in the global crude oil price, which makes the cost of petrol in the PRC less predictable. If the demand for fuel increases in the PRC, fuel shortages or price increases may occur. Consumers may avoid increased or unpredictable costs or shortages and utilise alternative means of transport such as bicycles, public buses and subways.

The PRC Government adopted an automobile consumption tax on 1 April 2006. The increase of applicable tax rates on large-displacement vehicles took effect on 1 September 2008 pursuant to the "Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles" (關於調整乘用車消費稅政策的通知) released by the PRC Ministry of Finance and the State Administration of Taxation. In addition, pursuant to "Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 litres" (關於減徵1.6升及以下排量乘用車車輪購置稅的通知) the reduced automobile consumption tax rate applicable to small-displacement vehicles increased from 5.0% to 7.5% with effect from 1 January 2010 for small-displacement vehicles purchased between 1 January 2010 and 31 December 2010.

There can be no assurance that the PRC Government will not implement other policies in the future which may adversely affect the automobile industry, in which event there may be a material and adverse effect on our revenue, profits, and growth prospects.

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The development trend of automobiles may create pressure on our production facilities and affect our business.

Rapid technological development with respect to automobiles may pose challenges to our existing production equipment. For example, we have to modify our production lines to cater for the development of electric vehicles which require different air-conditioning compressors from those applied in traditional vehicles. We have successfully applied our production techniques and know-how in the manufacturing of automobile air-conditioning compressors for fuel-electric hybrid and electric vehicles. Nevertheless, if there is further development of electric vehicles or other technological developments in the automobile industry in the future which require different automobile air-conditioning compressors and we cannot timely adjust our production facilities and operations accordingly, there may be adverse effects on our results of operations, financial condition and prospects.

There may be changes in the existing laws and regulations or additional or stricter laws and regulations on environmental protection and safety matters in the PRC.

We are required to comply with the environmental protection and workplace safety laws and regulations promulgated by the national and local governments of the PRC, including the prescribed standards relating to the discharge of sewage water and industrial wastes. The annual cost of compliance with the applicable environmental rules and regulations during the Track Record Period of our Group was RMB88,900.0, RMB0.8 million, RMB1.3 million and RMB0.3 million, respectively.

There is no assurance that the PRC Government will not change the existing laws or regulations or impose additional or more stringent requirements, compliance with which may cause us to incur significant capital expenditure. Moreover, if we fail to comply with the relevant environmental and safety regulations, we may be required to pay substantial fines, suspend production or cease operations. Consequently, our financial condition, business and reputation may be adversely affected.

Global financial crisis and economic downturn may have a material and adverse effect on our business, results of operations and financial condition.

The global financial crisis which commenced in 2008 caused substantial volatility in capital markets and a downturn in the global economies. Demand for the automobiles, automobile accessories and other related products may decrease if the level of consumption in the PRC is affected by these changing market conditions, which would adversely impact our operations. In addition, some of the automakers may also be adversely impacted with declines in profits and production output. Furthermore, the availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by levels of investor confidence in such markets as a whole and any factors that may impact market confidence could affect the costs or availability of funding for entities within any of these markets. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. If this economic downturn continues or there are prolonged disruptions to the credit markets, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to

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funds to become more expensive, and our business may be exposed to a downturn in sales that might be caused by such tightening of credit conditions, and our results of operations, financial condition and prospects may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Any adverse change in the political and economic policies of the PRC Government may materially and adversely affect our business, financial condition and operating results and may result in our inability to sustain our growth and expansion strategies.

A substantial part of our operations are conducted in the PRC and most of our revenues are sourced from the PRC. Accordingly, our operating results, financial condition and prospects are subject to a significant degree to the economic, political and legal developments of the PRC.

The PRC economy differs from other developed economies of the world in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- growth rate;
- the control of foreign exchange; and
- the allocation of resources;

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of other developed countries. The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and is continuing to play a significant role in regulating industries by imposing industrial policies.

We cannot, however, predict whether changes in the political, economic and social conditions and policies in the PRC, or in the relevant laws, rules and regulations, will have any material adverse effect on our current or future business, financial condition and operating results.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

A substantial part of our operations are conducted in the PRC. The PRC legal system is based on written statutes and prior court decisions are not binding. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic

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matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade.

However, due to the fact that these laws, rules and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty with respect to the outcome of any legal action in which we may be involved in the PRC.

As a foreign company, our acquisition of PRC companies may take longer and be subject to higher levels of scrutiny by the PRC Government.

On 8 August 2006, MOFCOM, the State Administration for Industry and Commerce (the “SAIC”), the State Administration of Taxation (the “SAT”), SAFE, the State-owned Assets Supervision and Administration Commission (the “SASAC”) and the China Securities Regulatory Commission (the “CSRC”) jointly promulgated the Provisions on Mergers and Acquisition of Domestic Enterprises by Foreign Investors (the “M&A Provisions”). The M&A Provisions became effective on 8 September 2006 and were reissued by MOFCOM in June 2009. The M&A Provisions established additional procedures and requirements, including but not limited to, the requirement that foreign investors must obtain approval from MOFCOM or its local counterpart at the provincial level approval when they acquire equity or assets of a PRC domestic enterprise. It is generally expected that compliance with the regulations will be more time-consuming and costly than in the past and will result in a more extensive evaluation by the PRC Government and result in increased control over the terms of the transaction. Therefore, acquisitions in China by non-PRC entities may face difficulties in completion because the terms of the transaction may not satisfy terms required by regulatory authorities in the approval process. If we decide to acquire a PRC domestic enterprise, the execution of our acquisition plan may become more time-consuming, complex and uncertain, and as a result, our growth prospects would be adversely affected.

Implementation of the PRC Labour Contract Law and other labour-related regulations in China may materially and adversely affect our business, financial condition and operating results.

The “PRC Labour Contract Law” (中華人民共和國勞動合同法) and the “PRC Labour Contract Law Implementation Rules” (中華人民共和國勞動合同法實施條例) took effect on 1 January 2008 and 18 September 2008, respectively. These labour laws and rules impose additional stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of part-time employees and dismissing employees. Pursuant to the PRC Labour Contract Law, since 1 January 2008, we have been required to enter into non-fixed term employment contracts with employees who have worked for us for more than 10 consecutive years or for whom a fixed term employment contract has been concluded for two consecutive time, unless otherwise provided in the PRC Labour Contract Law. We may not be able to efficiently terminate non-fixed term employment contracts under the PRC Labour Contract Law without cause unless there exists special circumstances as stipulated in the PRC Labour Contract Law Implementation Rules as well as other PRC laws for the termination of the employment contracts by the employer. We are also required to make severance payments to fixed term contract employees when the term of their employment contracts expire, except for certain circumstances prescribed in the PRC Labour Contract Law including where an employee voluntarily rejects an offer to renew the contract where the conditions

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offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in the circumstances where (i) the term of service is more than six months but less than a year, the amount of severance payment shall be calculated the same as a full year of service; (ii) the term of service is less than six months, the employer shall pay half a month's wage to the employee as severance payment; and (iii) the employee's monthly wage is more than three times the local average monthly wage of the proceeding year announced by the local relevant PRC Government, the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by the number of years of service which cannot exceed a maximum of 12. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. Liability for damages or fines may be imposed for any material breach of the PRC Labour Contract Law. In addition, under the "Regulations on Paid Annual Leave for Employees" (職工帶薪年休假條例), which became effective 1 January 2008, employees who have continuously worked for more than one year are entitled to paid holidays ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive their holiday time at the request of their employers must be compensated with three times their normal daily salary for each holiday waived. As a result of these PRC laws, rules and regulations, our labour costs have increased. There can be no assurance that any disputes, work stoppages or strikes will not arise in the future. Further, there can be no assurance that there will be additional or new labour laws, rules and regulations in the PRC, which may lead to potential increases in our labour costs and future disputes with our employees. In such events, our business, financial condition and operating results may be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to Aotecar Nanjing to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE. We may also decide to finance Aotecar Nanjing by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce or its local counterpart.

On 29 August 2008, SAFE issued the "Notice of the General Department of the SAFE on Improving on Relevant Business Operations Issues Concerning the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises" (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) ("**Notice 142**") which regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise. The use of such Renminbi capital may not be changed without SAFE's approval, and may not, in any case, be used to repay or prepay Renminbi loans if such loans have not been used. Violations of the Notice 142 will result in severe penalties, such as heavy fines set out in the relevant foreign exchange control regulations.

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As an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries by utilising the proceeds we receive from the Global Offering. However, we cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, with respect to our future loans or capital contributions to our PRC subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds received from the Global Offering and to fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to expand our business.

Our Company is a holding company that relies on payments from our subsidiaries for funding.

We are a holding company incorporated in the Cayman Islands and operate our core business primarily through our subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends on payments received from these subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions and to service our indebtedness will be restricted.

PRC laws, rules and regulations require that dividends be paid only out of the net profit calculated according to PRC generally accepted accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws, rules and regulations also require PRC-incorporated companies, such as our PRC subsidiaries, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business, financial condition, operating results and our ability to remit payments.

Most of our revenue and expenditures are denominated in Renminbi, which is currently not a freely convertible currency. In addition, we will require foreign currencies for dividend payment (if any) to our Shareholders. As a result, we are exposed to foreign currency fluctuations.

In the PRC, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC. The PRC Government has, with effect from 21 July 2005, reformed the exchange rate regime by permitting Renminbi to fluctuate within a narrow and managed band based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in Renminbi appreciating against the US dollar and Hong Kong dollar by 2.0%. The PRC Government has since made further adjustments to the exchange rate system. Any appreciation of Renminbi may result in the decrease in the value of our foreign currency-denominated assets, including the net proceeds from the Global Offering.

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Conversely, any depreciation of Renminbi may adversely affect the value of any dividends payable on our Shares in foreign currency terms.

Over the years, the PRC Government has significantly reduced its control over routine foreign exchange transactions under current accounts items, including trade and service-related foreign exchange transactions and payment of dividends. However, foreign exchange transactions under capital accounts items continue to be subject to significant foreign exchange controls and require the approval of, or registration with, SAFE. Under our current group structure, our Company's income is derived principally from dividend payments from our subsidiaries located in the PRC. Shortages in foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

In addition, under the current foreign exchange regulations in China, subject to the relevant registration at SAFE, we are able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to our Shareholders in foreign currencies.

It may be difficult to effect service of process upon some of our Directors and executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

Most of our assets and our principal business operations are in the PRC. Mr. Qian, our executive Director, our Mr. Gao Chunhe, our non-executive Director, and most members of our senior management team are residing in the PRC with no permanent addresses outside the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons in the PRC or to enforce against our Company or such persons in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of the United Kingdom, the United States or most other western countries. Therefore recognition and enforcement in the PRC of judgments obtained in such jurisdictions may not be possible. On 14 July 2006, the PRC and Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned" (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). However, investors are reminded that only an enforceable final judgment requiring payment of money arising out of a commercial contract with an exclusive jurisdiction clause and granted by Hong Kong courts are recognised by PRC courts.

Shortage of fuels and utilities in the PRC could affect our business.

Our production operations require significant and stable supplies of coke, water and electricity, the use of which will further increase substantially as we expand our production capacity. We had not experienced any coke, water and electricity shortage at our production facilities in the

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PRC during the Track Record Period. Given the increasing demand in the PRC amidst limited supply, shortages or suspensions of coke and utilities are not uncommon and we may not always have adequate supplies to meet our needs at our production facilities which if happen for a significant period of time may have an adverse effect on our business.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market for the Shares may fail to develop or be sustained, which could have a material adverse effect on the market and liquidity of the Shares.

Prior to the Listing, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations among the Sole Global Coordinator (on behalf of the Underwriters) and our Company and may differ from the market prices for the Shares after the Listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for our Shares following the Global Offering or in the future, and the failure of developing or sustaining such market could have a material adverse effect on the market and liquidity of the Shares.

The trading prices of the Shares may be volatile following the completion of the Global Offering and the Offer Price may not be indicative of subsequent trading price.

Immediately following the Global Offering, the price and trading volume of the Shares will both be determined in the market place and may be highly volatile and the Shares will be influenced by factors including but not limited to those set out below and the other risk factors set forth in this prospectus:

- fluctuations in our interim or annual results of operations;
- changes in financial estimates by securities analysts;
- investor perceptions of us and the investment environment in Asia, including Hong Kong and the PRC;
- changes in policies and developments relating to the automobile industry;
- changes in pricing policies adopted by us or our competitors;
- depth and liquidity of the market for the Shares;
- demand for and supply of the Shares; and
- general economic and other factors.

Moreover, stock markets in general and shares of listed companies in general have in recent years experienced increased price and volume fluctuations. These broad market and industry fluctuations may adversely affect the market price of the Shares.

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Purchasers of the Offer Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Shares is higher than the net tangible assets per Share immediately before the Global Offering. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible assets to HK\$0.98 per Share as at 30 June 2010, based on the maximum Offer Price of HK\$3.05 per Share (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options or options which may be granted under the Share Option Scheme.) Purchasers of the Shares may experience dilution in the net tangible assets per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible assets per Share.

There may be a dilutive effect on the earnings per Share associated with the Share Option Schemes and an impact on future earnings.

We have adopted the Pre-IPO Share Option Scheme under which we have granted options to subscribe for an aggregate of 7,500,000 Shares, representing 0.74% of our enlarged issued share capital as at the Listing Date if the Pre-IPO Share Options are exercised in full (assuming the Over-allotment Option and any options which may be granted under the Share Option Scheme are not exercised). We have also conditionally adopted the Share Option Scheme pursuant to which options may be granted after the Listing Date, subject to the provisions of the Share Option Scheme and the Listing Rules. Details of the Share Option Schemes are set out in “Share Option Schemes” in Appendix VI to this prospectus. Any exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme will result in an increase in the number of Shares in issue, and may result in the dilution in the percentage of ownership of the Shareholders, the earnings per Share and net asset value per Share.

Also, pursuant to IFRSs, the costs of the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme and any share-based compensation will be charged to our income statements over the period that employees become unconditionally entitled to the options by reference to the fair value at the date when the options are granted. As a result, our Company’s profitability may be adversely affected.

Certain facts, forecasts and statistics from official sources contained in this prospectus have come from various publicly available sources whose reliability cannot be assumed or assured.

Facts, forecasts and statistics from official sources contained in this prospectus are derived from various publicly available government official publications and generally believed to be reliable. However, we cannot guarantee the quality and reliability of these publications. Whilst our Directors and the Joint Sponsors have taken reasonable care to ensure that the facts, forecasts and statistics in this prospectus are accurately reproduced from other respective official sources, these facts, forecasts and statistics have not been independently verified by us. Our Company, the Joint Sponsors, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering do not make any representation as to the accuracy of any facts, forecasts and statistics derived from government official publications which may not be consistent with other information and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the

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statistics derived from government official publications may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

Acts of God, acts of war, epidemics, such as severe acute respiratory syndrome (SARS) or influenza (including H5N1 and H1N1), and other disasters may affect our business and operations as well as the Global Offering.

The outbreak of any severe communicable disease in the PRC or elsewhere could have a material adverse effect on the domestic consumption and, possibly, the overall GDP growth of the PRC and elsewhere. As most of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our business, prospects, financial condition and results of operations. In addition, if our employees are affected by any severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of disease, which may materially and adversely affect or disrupt our production. The spread of any severe communicable disease in the PRC and elsewhere may also affect the economic sentiment and in turn have a material adverse effect on the Global Offering.

WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that the business and operation of our Group are primarily located, managed and conducted in the PRC and our sole executive Director is ordinarily resident in the PRC, we do not, and for the foreseeable future will not, have two executive Directors residing in Hong Kong.

Accordingly, we have applied to the Stock Exchange for and the Stock Exchange has granted us a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we have put in place the following measures to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channels of communication with the Stock Exchange and ensure that the Group complies with the Listing Rules at all times. The two authorised representatives are Mr. Qian, our executive Director, and Mr. Chui Wing Fai, the company secretary of our Company. The alternate authorised representative to Mr. Qian is Mr. Mak Wai Man Raymond (who is our chief financial officer). They have confirmed that they will be readily contactable by phone, facsimile and e-mail to promptly respond to inquiries from the Stock Exchange.
- (b) Each of the Directors, authorised representatives and the alternate authorised representative of our Company will provide his office phone number, mobile phone number, fax number and e-mail address to the Stock Exchange. They will be contactable at their mobile phone numbers at all times.
- (c) Each executive Director, non-executive Director and independent non-executive Director who is not ordinarily resident in Hong Kong holds valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange to discuss any matter in relation to our Company on reasonable notice as and when required.
- (d) Mr. Qian, the sole executive Director who is normally resident in Nanjing, Jiangsu Province, PRC, and Messrs. Mak Wai Man Raymond (alternate to Mr. Qian) and Chui Wing Fai, the chief financial officer and the company secretary of our Company, respectively, who are both normally resident in Hong Kong, have confirmed that they will be able to meet with the Stock Exchange on short notice.
- (e) All of the authorised representatives (including the alternate authorised representative) will have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact them on any matters.

WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

- (f) Pursuant to Rule 3A.19 of the Listing Rules, our Company has retained CIMB as its compliance adviser for the period commencing on the Listing Date and ending on the date on which our Company publishes its annual report in respect of its first full financial year commencing after the Listing Date to provide us with advice on our obligations in compliance with the Listing Rules, the Takeovers Code and the Code on Share Repurchases, including the publication of regulatory announcements, circulars or financial reports and the entry into notifiable or connected transactions. Such compliance adviser will act as the additional channel of communication with the Stock Exchange for the aforesaid period. Such compliance adviser will (i) provide the office address, the names, home and office phone numbers and fax numbers, e-mail addresses of two of its officers to the Stock Exchange and (ii) maintain all the office phone numbers, mobile phone numbers, fax numbers and e-mail addresses of the persons named in paragraph (b) above.
- (g) In the event that an executive Director / authorised representative of our Company expects to travel and be out of office, he will provide the phone number of the place of his accommodation or means of communication to the other authorised representative(s) and their respective alternate(s).

PRE-IPO SHARE OPTIONS

Under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A and paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance, this prospectus is required to include, among other things, details of the number, description and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given. We have granted options to 127 persons to subscribe for 7,500,000 Shares on the terms set out in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in Appendix VI to this prospectus. Except for those 10 grantees who are directors or senior management of our Group as disclosed in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in Appendix VI to this prospectus, no grantees under the Pre-IPO Share Option Scheme are directors or senior management or connected persons of our Group.

Under the Pre-IPO Share Option Scheme, eligible persons include any executive, director and/or employee of any member of our Group and other individuals who have made contributions to our Group at the time when the Pre-IPO Share Option is granted.

We have applied for (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance on the ground that disclosure of the names and addresses of the remaining 91 grantees of the Pre-IPO Share Option Scheme who are not directors or senior management or connected persons of our Group or any other

WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

employees of the Group with a right to subscribe for more than 75,000 Shares (such grantees to be collectively referred to as the “**Grantees**”), as well as the number of Shares in respect of which options have been conditionally granted to each Grantee would be unduly burdensome for us due to the following reasons:

- (i) as the options granted under the Pre-IPO Share Option Scheme are in many instances considered as part of each Grantee’s remuneration package, information on such options is highly sensitive and confidential among the Grantees;
- (ii) given the 91 Grantees involved, strict compliance with the applicable disclosure requirements under the Companies Ordinance on an individual basis in this prospectus will be costly and unduly burdensome on our Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;
- (iii) the grant and exercise in full of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse change in the financial position of our Company;
- (iv) the lack of full compliance with the applicable disclosure requirements under the Listing Rules and the Companies Ordinance will not hinder our Company in providing an informed assessment of our Company’s activities, assets and liabilities, financial position, management and prospects to its potential investors; and
- (v) the disclosure of a summary of information relating to the options granted under the Pre-IPO Share Option Scheme, as described in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in Appendix VI to this prospectus should provide potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process.

The Stock Exchange has granted the waiver to us subject to that:

- (a) the grant of a certificate of exemption from strict compliance with the relevant Companies Ordinance requirements by the SFC;
- (b) full disclosure in this prospectus on all options under the Pre-IPO Share Option Scheme granted to each of the directors, senior management, connected persons and employees of our Group who have been granted options for 75,000 Shares or more, including all the particulars required under paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules;
- (c) disclosure in this prospectus, for the remaining grantees on an aggregate basis:
 - (1) their aggregate number and the number of Shares underlying the options granted;
 - (2) the consideration paid for the options;

WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

- (3) the exercise period of each option; and
- (4) the exercise price for the options;
- (d) disclosure in this prospectus the aggregate number of Shares underlying the options under the Pre-IPO Share Option Scheme and the percentage of our Company's issued share capital represented by them, the dilution effect and impact on earnings per Share upon full exercise of the options under the Pre-IPO Share Option Scheme; and
- (e) availability for public inspection a full list of all the grantees under the Pre-IPO Share Option Scheme with all the particulars required under the relevant provisions of the Companies Ordinance and the Listing Rules.

The SFC has issued a certificate of exemption under section 342A of the Companies Ordinance exempting the Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance subject to the conditions that:

- (aa) full details of the options granted by our Company under the Pre-IPO Share Option Scheme to each of the directors of the Company or its subsidiaries, senior management, connected persons and grantees who have been granted options for 75,000 Shares or more be disclosed in this prospectus, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (bb) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme to the employees other than those referred to in sub-paragraph (aa), the following details be disclosed in this prospectus:
 - (1) the aggregate number of grantees and number of Shares subject to the options;
 - (2) the consideration paid for the grant of the options; and
 - (3) the exercise period and the exercise price for the options; and
- (cc) a full list of all the grantees (including the persons referred to in sub-paragraph (aa) above) who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance be made available for public inspection in accordance with the section headed "Documents available for inspection" in Appendix VII to this prospectus.

WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

Further details of the Pre-IPO Share Option Scheme and the respective waiver are set out in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in Appendix VI to this prospectus.

CONNECTED TRANSACTIONS

Members of our Group have entered and are expected to enter into certain transactions, which would constitute continuing connected transactions for our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for a waiver from strict compliance with the announcement requirement and/or independent shareholders’ approval set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details of such waiver, please refer to “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in “Structure and Conditions of the Global Offering” in this prospectus, and the procedures for applying for Public Offering Shares are set out in “How to Apply for Public Offering Shares” in this prospectus.

FULLY UNDERWRITTEN

The Global Offering comprises the Public Offering of initially 25,000,000 Public Offering Shares and the International Offering of initially 225,000,000 International Offering Shares, subject, in each case, to reallocation on the basis described in “Structure and Conditions of the Global Offering” in this prospectus and, in the case of the International Offering, also to any exercise of the Over-allotment Option.

This prospectus is published in connection with the Public Offering and together with the Application Forms sets out the terms and conditions of the Public Offering.

The Global Offering is jointly sponsored by DBS and CIMB. The Public Offering is fully underwritten by the Public Offering Underwriters. The International Offering is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement which is expected to be entered into on or about the Price Determination Date. For further information about the Underwriters and the underwriting arrangements, please refer to “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the other Underwriters)

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

and our Company on or before Thursday, 2 December 2010 or such later time as may be agreed by the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company, but in any event no later than Tuesday, 7 December 2010. If the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company are unable to reach agreement on the Offer Price by Tuesday, 7 December 2010, the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

We offer the Public Offering Shares solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions contained in this prospectus and the Application Forms.

Each person acquiring the Public Offering Shares will be required to confirm, or by his acquisition of the Public Offering Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Public Offering Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption from applicable securities law. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in China.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares that are issued pursuant to the Capitalisation Issue and any Shares which may fall to be issued pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. No part of our share capital is listed or dealt in on any other stock exchange. At present, we are not seeking or proposing to seek the listing of, or permission to deal in, the Shares on any other stock exchange. All the Shares will be registered on the register of members of our Company in order for them to be traded on the Main Board of the Stock Exchange.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of our Company, the Sole Global Coordinator, the Joint Sponsors, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, Butterfield Fulcrum Group (Cayman) Limited, in the Cayman Islands and our Company's branch register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

Dealings in the Shares registered in the branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFERING SHARES

The procedures for applying for the Public Offering Shares are set out in "How to Apply for Public Offering Shares" in this prospectus, and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including details of the Over-allotment Option, are set out in "Structure and Conditions of the Global Offering" in this prospectus.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Offer Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

DEALING ARRANGEMENTS

Assuming that the Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 9 December 2010, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, 9 December 2010. Our Shares will be traded in board lots of 2,000 Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, the Sole Global Coordinator or its affiliates or any person acting for it, as Stabilising Manager, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct such stabilisation. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the International Offering, we expect to grant to the Sole Global Coordinator the Over-allotment Option, which will be exercisable in full or part by the Sole Global Coordinator at any time from the Listing Date until 30 days after the last day for lodging of applications under the Public Offering. Pursuant to the Over-allotment Option, we may be required to issue at the Offer Price up to an additional 37,500,000 Shares, representing 15% of the initial number of the Offer Shares, at the Offer Price to cover, among other thing, over-allocations in the International Offering, if any and/or the obligations of the Sole Global Coordinator to return securities borrowed under the Stock Borrowing Agreement.

Further details with respect to the Over-allotment Option and stabilisation are set out in “Structure and Conditions of the Global Offering – Over-allotment and stabilisation” in this prospectus.

WEBSITES

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

	Residential address	Nationality
<i>Chairman and Non-executive Director</i>		
Zhang Yichen	House 6 2 Island Road Deep Water Bay Hong Kong	Chinese
<i>Chief Executive Officer and Executive Director</i>		
Qian Yonggui	Room 603, Unit 2, Block 11 33 Longpan South Road Qinhuai District Nanjing, Jiangsu Province PRC	Chinese
<i>Non-executive Directors</i>		
Fang Kenneth Hung, GBS, CBE, JP	1st Floor, 3 Osmanthus Road Yau Yat Chuen Kowloon Hong Kong	Chinese
Gao Chunhe	Room 304, Block 152 Yijiaqiao Xincun Chongchuan District Nantong, Jiangsu Province PRC	Chinese
Liu Xiaoping	Flat A, 4th Floor, Block 5 Metro City, Phase 2 8 Yan King Road Tseung Kwan O, New Territories Hong Kong	Chinese
Wang Zhenyu	Flat E, 6th Floor, Block 2 Star Tower, The Arch 1 Austin Road West Tsimshatsui, Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	Residential address	Nationality
<i>Independent non-executive Directors</i>		
Cheung Man Sang	Flat B, 20th Floor, Tower 21 Mei Chun Court Phase 3, South Horizons 21 South Horizon Drive Ap Lei Chau Hong Kong	Chinese
Lai Ni Hium	Flat H, 14th Floor Yen Kung Mansion 1 Tai Mou Avenue Taikoo Shing Hong Kong	Australian
Zhao Chunming	No. 602, Block 5 Building No. 24 Huaxin Apartments Huachang Road Hedong District, Tianjin PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator,
Sole Bookrunner and
Sole Lead Manager**

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

Joint Sponsors

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

CIMB Securities (HK) Limited
25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law
Jones Day
29th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law
Chen & Co. Law Firm
Suite 1901 North Tower
Shanghai Stock Exchange Building
528 Pudong Nan Road
Shanghai 200120
PRC

As to Cayman Islands law
Maples and Calder
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Underwriters	<i>As to Hong Kong law</i> Deacons 5th Floor, Alexandra House 18 Chater Road Hong Kong
	<i>As to PRC law</i> Jun He Law Offices 20th Floor, China Resources Building Beijing 100005 PRC
Reporting accountants	KPMG <i>Certified Public Accountants</i> 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Property valuers	Savills Valuation and Professional Services Limited 23rd Floor, Two Exchange Square Central Hong Kong
Receiving bank	DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	c/o Maples Corporate Services Limited P.O. Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarter and principal place of business in the PRC	103 Daming Road Qinhuai District Nanjing, Jiangsu Province 210022 PRC
Principal place of business in Hong Kong	Room 1613, 16th Floor Leighton Centre 77 Leighton Road Causeway Bay Hong Kong
Company's website address	<u>www.chinaautosystem.com</u> <i>(Information on the website does not form part of this prospectus)</i>
Company secretary	Chui Wing Fai, CPA
Authorised representatives	Qian Yonggui Room 603, Unit 2, Block 11 33 Longpan South Road Qinhuai District Nanjing, Jiangsu Province PRC Mak Wai Man Raymond (Alternate to Qian Yonggui) Flat B, 35th Floor, Tower 8 The Belcher's 89 Pok Fu Lam Road Hong Kong Chui Wing Fai Flat C, 9th Floor, One Madison 305 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Audit Committee	Lai Ni Hium (<i>Chairman</i>) Cheung Man Sang Zhao Chunming
Remuneration Committee	Liu Xiaoping (<i>Chairman</i>) Cheung Man Sang Lai Ni Hium Zhao Chunming

CORPORATE INFORMATION

Compliance adviser	CIMB Securities (HK) Limited 25th Floor, Central Tower 28 Queen's Road Central Hong Kong
Principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wan Chai Hong Kong
Principal banks	DBS Bank Ltd., Hong Kong Branch 18th Floor, The Center 99 Queen's Road Central Hong Kong China Merchants Bank, Nanjing Jiangning Sub-branch No. 18 West Shengtai Road Jiangning District, Nanjing PRC Hang Seng Bank Limited, Head Office 83 Des Voeux Road Central Central Hong Kong

INDUSTRY OVERVIEW

Certain information set out in this section and elsewhere in this prospectus has been extracted from the Ourview Report purchased by us from Ourview Consultancy, an independent third party.

In addition, certain information in this section has been extracted from various official government publications and websites. We have taken reasonable care in the extraction and reproduction of such information presented in this section and elsewhere in this prospectus. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Neither the Company, Sole Global Coordinator, the Joint Sponsors nor the Underwriters or any of their respective affiliates or advisers or other parties involved in the Global Offering has independently verified the information directly or indirectly derived from these sources, and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this prospectus.

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

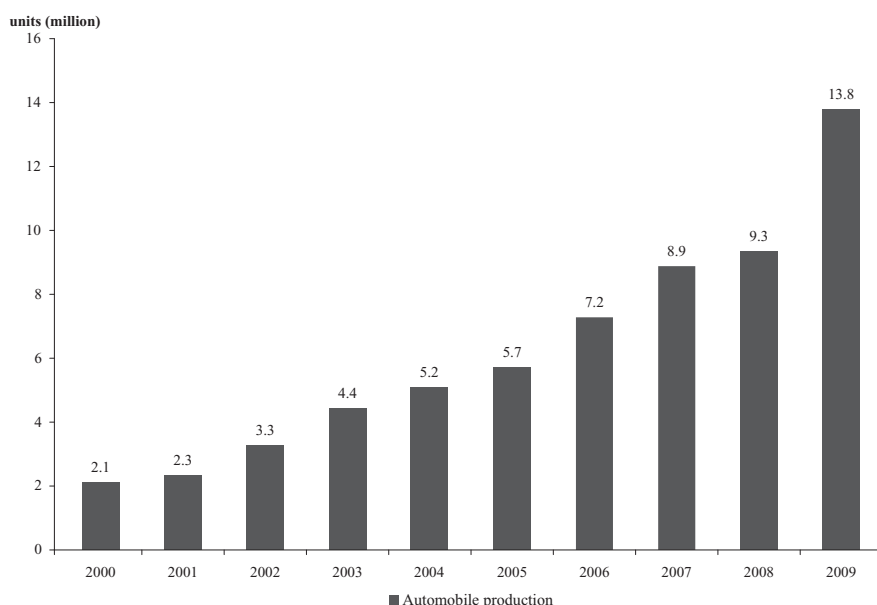
OVERVIEW OF THE PRC AUTOMOBILE INDUSTRY

Market size of the PRC automobile industry

The PRC automobile industry has grown rapidly in the past few years. The PRC automobile production increased from 2.1 million units in 2000 to 13.8 million units in 2009, representing a CAGR of 23.5% from 2000 to 2009, which made China the largest automobile market in the world. This significant development was primarily driven by rapid economic growth in the PRC, continued increase of annual disposable income per capita, rapid urbanisation and improved road infrastructure.

INDUSTRY OVERVIEW

PRC Automobile Production from 2000 to 2009



Source: Ourview Report.

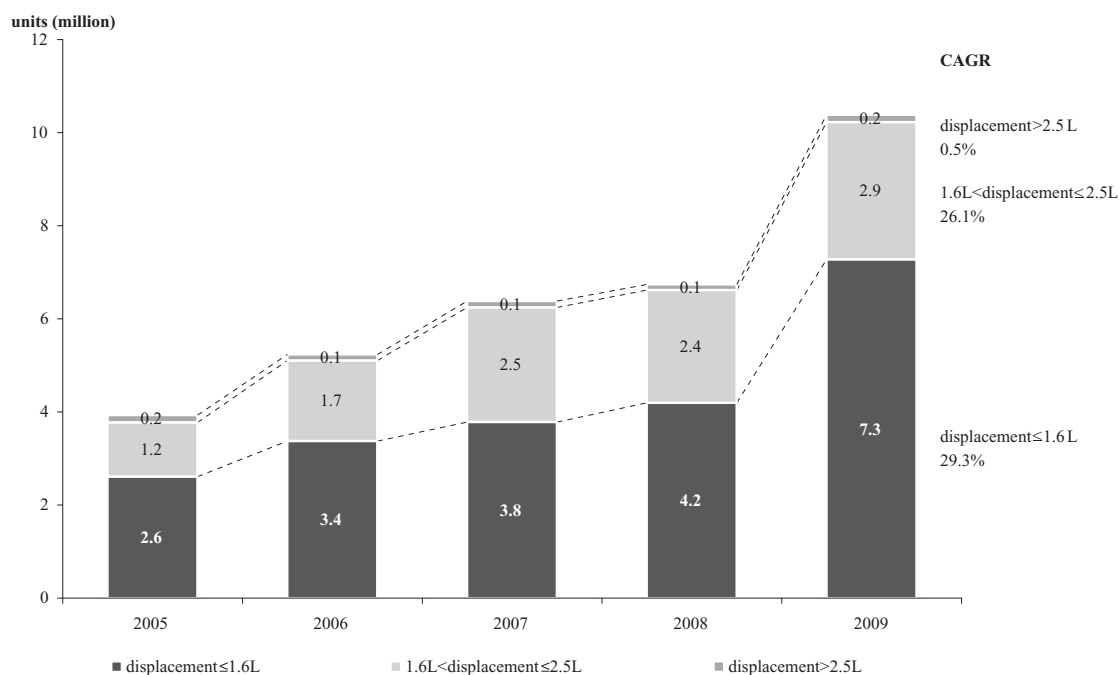
According to the Ourview Report, benefiting from the continued growth of China's economy, ongoing government incentive policies and the relatively low rate of automobile ownership (the rate of automobile ownership in the PRC in 2009 was 46 units per thousand people compared to 820 units, 580 units and nearly 350 units per thousand people in the US, Japan and Korea, respectively), the PRC automobile market growth is forecasted to remain at 13.0% annually in the coming years.

Passenger vehicles market by displacements

The small-displacement vehicles sector recorded the highest growth in the past five years in the passenger vehicles market, representing a CAGR of 29.3%. In 2009, small-displacement vehicles were the largest sector in the PRC passenger vehicles market, accounting for 70.1% of all passenger vehicles. The sector's strong growth was mainly due to strong demand in PRC cities (excluding Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin), high oil prices, increasing demand for environmental protection and government incentive policies. The Group believes that this sector will continue to lead the growth of the passenger vehicles market in China.

INDUSTRY OVERVIEW

PRC Passenger Vehicles Production by Displacements from 2005 to 2009



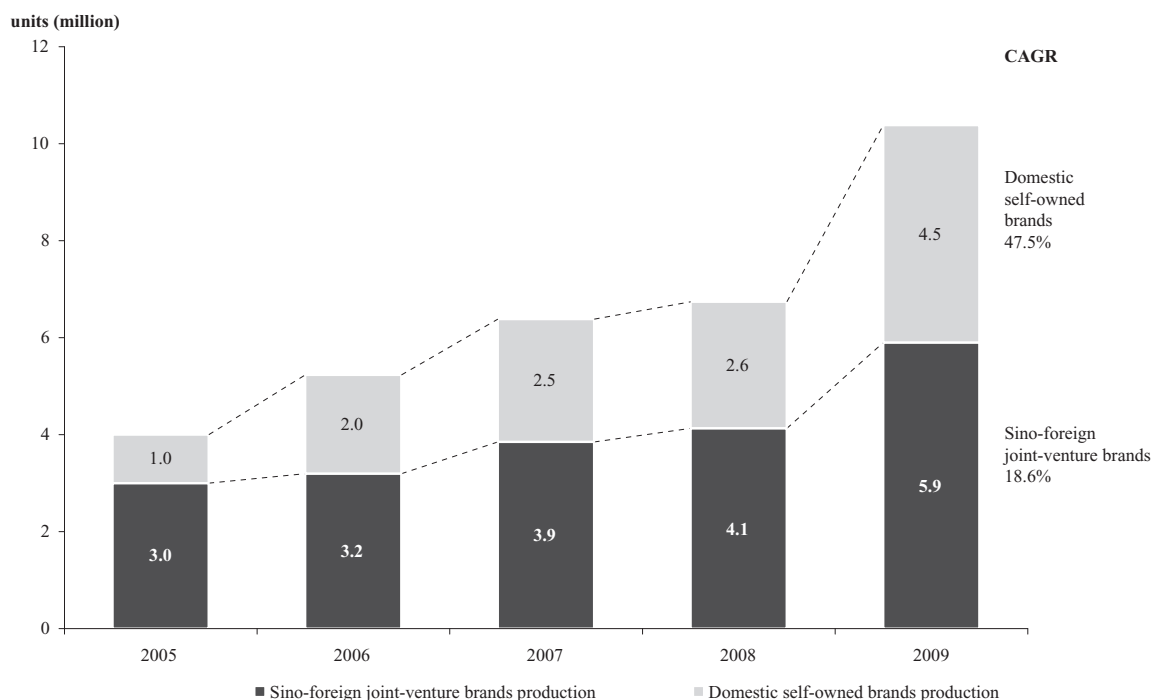
Source: Ourview Report

Passenger vehicles market by brands

The production of the self-owned brands has grown rapidly in the PRC's passenger vehicles market in the past five years, representing a CAGR of 47.5%, which was higher than the overall growth of the passenger vehicles market. The market share of the domestic self-owned brands increased from 24.1% in 2005 to 43.2% in 2009. We believe that the good performance of the domestic self-owned brands was driven by the following factors: focus on small-displacement vehicles, ongoing improvement in product quality and R&D capabilities and competitive pricing. Representative domestic self-owned brands include BYD, Chery and Geely. In recent years, domestic enterprises with their self-owned brands have been enhancing their brand images and R&D capabilities through overseas acquisitions which have helped to further strengthen their competitive advantages in the domestic passenger vehicles market.

INDUSTRY OVERVIEW

PRC Passenger Vehicles Production by Brands from 2005 to 2009



Source: Ourview Report

New energy automobile

In the past few years, due to the increasing demand for energy-saving, environmental protection and surging oil prices, new energy automobile development has been promoted worldwide. New energy automobile technologies had also leapt forward in the past few years, laying the preliminary foundation for industrialisation. The PRC government promulgated “Automobile Industry Adjustment and Revival Plan” (汽車產業調整和振興規劃) on 20 March 2009, which expressly aims to increase the number of new energy automobiles to 500,000 units between 2009 and 2011 and to increase the share of new energy automobiles in the passenger vehicles market to around 5%. Meanwhile, the PRC government issued a series of supplemental policies to drive the development of the new energy automobile industry, which includes tax incentive policies, subsidies, and building electrical charging stations. A few enterprises with self-owned brands, including BYD, have been increasing their R&D investment in the electrical automobile sector. In December 2008, BYD’s F3DM dual-mode electric vehicle, a plug-in hybrid electric vehicle requiring no commercial charging station and the first of its kind in the world, was released to the market.

OVERVIEW OF THE PRC AUTOMOBILE AIR-CONDITIONING COMPRESSORS INDUSTRY

Automobile air-conditioning compressor technologies

The automobile air-conditioning compressor is the integral component of an automobile air-conditioning system, which together with the condenser, evaporator and other parts making up the overall air-conditioning system.

After years of technological development, there are four generations of compressors in the global automobile air-conditioning compressor industry, each generation has its own characteristics

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and target markets. Among these generations, scroll compressors are recognised as the latest generation. Scroll compressors are also most suitable for electric vehicles due to its unique structure and characteristics (such as high energy efficiency and low starting torque).

Comparison of the Four Generations of Automobile Air-conditioning Compressors

Type of Compressor	Machining Precision	Major Scope of Application	Refrigeration Efficiency	Weight	Volume	Energy Saving	Advantages	Disadvantages
1st generation-piston compressor	low	buses and trucks	below 60%	heavy	large	poor	● mature technology ● low processing precision and costs ● relatively easy to repair	● low cooling efficiency ● bulky ● relatively high degree of vibration during operation, and not suitable to be installed in small vehicles
2nd generation-swash plate compressor	relatively low	various displacements vehicles	65%	relatively heavy	relatively large	relatively poor	● balanced structure with good stability ● advanced processing technology and low processing cost ● higher cooling capacity, suitable for use in large-displacement vehicles	● low cooling efficiency with volume ratio of about 65%-70% ● relatively bulky
3rd generation-rotary vane compressor	high	small-displacement vehicles	85%	light	small	relatively good	● compact structure with good stability ● higher cooling efficiency with volume ratio of about 85% ● small size and light weight, suitable for use in small-displacement vehicles ● low noise and less vibration	● require higher level of precision ● difficult to be installed in large-displacement vehicles ● rotate at high speed can easily cause abrasions on the vane
4th generation-scroll compressor	high	various displacements vehicles	above 95%	light	small	good	● simple structure with good stability ● small size and light weight with few components and vulnerable parts ● good balance, less vibration, low noise and steady operation ● highest cooling efficiency with volume ratio of about 95%-96% ● low starting torque, and best energy-saving among vehicles of the same displacement level ● most suitable for use in electric vehicles	● require higher rotation speed and need to install an accelerator to restart from idle speed ● high requirement on production facilities and processing precision ● difficult to install in traditional varied displacements vehicles

Source: Ourview Report

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Historical price of aluminium

Aluminium is a major raw material for producing automobile air-conditioning compressors. In between 2003 and 2010, the price of aluminium ranged from RMB10,120 per metric ton to RMB23,790 per metric ton. During the Track Record Period, the price of aluminium ranged from RMB10,120 per metric ton to RMB21,220 per metric ton.

China Shanghai Changjiang Aluminium Spot Price from June 2003 to September 2010



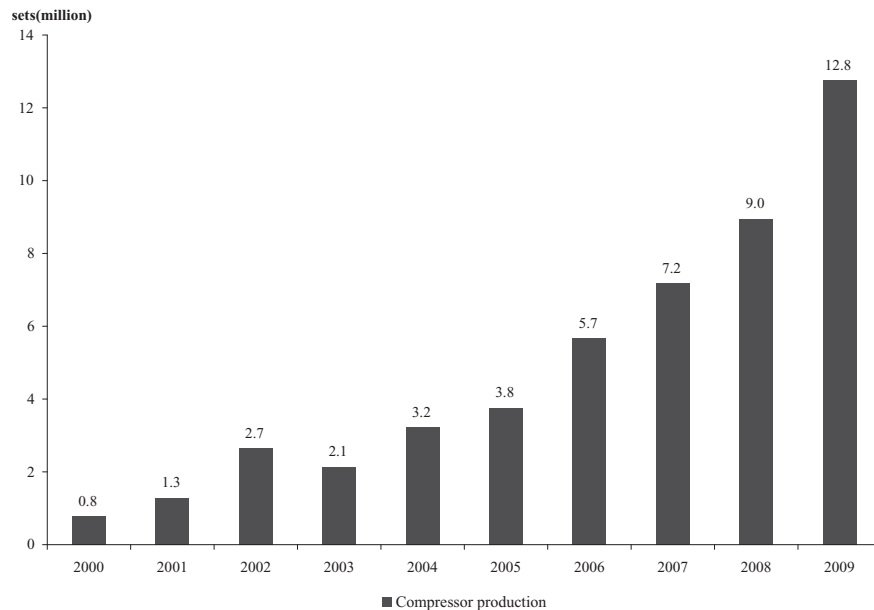
Source: Bloomberg

Market size of the PRC automobile air-conditioning compressor industry

As a result of the rapid growth of the PRC automobile industry, the increased popularity of automobile air-conditioning and the growing after-sales market, automobile air-conditioning compressor production in the PRC had reached a CAGR of 36.4% in the past ten years, which was much higher than the growth rate of 23.5% of the PRC automobile industry for the same period. Following the development of the PRC automobile industry and the growth of the export market, we believe the PRC automobile air-conditioning compressors industry will be able to maintain double-digit growth in the next few years.

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The Production of the PRC Automobile Air-conditioning Compressors from 2000 to 2009



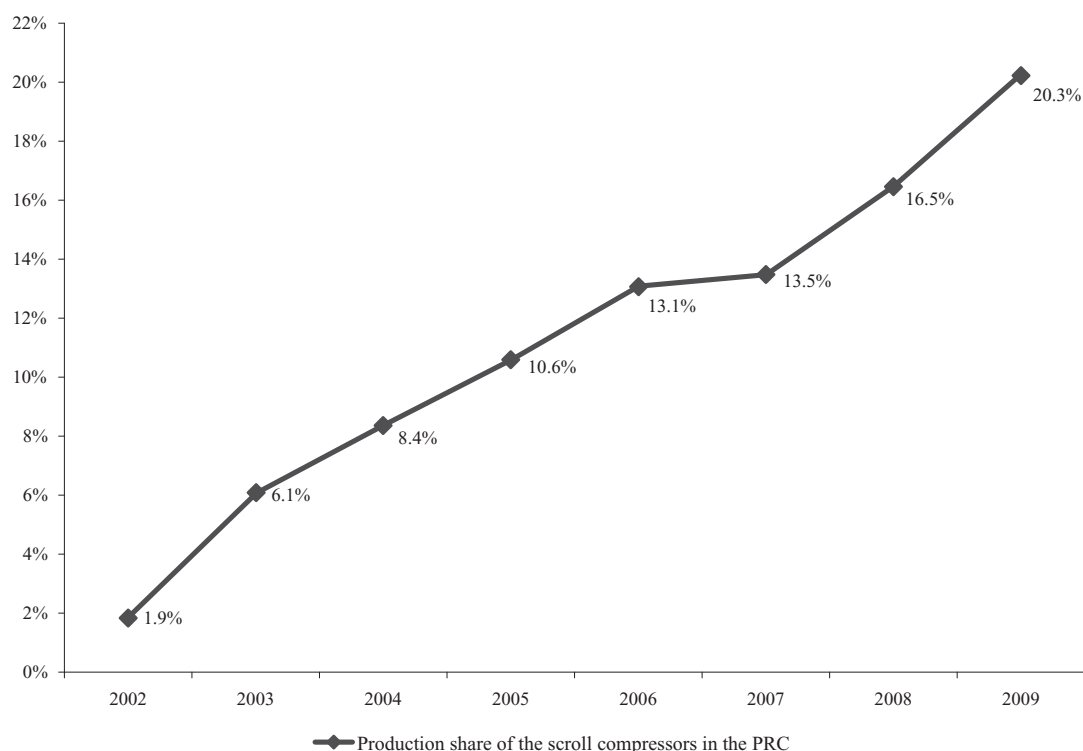
Source: Ourview Report

Market structure of the PRC automobile air-conditioning compressors

The PRC automobile air-conditioning compressor industry started to develop in the 1980s together with the PRC automobile industry at a time when it mainly applied foreign technologies and imported production equipments. As at the Latest Practicable Date, there are four generations of compressor technologies in the PRC automobile air-conditioning compressor industry. In 2009, the swash plate compressors represented 69.6% of the total production, while scroll compressors and rotary vane compressors represented 20.3% and 10.1% respectively. Due to its unique technological advantages, scroll compressors have out-performed the PRC automobile air-conditioning compressor market and increased its market share from 50,000 sets, representing 1.9% in 2002 to 2.6 million sets, representing 20.3% in 2009. According to the analysis by Ourview Consultancy, scroll compressors are particularly suitable for electric vehicles, and therefore its market share will further increase in the future.

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Scroll Compressor Production Share in the PRC Automobile Market from 2002 to 2009



Source: Ourview Report

Major automobile air-conditioning compressor enterprises in the PRC

Currently, there are more than 100 automobile air-conditioning compressor manufacturers in the PRC, of which more than 10 of them are scroll compressor manufacturers, and the production by the top ten enterprises accounted for 80.1% of the total production in 2009. The automobile air-conditioning compressors can be sold to automobile manufacturers either directly or through air-conditioning system suppliers which, after integrating the compressor into their air-conditioning system, sell the whole system to the automobile manufacturers. Irrespective of either mode of sales, the automobile manufacturers have the absolute discretion to choose their air-conditioning compressor suppliers. At present, most of the major automobile air-conditioning compressor enterprises in the PRC are foreign brands or domestic brands with imported technology and our Group is one of the few domestic automobile air-conditioning compressor enterprises with its own intellectual property rights.

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The following table sets out the top ten automobile air-conditioning compressor manufacturers (covering all four generations of compressors: piston, swash plate, rotary vane and scroll) in the PRC in 2009 and our Group ranked the second amongst them. Our Group was the largest scroll compressor manufacturer in the PRC in 2009 and the largest self-owned brand in 2009.

Rank	Company Name	Production Volume ('000 sets)	Types of Compressor Technology
1	Shanghai Sanden Behr ⁽¹⁾	3,240	Swash plate
2	Our Group	1,870	Scroll
3	Chongqing Jianshe	1,140	Rotary vane, Swash plate
4	Dalian Halla	940	Swash plate
5	Denso China		
	Yantai Denso	690	Swash plate
	Kunshan Denso	220	Swash plate
6	Mudanjiang Foton	640	Swash plate
7	Valeo China		
	Changchun Valeo	240	Swash plate
	Hunan Huada	160	Swash plate
8	Dong Guan Keihin	400	Scroll
9	Panasonic Wanbao (Guangzhou)	370	Rotary vane
10	Suzhou Zhongcheng	330	Swash plate

Source: Ourview Report

Note:

⁽¹⁾ Figures of Shanghai Sanden Behr Company includes the production and sales data of its subsidiary, Shanghai Sanden Automotive Air-conditioning Co., Ltd. The production of Shanghai Sanden Automotive Air-conditioning Co., Ltd. was 810,000 sets in 2009.

Opportunities for the scroll air-conditioning compressor industry in the electric vehicles market

As mentioned above, there are a broad market prospects for the electric vehicles in the PRC. Due to its low starting torque and high energy efficiency, the scroll compressor is considered to be the best technology for electric vehicles and has been designated as the standard component for the electric compressor according to the national standard of the PRC for “Automobile Air Conditioning Electrically Driven Compressor Assembly” (汽車空調用電動壓縮機總成). Due to our leading position and the advantage of having advanced scroll compressor technology, our Group will benefit from the development of the PRC’s electric vehicle industry.

Challenges and threats

The automobile air-conditioning compressors industry is fragmented and highly competitive. Although the manufacturing of automobile air-conditioning compressors has high entry barriers such as capital requirement, self-owned production technology protected by patent and market recognition, the competition among existing market players is still keen. Currently, there are more than 100 air-conditioning compressor manufacturers in the PRC and the production of scroll air-conditioning compressors only accounted for 20.3% of the market share in 2009 in terms of production volume. Since scroll compressors represent the latest generation in the automobile air-conditioning compressor industry, the current penetration rate is still considered to be low and it will take time for the automobile manufacturers to switch to the use of the scroll air-conditioning compressors in the manufacturing of the automobiles.

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Our operations are mainly carried out by our subsidiaries in the PRC. The establishment and operations of our PRC subsidiaries shall comply with the laws and regulations in respect of:

- incorporation and corporate governance in compliance with, including, without limitation, the PRC Company Law (公司法), Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), the PRC Law on Wholly Foreign owned Enterprises (外資企業法) and the PRC Law on Sino-foreign Equity Joint Ventures (中外合資經營企業法);
- ascription and utilisation of property in accordance with, including, without limitation, the Property Law of the PRC (物權法), the Administration of the Leasing of Urban Premises Procedures (城市房屋租賃管理辦法), the Urban Real Estate Administration Law of the PRC (城市房地產管理法), the Land Administration Law of the PRC (土地管理法), the Law of the PRC on Urban and Rural Planning (城鄉規劃法), the Construction Law of the PRC (建築法);
- compliance of business scope with industrial policies stipulated in the Guidance Catalogue of Industries for Foreign Investment (amended in 2007) (外商投資產業指導目錄 (2007年修訂));
- foreign exchange, shareholder loans, dividend distribution, outward remittance and overseas investment under current accounts and capital accounts in accordance with the Foreign Exchange Administration Regulations of the PRC (外匯管理條例), Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) and other related laws and regulations;
- tax payment and filing of tax returns in accordance with the relevant tax rates and regulations of the PRC Law on Enterprises Income Tax (企業所得稅法), PRC Provisional Regulations on Value-added Taxes (增值稅暫行條例) and other related laws and regulations;
- environmental protection measures in compliance with the PRC Environmental Protection Law (環境保護法), PRC Air Pollution Prevention Law (大氣污染防治法), PRC Water Pollution Prevention Law (水污染防治法) and other related environmental laws and regulations;
- purchase and utilisation of sulfuric acid as industrial detergents in accordance with Regulations for Administration of Precursor Chemicals (易制毒化學品管理條例), Measures for Administration of the Purchase, Sales and Transportation of Precursor Chemicals (易制毒化學品購銷和運輸管理辦法);
- quality of products and related liabilities in compliance with the PRC Product Quality Law (產品質量法), the PRC Law on the Protection of the Rights and Interests of Consumers (消費者權益保護法), and the PRC Administrative Rules on Production Licence of Industrial Products (工業產品生產許可證管理條例);

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- intellectual property management and protection in accordance with the PRC Patent Law (專利法), the PRC Trademark Law (商標法), the PRC Copyright Law (著作權法) and the Measures for Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法); and
- employment and social security liabilities in compliance with the PRC Labour Law (勞動法), the PRC Labour Contract Law (勞動合同法), the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例), the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例) and the Regulation on Labour Security Supervision (勞動保障監察條例).

A summary of the abovementioned laws and regulations applicable to our PRC subsidiaries is set out below.

COMPANY LAW

The establishment and operation of our subsidiaries in China is governed by the PRC Company Law (公司法), which was promulgated by the Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, and 27 October 2005.

The PRC Company Law recognizes two general types of companies, limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed.

The amendments to the PRC Company Law adopted in October 2005 seek to make reform in various aspects and simplify the establishment and operation of companies incorporated in the PRC by lowering capitalisation requirements, increasing shareholder and creditor protection, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises is permitted, and the PRC Company Law shall apply to foreign-invested limited liability companies and foreign-invested joint stock companies subject to stipulations otherwise provided by the laws on foreign investment.

PROPERTY LAW

The properties we lease and own in the PRC are subject to the Property Law of the PRC (物權法) promulgated by the Fifth Meeting of the Tenth National People's Congress ("NPC") on 16 March 2007 and became effective on 1 October 2007. Pursuant to the Property Law, property rights are the exclusive rights which directly dominate a specific property, which include ownership, usufruct rights and security rights to the property. Except as otherwise provided by law, any creation, modification, transfer or termination of any right in immovable properties shall become effective upon registration according to law and any creation or transfer of any right in movable properties shall become effective upon delivery except as otherwise provided by law. Any creation,

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modification, transfer or termination of any property right in respect of any vessel, aircraft and motor vehicle without registration may not challenge any bona fide third party. Any creation, modification, transfer or termination of any property right resulting from the legal documents of the People's Courts or arbitration commissions, or the expropriation decisions made by the people's governments, shall become binding as from the date of their coming into effect. All lawful properties of the State, collectives and individuals are protected by law, and may not be damaged by any entity or individual. The State implements the system of compensated use of natural resources. The term of valid construction land use rights in respect of residential houses may be extended automatically upon expiry of such term. The Property Law of the PRC also makes specific regulations on land contractual operation right, construction land use right, residential land use right, right of easement and various security rights.

The Administration of the Leasing of Urban Premises Procedures (城市房屋租賃管理辦法) (the “**Leasing Procedures**”), promulgated by the former Ministry of Construction on 9 May 1995, which became effective on 1 June 1995, provide that premises without title certificates may not be leased. Further, under the Urban Real Estate Administration Law of the PRC (城市房地產管理法) promulgated by the Standing Committee on 5 July 1994 which became effective on 1 January 1995 and as amended on 30 August 2007, a lease must be filed with the real estate administrative department.

The Land Administration Law of the PRC (土地管理法) promulgated by the Standing Committee on 25 June 1986 which became effective on 1 January 1987 as and amended on 29 December 1988 and 28 August 2004, provides that a Land Use Certificate of State-Owned Land must be obtained from the land administrative department prior to usage of collectively-owned land. Violation of the Land Administration Law of the PRC may result in the imposition of fines and confiscation of the land involved.

The Law of the PRC on Urban and Rural Planning (城鄉規劃法)(the “**Urban and Rural Planning Law**”) was adopted by the Standing Committee on 28 October 2007 and took effect as at 1 January 2008. To construct buildings, structures, roads, pipelines and other projects in an area covered by the plan of a city or town, the developing unit or individual shall apply for a Construction Work Planning Permit. Where a unit engages in construction without obtaining the Construction Work Planning Permit or without complying with the provisions in the said permit, it shall be ordered to discontinue construction by the department in charge of urban and rural planning under the local people's government at or above the county level; if measures for rectification can be adopted to eliminate the impact on the implementation of the plan, it shall be ordered to make rectification within a time limit and be fined not less than five percent but not more than ten percent the cost of the construction project; otherwise, it shall be ordered to demolished the project within a time limit; if the project cannot be demolished, the realty or the unit's unlawful income shall be confiscated, and it may, in addition, be fined not more than ten percent the cost of the construction project.

The Construction Law of the PRC (建築法) (the “**Construction Law**”) was adopted by the Standing Committee on 1 November 1997 and became effective on 1 March 1998. According to the Construction Law, prior to commencement of construction projects, construction units shall apply for a Commence Permits for Construction Works from the competent construction administrative departments under the prefecture-county governments or above, except for small projects below the threshold value set by the competent construction administrative department under the State Council. Construction enterprises, which engage in construction operation without Commence Permits for

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Construction Works or at the time when the application for construction operation has not yet been approved, shall be ordered to rectify the non-compliance activity. Construction enterprises of which construction projects do not meet the requirements on commencing construction shall be ordered to stop construction operation and may be imposed fines.

M&A PROVISIONS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Provisions**”), promulgated by the Ministry of Commerce, China Securities Regulatory Commission (“**CSRC**”), State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce (“**SAIC**”) and State Administration of Foreign Exchange (“**SAFE**”) on 8 August 2006, and effective as at 8 September 2006 and amended on 22 June 2009 by the Ministry of Commerce, stipulates principles regarding equity acquisition and asset acquisition of domestic enterprises by foreign investors. According to the M&A Provisions, such equity acquisition and asset acquisition shall subject to the approval of competent governmental authorities.

In addition, the M&A Provisions stipulates provisions which purport to require an offshore special purpose vehicle (the “**SPV**”) formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC’s approval prior to the listing and trading of the SPV’s securities on an overseas stock exchange.

According to Article 2 of the M&A Provisions, acquisition of a domestic enterprise by a foreign investor refers to the circumstance where a foreign investor purchases by agreement the equity interests of a domestic non-foreign-enterprise (the “**domestic enterprise**”) or subscribes the increased capital of the domestic enterprise, and thus changes such domestic enterprise into a foreign invested enterprise; or a foreign investor establishes a foreign invested enterprise, through which it purchases by agreement the assets of a domestic enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish foreign invested enterprise through which it operates such assets. Aotecar Nanjing and Aotecar Xiangyun are foreign invested enterprises since the date of their establishment and they were not established by way of equity acquisition or asset acquisition as defined by M&A Provisions. Therefore, our PRC Legal Advisers are of the opinion that M&A Provisions are not applicable to the establishment or capital alterations of Aotecar Nanjing and Aotecar Xiangyun.

According to the Section (iii) headed “Special Rules of Special Purpose Vehicle” under the Chapter (IV) of the M&A Provisions and our PRC Legal Advisers’ understanding to PRC laws, a SPV formed for overseas listing purpose and directly or indirectly controlled by PRC enterprise(s) or individual(s), is required to obtain approval from the CSRC for its overseas listing in the event that SPV acquires share of or equity interests in domestic enterprise by way of share swap. On the basis that the Company is not directly or indirectly controlled by PRC enterprise(s) or individual(s) as the SPV defined in the M&A Provisions and there is no circumstance where a foreign investor acquires equity interests in our PRC subsidiaries by way of share swap, our PRC Legal Advisers are of the opinion that the M&A Provisions is not applicable to the Listing and the Listing is in turn not subject to CSRC approval as required in the M&A Provisions.

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FOREIGN INVESTMENT REGULATIONS

The establishment, operation and management of a wholly foreign-owned enterprise (“WFOE”) is governed by the PRC Law on Wholly Foreign-owned Enterprises (外資企業法), which was promulgated by the Standing Committee on 12 April 1986 and amended on 31 October 2000, and similarly the establishment procedures, verification procedures and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labour matters of a Sino-foreign equity joint venture is governed by the PRC Law on Sino-foreign Equity Joint Venture (中外合資經營企業法), which was promulgated by the NPC on 8 July 1979, amended on 4 April 1990 and amended on 15 March 2001 for the second time.

The Guidance Catalogue of Industries for Foreign Investment (amended in 2007) (外商投資產業指導目錄(2007年修訂)) (the “Catalogue”) promulgated by the Ministry of Commerce and National Development and Reform Commission on 31 October 2007 contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign invested industries. Any industry not listed in the Catalogue is a permitted foreign invested industry. Investments in the PRC conducted by foreign investors, WFOEs and Sino-foreign equity joint ventures shall comply with the Catalogue, including obtaining approval with commerce authorities of different levels. Our Group’s business belongs to the category of permitted foreign invested industries.

FOREIGN EXCHANGE REGULATION

Subject to the PRC rules and regulations on currency conversion pursuant to the Foreign Exchange Administration Regulations of the PRC (外匯管理條例) promulgated by the State Council on 29 January 1996 as amended on 14 January 1997 and 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People’s Bank of China (“PBOC”) on 20 June 1996 and became effective on 1 July 1996, our PRC subsidiaries, as foreign invested enterprises, are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. Details are set out in “Distribution and remittance of dividends” under “Shareholder Loans, Dividend Distribution and Outward Remittance for Foreign Invested Enterprises” below. If foreign invested enterprises require foreign exchange for transactions relating to current account items, they may, without approval of SAFE, effect payment from their exchange account or convert and pay at the designated foreign exchange banks, upon provision of valid receipts and proof. However, convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contributions, is still subject to restriction, and prior approval from SAFE or its relevant branches must be sought.

The Implementation Rules of the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則) promulgated by SAFE on 5 January 2007 which became effective on 1 February 2007 and the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership plans and Share Option Schemes of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程), promulgated by SAFE and became effective on 28 March 2007 require, among others, PRC

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individuals who are granted shares or share options pursuant to an employee share option or share incentive plan by an overseas-listed company, to register with SAFE or a local SAFE branch.

FOREIGN EXCHANGE RATE

On 21 July 2005, PBOC declared that the fixed RMB-USD exchange system was replaced by the floating exchange system based on market supply and demand and under strict administration. PBOC will announce the closing price of a foreign currency such as the US dollar traded against RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against RMB on the following working day. The daily trading price of the US dollar against RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of 0.3% around the central parity published by PBOC, while the trading prices of non-US dollar currencies against RMB will be allowed to move within a certain band announced by PBOC. PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation. PBOC is responsible for maintaining a stable RMB exchange rate at an adaptive and equilibrium level based on market conditions with reference to a basket of currencies. On 23 September 2005, the PRC Government widened the daily trading band for RMB against non-US dollar currencies to the range of 3% for inter-bank spot foreign exchange market to improve the flexibility of the new foreign exchange system. It was declared by PBOC on 18 May 2007 that since 21 May 2007, the daily trading price of the US dollar against RMB in the inter-bank spot foreign exchange market will be allowed to enlarge floatation scope within a band of 0.5% around the central parity published by PBOC instead of band of 0.3%.

SHAREHOLDER LOANS, DIVIDEND DISTRIBUTION AND OUTWARD REMITTANCE FOR FOREIGN INVESTED ENTERPRISES

Shareholder Loans

In accordance with PRC laws and regulations regarding foreign exchange regulation, foreign investors must apply to competent foreign exchange administration authorities for foreign loan registration and foreign exchange settlement if they intend to provide shareholder loans to foreign invested enterprises established in the PRC.

The aggregate amount of long and medium-term non-RMB loans, short-term non-RMB loans and RMB loans guaranteed by overseas institutions must be limited to the difference between the total investment amount and the registered capital of the foreign invested enterprise as approved by the relevant examination and approval authority.

The borrowers shall, within 15 days upon the signature of loan contracts, handle the registration procedures at the local foreign exchange administration authorities in order to obtain the Registration Certificate of Foreign Loans. Upon the registration of foreign loans, the debtors can repay the loans through their own foreign exchange funds or by purchasing foreign exchange with RMB upon approval of the foreign exchange administration authority. When the borrowers obtain foreign loans, they shall open and maintain a special foreign exchange account with the Bank of China or other banks approved by SAFE. If the borrowers fail to obtain the said certificate as required, it will not be able to open such an account and it will not be able to make remittances.

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Distribution and Remittance of Dividends

Under the PRC Law on Wholly Foreign owned Enterprises (外資企業法), the PRC Law on Sino-foreign Equity Joint Venture (中外合資經營企業法) and the implementing rules, foreign invested enterprises shall not distribute profits unless they have paid income taxes as specified by the PRC tax laws, contributed the legal accumulation fund and set off financial losses during the previous accounting years. The contribution rate of reserve funds shall be no less than 10% of the after-tax profit. The undistributed profits during the past accounting years can be distributed together with the profits available for distribution during the current accounting year.

The after-tax profits of foreign invested enterprises, if authorised by the board of directors, may be remitted overseas as dividends to equity holders.

In accordance with the relevant PRC laws and regulations, unless otherwise provided by the articles of associations of the enterprises, the investors of foreign invested enterprises shall distribute their incomes according to the proportion of their contribution to the registered capital of the foreign invested enterprise.

FOREIGN EXCHANGE REGISTRATION RELATING TO OVERSEAS SPVS AND ROUND-TRIP INVESTMENT IN CHINA BY DOMESTIC RESIDENTS

The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas SPVs and Round-trip Investment in China by Domestic Residents (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular**”) promulgated by SAFE on 21 October 2005 which became effective on 1 November 2005 requires:

- PRC domestic residents who plan to establish or control an overseas SPV, which is established or controlled for the purpose of equity financing with assets or equity interests of domestic enterprises held by such PRC domestic residents and to conduct foreign direct investment in China (referred to as “Round-trip Investment” in the SAFE Circular), must conduct foreign exchange registration with the local foreign exchange administration authority;
- PRC domestic residents who have contributed their assets or shares of a domestic enterprise into overseas SPVs, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas SPVs with the local foreign exchange administration authority; and
- PRC domestic residents who are the shareholders of overseas SPVs are required to go through registration for the modification of the record with the local foreign exchange administration authority within 30 days from the date of any major capital change event, such as an increase or decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

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Except Mr. Qian, none of Shareholders is a PRC domestic resident. As advised by our PRC Legal Advisers, since the acquisition of equity interests in our Group by Mr. Qian is by way of cash and share incentive rather than contributing his assets or equity interests in a domestic enterprise into SPV for the purpose of overseas equity financing, our PRC Legal Advisers are of the opinion that the Company and its overseas subsidiaries are not SPVs as defined in the SAFE Circular and Mr. Qian's investment in our Group does not constitute a Round-trip Investment as defined in the SAFE Circular. Therefore, none of Shareholders is subject to the registration requirements under the SAFE Circular in respect of their investments in our Group.

TAXATION

Enterprise Income Tax

The PRC Law on Enterprise Income Tax (企業所得稅法) (the “**New EIT Law**”) was promulgated by the NPC on 16 March 2007 and effective on 1 January 2008. Under such law, enterprises and other organisations which generate income in the PRC are required to pay enterprise income tax in the PRC.

The New EIT Law provides a unified tax rate at 25% for all PRC resident enterprises, including domestic and foreign invested enterprises. Non-PRC Resident Enterprises (means companies established pursuant to a non-PRC law with their de facto management conducted outside the PRC, but which have established organisations or premises in the PRC, or which have generated income within the PRC without having established organisations or premises in the PRC) which have not established organisation or premises within the PRC, or if established, the income derived is in fact not associated with such organisations and premises in the PRC, are subject to enterprise income tax at a rate of 20% of their income generated within the PRC. The 20% tax rate applicable to such Non-PRC Resident Enterprises has been further reduced to 10% by the implementation rules of the New EIT Law.

On 26 December 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law (國務院關於實施企業所得稅過渡優惠政策的通知) (the “**Transition Preferential Policy Circular**”), which became effective simultaneously with the New EIT Law. Under the New EIT Law and the Transition Preferential Policy Circular, enterprises that were established before 16 March 2007 and already enjoyed preferential tax treatments will continue to enjoy them (i) in the case of preferential tax rates: the tax rate will gradually increase from 15% to 25% for a period of five years from 1 January 2008 (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term.

The New EIT Law and its implementing rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the Implementation Rules, to enjoy a reduced 15% enterprise income tax rate subject to certain new qualification criteria.

On 14 April 2008, the State Administration of Taxation, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Measures for Administration of the

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Accreditation of High and New Technology Enterprises (高新技術企業認定管理辦法) delineating the specific criteria and procedures for the accreditation of high and new technology enterprises.

According to the Circular on Issues concerning the Implementation of Preferential Enterprise Income Tax Treatment for High and New Technology Enterprise (國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知), promulgated by the State Administration of Taxation on 22 April 2009 and effective retrospectively as at 1 January 2008, upon the accreditation/re-examination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination. The enterprises, upon obtaining the Certificate of High and New Technology Enterprise issued by the administrative departments for accreditation of high and new technology enterprises of province, autonomous region, municipality or municipality with independent planning status, can apply to the competent tax authorities for tax reduction and exemption; upon the fulfilment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a rate of 15% or enjoy a transitional preferential tax treatment.

Value-added Tax

Pursuant to the PRC Provisional Regulations on Value-added Tax (增值稅暫行條例) which was promulgated by the State Council on 13 December 1993, effective on 1 January 1994, amended on 5 November 2008, and their implementation rules, the sale of products within the PRC, the importation of products and the provision of processing, repair and /or replacement services within the PRC are subject to value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17%, or, in certain limited circumstances, 13%, depending on the product type.

ENVIRONMENTAL PROTECTION REGULATION

The PRC Environmental Protection Law (環境保護法) promulgated on 26 December 1989 by the Standing Committee which became effective on 26 December 1989, establishes the legal framework on environmental protection in the PRC. The administration department of environmental protection of the State Council implements unified supervision and management of the national environmental protection work, and establishes national standards for the discharge of pollutant. Each of the local environmental protection bureaus is in turn responsible for the environmental protection work within their respective jurisdictions.

Air Pollution

The PRC Air Pollution Prevention Law (大氣污染防治法), adopted on 5 September 1982 and amended on 29 August 1995 and 29 April 2000 respectively by the Standing Committee, is effective as at 1 September 2000. The environmental protection department of the State Council formulates the national air environmental quality standards. Each of the local environmental protection bureaus is authorised to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement.

Enterprises which emit pollutant into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds the national or local air

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environmental quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at the county level or above can impose a penalty upon such enterprises.

Water Pollution

The PRC Water Pollution Prevention Law (水污染防治法) was adopted on 11 May 1984 amended on 15 May 1996 and 28 February 2008 respectively by the Standing Committee and took effect on 1 June 2008, according to which, the environmental protection department of the State Council governs the national waste discharge standards and the local provincial governments promulgate more specific local waste discharge standards. The discharge of waste must comply with both the national and local waste discharge standards.

Enterprises which discharge waste into water must pay a treatment fee. If the waste discharged exceeds the national or local waste discharge standards, the relevant enterprises must pay a higher waste treatment fee. The competent environmental protection department has the right to order the enterprises which severely pollute water to correct their actions by reducing their waste discharge within a stipulated time period or order the enterprises to stop production or be closed.

Noise Pollution

The PRC Noise Pollution Prevention Law (環境噪聲污染防治法) promulgated by the Standing Committee on 29 October 1996 which became effective on 1 March 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause noise pollution must prepare and submit an environmental impact statement to the competent environmental protection department for approval. Facilities for prevention and control of noise pollution must be designed, approved by the competent environmental protection department prior to commencement of the project, and built and put into use simultaneously with the project works. Facilities for prevention and control of noise pollution may not be dismantled or left idle without the approval of the competent environmental protection department.

Solid Waste Pollution

The Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (固體廢物污染環境防治法) was promulgated on 30 October 1995 and amended on 29 December 2004 by the Standing Committee, according to which, the environmental protection department of the State Council is in charge of promulgating national standards relating to the discharge of solid wastes. Manufacturers are required to register with the environmental protection department relating to each type of solid waste discharged by such manufactures. If a manufacturer fails to register, the environmental protection department has the right to order the manufacturer to rectify its action or impose a fine on the same manufacturer.

On 20 March 2003, Aotecar Nanjing obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Qinhuai District and had successfully renewed it in the following years. At present, Aotecar Nanjing holds the renewed Pollutant Discharge Permit which is valid until 31 March 2011 and permits Aotecar Nanjing to discharge such water pollutants as

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chemical oxygen demand, ammonia nitrogen, suspended substances, lipid series and solid pollutants such as emulsion.

On 31 March 2010, Aotecar Xiangyun has obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Jiangning District, which is valid until 31 March 2011 and permits Aotecar Xiangyun to discharge such water pollutants as chemical oxygen demand, ammonia nitrogen, suspended substances and animal-plant oil.

On 31 March 2010, Aotecar Casting has obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Jiangning District, which is valid until 31 March 2011 and permits Aotecar Casting to discharge such water pollutants as chemical oxygen demand, ammonia nitrogen, suspended substances, animal-plant oil and such gas pollutants as smoke dust and sulfur dioxide.

Each of Aotecar Nanjing, Aotecar Xiangyun and Aotecar Casting had not failed in renewing their pollutant discharge permit.

Construction Project Environmental Protection

The PRC Law on Appraising of Environment Impacts (環境影響評價法) (the “**Environment Impacts Appraising Law**”) was promulgated on 28 October 2002 by the Standing Committee and became effective on 1 September 2003. Pursuant to the Environment Impacts Appraising Law, the State practices classified management over the appraisals of the environmental impacts of construction projects according to the seriousness of the impacts. The construction entities shall work out the environmental impact appraisal documents according to the relevant regulations and submit them to the environmental protection department for approval. Where any construction entity fails to submit its environmental impact appraisal documents of the construction project concerned and unlawfully start the construction, it shall be ordered by the administrative department of environmental protection that is entitled to examine and approve the environmental impact appraisal documents to stop the construction and go through the relevant procedures within a prescribed time period. If it fails to go through the relevant procedures within the time period, it may be fined from RMB50,000 to RMB200,000, and the person in-charge and other personnel of the construction entity who are held to be directly responsible shall be given an administrative punishment.

According to the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the “**Construction Project Environmental Protection Regulations**”), promulgated by the State Council of the PRC on 29 November 1998 and effective on the same day, the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. A construction unit that fails to file an application for acceptance checks on completion of construction of the environmental protection facilities of a construction project having gone into trial production for more than 3 months shall be ordered by the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form to go

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through the formalities of acceptance checks on completion of the environmental protection facilities within the prescribed time limit; whoever fails to complete the said formalities shall be ordered to stop the trial production and may be imposed a fine of not more than RMB50,000.

REGULATION ON THE PRECURSOR CHEMICALS

For the purpose of strengthening the administration of precursor chemicals, regulating the production, distribution, purchase, transportation and import and export of precursor chemicals, preventing precursor chemicals from being used in manufacturing drugs and maintaining the economic and social order, the following two statutes are formulated: Regulations for Administration of Precursor Chemicals (易制毒化學品管理條例), promulgated by the State Council on 26 August 2005, effective on 1 November 2005; and Measures for Administration of the Purchase, Sales and Transportation of Precursor Chemicals (易制毒化學品購銷和運輸管理辦法), promulgated by the Ministry of Public Security of the PRC on 22 August 2006 and effective on 1 October 2006.

The PRC adopts the classified administration and licensing system to the production, distribution, purchase, transportation and import and export of precursor chemicals. The precursor chemicals are classified into three categories. Category I includes the major materials that can be used for producing drugs. Categories II and III include the chemical agents that can be used for producing drugs.

Any entity that is to purchase precursor chemicals under any item in Category I other than pharmaceuticals shall apply for a purchase licence at the public security organ of the local people's government at the provincial level; any entity that purchases precursor chemicals under any item in Categories II and III shall file it for record with the public security organ of the local people's government at the county level. An entity may purchase precursor chemicals only after it has obtained the purchase licence or the record-keeping certification for purchase. The record-keeping certification is valid for one month and one-time use only. The entity, which does not commit any non-compliance activity in this regard within one year after filing, may apply for a multiple-use record-keeping certification that is valid for six months. During our operation, our PRC subsidiaries use sulfuric acid as one of the substances stipulated in Category III as industrial detergents.

Where an entity, in violation of the provisions, engages in the purchase of precursor chemicals and commits any of the following acts, the public security organ shall confiscate the precursor chemicals illicitly purchased, and impose on the purchaser a fine of not less than 10 times but not more than 20 times of the value of the precursor chemicals illicitly purchased; in case 20 times of such value is less than 10,000 Yuan, the fine shall be 10,000 Yuan; and if a crime is constituted, the relevant violator shall be investigated for criminal liabilities according to law:

- without authorization, engaging in the purchase of any precursor chemicals without permission or filing for record; and
- engaging in the purchase of any precursor chemicals with the licence or record-keeping certification of another person or with a forged, altered or invalid licence or record-keeping certification.

Aotecar Nanjing and Aotecar Xiangyun need to use sulphuric acid in their production process that is classified as precursor chemicals in Category III and therefore is subject to a filing

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requirement prior to purchase. Aotecar Nanjing and Aotecar Xiangyun have duly filed with the competent public security authority for their purchase of sulphuric acid.

PRODUCT QUALITY

The principal law governing product quality liability is the PRC Product Quality Law (產品質量法) (the “**Product Quality Law**”), which was promulgated by the Standing Committee on 22 February 1993 and as amended on 8 July 2000. Pursuant to the Product Quality Law, a seller shall have the following obligations:

- a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of such stock;
- measures shall be adopted to keep products for sale in good quality;
- lose-effect or defective or deteriorated products shall not be sold;
- products must be sold with labels that comply with the relevant provisions;
- shall not forge the origin of a product or falsely use the name and address of another producer;
- shall not forge or falsely use another producer’s authentication marks, names of famous/premium brand or other product quality marks; and
- shall not mix impurities or imitations into products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licences and criminal liability. Aggrieved consumers may seek compensation from both manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

PRODUCTION LICENCE OF INDUSTRIAL PRODUCTS AND IMPLEMENTATION PROCEDURES

The PRC Administrative Rules on Production Licence of Industrial Products (工業產品生產許可證管理條例), which was promulgated on 9 July 2005 by the State Council of the PRC and became effective on 1 September 2005, provides that a production licensing system be implemented for enterprises engaging in the production of important industrial products listed in the Catalogue for Industrial Products Implementing Products Licencing System of Industrial Products (實行生產許可證制度管理的產品目錄) (the “**Licence Catalogue**”) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine (the “**AQSIQ**”). No enterprise or individual may produce, sell, or use the products in the Licence Catalogue without obtaining a production licence for industrial products (the “**Production Licence**”). To obtain a Production Licence, an enterprise must have a business licence, professional technical personnel, production

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conditions and inspection and quarantine measures, technology, skills and documents regarding production of its process that are commensurate with the product, and a sound and effective system for quality administration. The products of the enterprise shall also comply with state standards, industrial standards and requirements for protection of health, personal life, and property security. The enterprise may not use outdated skills and processes, carry out productions which may result in high energy consumption, environmental pollution, or waste resources. The Implementation Measures of the PRC Administrative Rules on Production Licences of Industrial Products (工業產品生產許可證管理條例實施辦法), which was promulgated on 15 September 2005 by AQSIQ and became effective on 1 November 2005, provides the application procedures licensing for industrial products under the administration of the production licensing system of production within the PRC. The enterprise shall submit an application to the local provincial administration of quality supervision, inspection and quarantine for the production of the products that are included in the Licence Catalogue. An acceptance of the application decision will be made within five days of receipt of the application documents of the applicant. A decision on whether to grant the license shall be made by AQSIQ within 60 days of acceptance of the application and the production licensing certificate which is valid for five years shall be issued within 10 days of a decision. The entrusting enterprise and entrusted enterprise which engage in consigned processing of products under the administration of production licensing system for industrial products shall file with the local provincial administration of quality supervision, inspection and quarantine.

As air conditioning compressor has been listed in the licence catalogue since 2007, each of Aotecar Nanjing and Aotecar Xiangyun is required to obtain a production licence. Aotecar Nanjing has obtained a production licence on 19 October 2007, which is valid until 18 October 2012 and permits Aotecar Nanjing to produce automobile air-conditioning compressors (scroll automobile air-conditioning compressors of WXB Series, WX Series and WXH Series, and piston passenger automobile air-conditioning compressors of ATC Series).

Aotecar Xiangyun obtained a Production Licence on 2 July 2010 which is valid until 1 July 2015 and permits Aotecar Xiangyun to produce automobile air-conditioning compressors (scroll automobile air-conditioning compressors of WX Series and WXH Series). Our PRC Legal Advisers advised that, as Aotecar Xiangyun conducted production business prior to the obtaining of the Production Licence, it may be subject to administrative penalties including confiscation of products so produced and the resultant income gained, and fines of an amount equivalent to three times of the value of the products so produced and the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局) may impose a fine on the past non-compliance. However, on the basis that (i) Aotecar Xiangyun has properly rectified its non-compliance by obtaining a valid Production Licence, and (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 12 October 2010 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with Production Licence and administration of product quality, and Aotecar Xiangyun's products are in line with the relevant national quality standards, (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the Production Licence, our PRC Legal Advisers consider the risk of Aotecar Xiangyun being sanctioned due to the above non-compliance to be low.

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MANUFACTURING SAFETY

Pursuant to the Law of Manufacturing Safety of the PRC (安全生產法) effective on 1 November 2002, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with the applicable laws and regulations. Manufacturers shall provide production safety education and training programs to their employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. The labour protection equipment must meet national or industrial standards and the manufacturers shall supervise and educate their employees to use such equipment according to the prescribed internal rules. Manufacturers not meeting relevant legal requirements are not permitted to commence their manufacturing activities.

CONSUMER PROTECTION

The PRC Law on the Protection of the Rights and Interests of Consumers (消費者權益保護法) (the “**Consumer Protection Law**”), promulgated on 31 October 1993 by the Standing Committee which became effective on 1 January 1994, prescribes standards of behaviour which business operators must observe in their dealings with consumers:

Business operators must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, provide consumers with truthful information and advertising in relation to goods and services, truthful and clear answers to consumers’ questions in relation to goods or services, and using method ensure that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples, not impose unreasonable or unfair terms on consumers or exclude civil liability unreasonably.

Article 35 of the Consumer Protection Law stipulates that consumers whose legitimate rights and interests are infringed upon during the purchase or use of a product may demand compensation from the relevant vendor. In the event the liability is attributable to another supplier or the manufacturer, the vendor may in turn demand recovery of any compensation paid to the consumer from the supplier or manufacturer, as the case may be. In addition, consumers who suffer personal injury or property damage due to product defects may demand compensation from either the vendor or the manufacturer. If the liability is attributable to the manufacturer, the vendor may demand recovery of any compensation which it paid to the consumer. If the default and liability are attributable to the vendor, the manufacturer may demand recovery of any compensation which it paid to the consumer.

In addition, Article 45 provides that business operators must be responsible for the repair, replacement or return of goods if such goods are guaranteed by the PRC laws or pursuant to agreements between the business operators and consumers, and further, that business operators must bear the reasonable cost of transportation for large commodities in the event of repair, replacement or return. Article 45 also stipulates that should a product not work properly after being repaired twice within the term of guaranteed repair, the business operators shall be responsible for replacement or return.

REGULATORY OVERVIEW

Violation of the Consumer Protection Law may result in the imposition of fines, suspension of business operations, revocation of business licences and criminal liability.

INTELLECTUAL PROPERTY RIGHTS

International Conventions

China has adopted legislations governing intellectual property rights, including patents, copyrights, trademarks and domain names. China is a party to several international conventions on intellectual property rights and became a member to the Agreement on Trade Related Aspects of Intellectual Property Rights (與貿易有關的知識產權協議) upon its accession to the World Trade Organisation in December 2001. China is also a party to the Paris Convention for the Protection of Industrial Property (保護工業產權巴黎公約), the Berne Convention for the Protection of Literary and Artistic Works (保護文學和藝術作品伯爾尼公約), the Universal Copyright Convention (世界版權公約), the Madrid Agreement Concerning the International Trademark Registration of Marks (商標國際註冊馬德里協定) and the Patent Cooperation Treaty (專利合作條約).

Trademark Regulations

The PRC Trademark Law (商標法) (the “**Trademark Law**”) was promulgated by the Standing Committee on 23 August 1982 which became effective on 1 March 1983 and amended on 22 February 1993 and 27 October 2001. The PRC Trademark Law seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators.

Under the Trademark Law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

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In the event of any of the abovementioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation.

Also, under this law, a trademark registrant may, by concluding a trademark licensing contract, authorise another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor's registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used.

Patent Law

The Patent Law of the PRC (專利法) (the “**Patent Law**”) was promulgated by the Standing Committee on 12 March 1984 which became effective on 1 April 1985 and amended on 4 September 1992, 25 August 2000 and 27 December 2008. The purpose of the Patent Law is to protect and encourage invention, foster applications of invention and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper licence from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

Copyright Law

The principal regulations governing the copyright in the PRC are the Copyright Law of the PRC (著作權法) (the “**Copyright Law**”), which was promulgated by the Standing Committee on 7 September 1990 and amended on 27 October 2001 and on 26 February 2010, the Implementation Rules of the Copyright Law (2002 Revision) (著作權法實施條例(2002年修訂)), which was promulgated by the State Council on 2 August 2002 and became effective on 15 September 2002, and the Regulations on the Protection of Computer Software (計算機軟件保護條例), which was promulgated by the State Council on 20 December 2001 and became effective on 1 January 2002. Under the Copyright Law, copyright is automatically granted upon the completion of a work and registration of copyright works is voluntary. The rights of authorship alteration and integrity of an author shall be unlimited in time. The protection period of right of publication and other rights is lifetime of the author and 50 years from the death of the author if the author is an individual. Where the copyright belongs to a legal entity or organisation or in respect of a service work where the legal entity or organisation enjoys the copyright (except the right of authorship), the protection period of publication and other rights is 50 years from the date of first publication.

The Regulation on the Protection of Computer Software (計算機軟件保護條例) provides that computer software, including computer programs and related documentation, is a type of copyrightable work subject to protection under the Copyright Law.

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LABOUR

Employment Contracts

The PRC Labour Law (勞動法) (the “**Labour Law**”) was promulgated on 5 July 1994 by the Standing Committee which became effective on 1 January 1995, and was amended on 27 August 2009. According to the Labour Law, workers enjoy the rights to equal opportunities of employment and choice of jobs, the right to labour remuneration and the right to Social Insurance protection and welfare and other rights as provided by law; employers shall establish and improve their rules and regulations according to law and ensure that the workers enjoy their rights and perform their obligations; the State shall adopt all possible measures to promote employment, develop vocational education, formulate labour standards, regulate social income, improve Social Insurance and so on.

The PRC Labour Contract Law (勞動合同法) promulgated by the Standing Committee on 29 June 2007 which became effective on 1 January 2008, governs the relationships between employers and employees and makes specific provisions in relation to the terms and conditions of an employment contract. The PRC Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Pursuant to the PRC Labour Contract Law, employment contracts lawfully concluded prior to the implementation of the Labour Contract Law and continuing as at the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labour Contract Law but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

Employee Funds

Under applicable PRC laws, rules and regulations, including the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例) promulgated by the State Council on 22 January 1999 which became effective on 22 January 1999, and the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, the Regulations on Labour Security Supervision (勞動保障監察條例) promulgated by the State Council on 1 November 2004 which became effective on 1 December 2004, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

As advised by our PRC Legal Advisers, except as disclosed in the paragraphs under “Summary – Non-compliance of the Group”, “Risk Factors”, “Regulatory Overview – Production licence of industrial products and implementation procedures” and “Business” in this prospectus, the Group complied with, in all material respects, all the relevant laws and regulations in the PRC and obtained all requisite licences, approvals and permits from relevant regulatory authorities in the PRC for its operations.

HISTORY, DEVELOPMENT AND REORGANISATION

BUSINESS DEVELOPMENT

Introduction

Our business originated in 2000 when Aotecar Nanjing was established. With the leadership of Mr. Qian, who has extensive knowledge in the automobile air-conditioning compressor industry, our business developed rapidly in the previous decade.

Business milestones

The key milestones of our business development are as follows:

2000	Established Aotecar Nanjing.
2001	- Obtained CCCAP Certification for automobile air-conditioning compressors. - Old Production Base commenced production. - R&D collaborations with Purdue University in the US. - Obtained ISO9001 Certification.
2002	Products classified as part of the National Torch Project (國家級火炬計劃項目).
2003	Obtained ISO/TS 16949:2002 Certification.
2004	Awarded Prizes of Science and Technology Progress (科技進步獎) by the People's Governments of Nanjing and Jiangsu Province respectively.
2005	- Scroll automobile air-conditioning compressor for passenger vehicle classified as a High and New Technology Product (高新技術產品) by Jiangsu Province Science and Technology Department. - Began to receive titles such as “優秀供應商 (Excellent Supplier)” and “免檢產品 (Exempted Examination Products)” from customers signifying recognition of our brand name and product quality.
2006	Commenced R&D for the electric vehicle air-conditioning compressor.
2007	Classified as one of “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商) by China Automotive News (《中國汽車報》).

HISTORY, DEVELOPMENT AND REORGANISATION

- Mr. Qian classified as “Top 10 Men of the Fourth National Automotive Parts Suppliers” (第四屆全國汽車零部件供貨商10佳風雲人物) by China Automotive News (《中國汽車報》).
 - Recognised as High and New Technology Enterprise (高新技術企業) by Jiangsu Province Science and Technology Department.
- 2008
- Established Aotecar Xiangyun.
 - Established Aotecar Casting.
 - Listed in Forbes Magazine as a “China Best Small & Medium-sized Enterprise 2008” (2008中國潛力企業).
 - Variable displacement scroll automobile air-conditioning compressors and electric scroll automobile air-conditioning compressors recognised as scientific and technological achievements by Nanjing Science & Technology Bureau.
 - Mr. Qian named “Top 30 Entrepreneurs in Automotive Parts Industry in China in the 30 Years of Economic Reform” by China Automotive News (《中國汽車報》).
 - Mr. Qian named “Top 30 Entrepreneurs in Automobile Industry in China in the 30 years of Economic Reform” by China Association of Automobile manufacturers (中國汽車工業協會), Society of Automotive Engineers in China (中國汽車工程學會), China Automotive Technology & Research Centre (中國汽車技術研究中心), Automotive Industry Sub-council of the China Council for the Promotion of International Trade (中國貿促會汽車行之分會) and China Automotive News (《中國汽車報》).
 - Classified as one of “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商) by China Automotive News (《中國汽車報》).
- 2009
- New Production Base commenced commercial operations.
 - Accredited as “Jiangsu Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology” (江蘇省節能環保汽車空調壓縮機工程技術研究中心).
 - Approved by National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China (全國冷凍空調設備標準化技術委員會), an institute authorised by the PRC Standardisation Administration, as the key drafting organisation for the national standards for “Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles” (汽車空調用小排量渦旋壓縮機).

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- Electric hermetic scroll compressors for use in hybrid electric vehicles has been classified as “High and New Technology Products” (高新技術產品) and was approved by the Jiangsu Province Science and Technology Department as one of the development projects to receive funds for commercialisation of technology advancement.
 - Listed in Forbes Magazine as a “2009 Forbes China Up and Comers” (2009福布斯中國潛力企業).
 - Classified as one of “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商)⁽¹⁾ by China Automotive News (《中國汽車報》).
- 2010
- Listed in Forbes Magazine as a “2010 Forbes China Up & Comers” (2010福布斯中國潛力企業).
 - Acknowledged as a “Well-known Trademark” (馳名商標) by Jiangsu Nanjing Intermediate People’s Court (江蘇省南京市中級人民法院).

CORPORATE HISTORY

Our Company

Our Company was incorporated as an exempted company in the Cayman Islands on 25 May 2010. Please refer to “Further information about the Company – Changes in share capital of our Company” in Appendix VI to this prospectus for details of changes in the share capital of our Company. Upon completion of the Reorganisation, our Company became the holding company of our Group.

Aotecar International

Aotecar International was incorporated as a limited liability company in the BVI on 16 January 2007 for investment holding purposes and is a wholly-owned subsidiary of our Company. Aotecar International has not carried out any business activity since its incorporation other than as an investment holding company.

As at 16 January 2007, Aotecar International was 100% held by Fang Brothers. On 29 January 2008, the entire issued share capital of Aotecar International was transferred from Fang Brothers to CUAS. At that time, CUAS was 100% owned by Fang Brothers.

Our relationship with CUAS

CUAS was incorporated in the BVI as a limited liability company on 8 January 2008 for investment holding purposes. Prior to the Reorganisation, CUAS was the holding company holding 97% of the issued share capital of Aotecar International. As part of the Reorganisation, CUAS

Note:

(1) In 2009, the name of the award “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商) has been changed to “National Top 100 Excellent Automotive Parts Suppliers” (全國百佳優秀汽車零部件供應商).

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transferred its entire shareholding in Aotecar International to our Company in consideration of the allotment and issue of Shares by our Company to the shareholders of CUAS. CUAS is now neither a member nor a shareholder of our Group. CUAS also holds 60% of the issued share capital of Xiezhong International, which in turn holds the entire issued share capital of Xiezhong Hong Kong, the direct holding company of Xiezhong Nanjing. For details of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing, please refer to “Relationship with Controlling Shareholders – Xiezhong Nanjing” in this prospectus. Save for its shareholding in Xiezhong International, CUAS has no other investments and is not engaged in any business activities.

CUAS as a holding company of Aotecar International prior to the Reorganisation and its shareholding changes

In connection with using CUAS as the company for holding the issued share capital of Aotecar International, the following transactions were entered into and CUAS underwent the following changes in shareholding:

- (a) Pursuant to a loan agreement entered into among Fang Brothers, CITIC Capital China Fund I and CDH China Management Company Limited on 19 January 2007 (the “**Loan Agreement**”), CITIC Capital China Fund I and CDH China Management Company Limited (acting on behalf of CDH Cool) agreed to advance an interest free loan in the amount of RMB132,886,996 (being RMB66,443,498 from each of CITIC Capital China Fund I and CDH China Management Company Limited) to Fang Brothers to effect the acquisition of equity interests in Aotecar Nanjing.
- (b) The Loan Agreement was supplemented and amended by a supplemental loan agreement entered into among Fang Brothers, CITIC Capital China Fund I, CDH China Management Company Limited and CDH Cool on 10 December 2007 (the “**First Supplemental Loan Agreement**”) whereby (i) CDH China Management Company Limited assigned and transferred all its rights, title, benefit, interest, liabilities and obligations under the Loan Agreement to CDH Cool and CDH Cool replaced CDH China Management Company Limited as a party to the Loan Agreement and (ii) the amount of the loan advanced was increased to RMB153,180,396 (being RMB87,531,655 and RMB65,648,741 from CITIC Capital China Fund I and CDH Cool, respectively).
- (c) On 29 January 2008, CUAS allotted its first share to, and became 100% owned by, Fang Brothers.
- (d) On 20 March 2008, a tripartite confirmation was entered into among Fang Brothers, Aotecar Hong Kong and CUAS (the “**Tripartite Confirmation**”) whereby CUAS assumed Aotecar Hong Kong’s obligation to pay the consideration of US\$30,673,735.7 to Fang Brothers for the transfer by the latter to Aotecar Hong Kong of the entire equity interests in Aotecar Nanjing. For details of the equity transfer, please see “Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong” below.
- (e) The Loan Agreement (as supplemented by the First Supplemental Loan Agreement) referred to at items (a) and (b) above was further supplemented and amended by a second supplemental loan agreement entered into among Fang Brothers, CITIC Capital

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China Fund I, CDH Cool and CUAS on 12 June 2008 (the “**Second Supplemental Loan Agreement**”) whereby, among other things:

- (i) the RMB153,180,396 advanced by CITIC Capital China Fund I and CDH Cool to Fang Brothers (in the respective amounts of RMB87,531,655 and RMB65,648,741) was restated in US\$ as US\$20,840,871 (in the respective amounts of US\$11,909,069 and US\$8,931,802);
 - (ii) the parties acknowledged and confirmed that of the US\$20,840,871 owed by Fang Brothers to CITIC Capital China Fund I and CDH Cool, US\$341.4 and US\$262.2 had been utilised by CITIC Capital China Fund I and CDH Cool, respectively, as expenses and would not need to be repaid by Fang Brothers;
 - (iii) the parties further agreed that Fang Brothers will repay the balance of the loan of US\$20,840,267.4 (being US\$20,840,871 less US\$341.4 and US\$262.2) to CITIC Capital China Fund I and CDH Cool by assigning to the latter its creditor’s rights to US\$11,884,010.2 and US\$8,914,047.5 of the US\$30,673,735.7 owed to it by CUAS as referred to at item (d) above and by making cash payments of US\$24,717.5 and US\$17,492.3 to CITIC Capital China Fund I and CDH Cool, respectively; and
 - (iv) the US\$30,673,735.7 owed by CUAS as to US\$11,884,010.2, US\$8,914,047.5, and US\$9,875,678.0 to CITIC Capital China, CDH Cool and Fang Brothers, respectively, will be repaid by CUAS by way of the allotment and issue to Fang Brothers, CITIC Capital China and CDH Cool (or their respective nominees) of shares representing 49.86%, 28.57% and 21.43% of the issued share capital of CUAS, respectively.
- (f) On 12 June 2008, pursuant to the Second Supplemental Loan Agreement described at item (e) above, Fang Brothers assigned its creditor’s rights to US\$11,884,010.2 and US\$8,914,047.5 of the US\$30,673,735.7 owed to it by CUAS to CITIC Capital China Fund I and CDH Cool, respectively.
- (g) On 12 June 2008, CUAS allotted and issued shares representing 49.86%, 28.57%, 11.43%, and 10.00% of the issued share capital of CUAS to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto at subscription prices of US\$9,875,678.0, US\$11,884,010.2, US\$4,754,158.7 and US\$4,159,888.8, respectively. The subscription prices were settled by the capitalisation of amounts owed by CUAS to Fang Brothers, CITIC Capital China Fund I (for CITIC Capital China) and CDH Cool (for itself and CDH Auto) described at item (f) above. After the said allotments and issues of shares in CUAS, all amounts under the Loan Agreement (as supplemented and amended by the First Supplemental Loan Agreement and the Second Supplemental Loan Agreement) were fully settled. On the same day, a shareholders agreement in respect of CUAS was entered into among Fang Brothers, CITIC Capital China, CDH Cool, CDH Auto and CUAS (the “**CUAS Shareholders Agreement**”) to provide for the ownership, management and activities of CUAS and the rights and duties between and among the parties.

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- (h) On 18 September 2008, pursuant to an agreement for sale and purchase of 20% of the shares in CUAS entered into among Fang Brothers, CITIC Capital China and CDH Auto on 17 September 2008 (the “**First CUAS Sale and Purchase Agreement**”), Fang Brothers transferred 11.43% and 8.57% of the issued share capital of CUAS to CITIC Capital China and CDH Auto for cash considerations of RMB57,799,032 and RMB43,349,274 respectively, which considerations were determined after arms’ length negotiations by the parties with reference to a combination of the value of Aotecar Nanjing as at 31 December 2005 as determined by an independent professional valuer in the PRC, subsequent earnings of Aotecar Nanjing and the value of Xiezhong Nanjing based on its net profit for 2007 at a certain price-earnings multiple and had been settled.
- (i) A supplemental agreement to the CUAS Shareholders Agreement was also entered into among Fang Brothers, CITIC Capital China, CDH Cool, CDH Auto and CUAS on 17 September 2008 to supplement and amend the CUAS Shareholders Agreement in light of the First CUAS Sale and Purchase Agreement. On 18 September 2008, a loan assignment agreement was also entered into among Fang Brothers, CITIC Capital China, CDH Auto and CUAS in connection with the First CUAS Sale and Purchase Agreement whereby Fang Brothers assigned its creditor’s rights against CUAS in respect of US\$3,311,909 and US\$2,483,932 to CITIC Capital China and CDH Auto, respectively. Such creditor’s rights against CUAS arise from further shareholders’ loans advanced by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto to CUAS in the amounts of US\$14,489,603, US\$8,279,774, US\$3,311,909 and US\$2,897,921, respectively, between 26 June 2008 and 3 July 2008 in connection with the funding for the acquisition of equity interests in Xiezhong International by CUAS.
- (j) On 10 December 2008, pursuant to an agreement for sale and purchase of 20% of the shares in CUAS entered into among Fang Brothers, CITIC Capital China and CDH Auto on 5 December 2008 (the “**Second CUAS Sale and Purchase Agreement**”), Fang Brothers transferred a further 11.43% and 8.57% of the issued share capital of CUAS to CITIC Capital China and CDH Auto for cash considerations of RMB57,799,032 and RMB43,349,274 respectively, which considerations were determined after arms’ length negotiations by the parties with reference to the same factors as described at item (h) above and had been settled.
- (k) A second supplemental agreement to the CUAS Shareholders Agreement dated 5 December 2008 and a third supplemental agreement to the CUAS Shareholders Agreement dated 16 January 2009 were also entered into among CITIC Capital China, CDH Auto, CDH Cool, Fang Brothers and CUAS to further supplement and amend the CUAS Shareholders Agreement in light of the Second CUAS Sale and Purchase Agreement. On 5 December 2008, a loan assignment agreement was also entered into among Fang Brothers, CITIC Capital China, CDH Auto and CUAS in connection with the Second CUAS Sale and Purchase Agreement whereby Fang Brothers assigned its creditor’s rights against CUAS in respect of US\$3,311,909 and US\$2,483,932 to CITIC Capital China and CDH Auto, respectively. Such creditor’s rights against CUAS arise from the further shareholders’ loans described at item (i) above.

HISTORY, DEVELOPMENT AND REORGANISATION

- (l) On 31 May 2010, pursuant to an agreement for sale and purchase of seven shares in CUAS entered into between CDH Auto and CDH Cool on 20 May 2010 (the “**Third CUAS Sale and Purchase Agreement**”), CDH Auto transferred to CDH Cool 1% of the issued share capital of CUAS for a cash consideration of RMB5,057,415 which was determined after arms’ length negotiations by the parties with reference to the same factors as described at item (h) above and had been settled. After such transfer, CUAS became owned as to 10.00%, 51.43%, 12.43%, and 26.14% by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively.
- (m) A fourth supplemental agreement to the CUAS Shareholders Agreement was also entered into among CITIC Capital China, CDH Auto, CDH Cool, Fang Brothers and CUAS on 20 May 2010 to further supplement and amend the CUAS Shareholders Agreement in light of the Third CUAS Sale and Purchase Agreement by amending the schedule to the CUAS Shareholders Agreement that sets out the respective shareholdings of the shareholders.

Background and profile of the shareholders

Fang Brothers is an investment holding company wholly-owned by Fang Brothers Holdings, which in turn is owned as to 50% by Mr. Kenneth Fang, our Director, and 50% by his family members. Mr. Kenneth Fang is a director of Fang Brothers and Fang Brothers Holdings. Mr. Gao Chunhe, our Director, is also a director of Fang Brothers. Fang Brothers is one of the founding shareholders of Aotecar Nanjing.

CITIC Capital China is an investment holding company wholly-owned by CITIC Capital China Fund I, an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner of CITIC Capital China Fund I is CCP GP Ltd., an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CITIC Capital China Fund I include institutional investors such as pension funds, endowment funds, funds of funds and financial institutions. CITIC Capital China Fund I is managed by CCP Advisory Ltd., an exempted company incorporated in the Cayman Islands with limited liability.

CDH Cool is an investment holding company wholly-owned by CDH China Growth Capital Fund II, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner of CDH China Growth Capital Fund II, L.P. is CDH China Growth Capital Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CDH China Growth Capital Fund II, L.P. include institutional investors such as pension funds, endowments, foundations, funds of funds and financial institutions. CDH China Growth Capital Fund II, L.P. is managed by CDH Investment Advisory Private Limited, a limited liability company incorporated in Singapore.

CDH Auto is an investment holding company wholly-owned by CDH China Fund III, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner

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of CDH China Fund III, L.P. is CDH III Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CDH China Fund III, L.P. include institutional investors such as pension funds, endowments, foundations, funds of funds and financial institutions. CDH China Fund III, L.P. is managed by CDH Investment Advisory Private Limited, a limited liability company incorporated in Singapore.

CITIC Capital China Fund I, CDH China Growth Capital Fund II, L.P. and CDH China Fund III, L.P. have invested into our Company as part of their private equity investment activities in the PRC.

Transfer of shares in Aotecar International from CUAS to Mr. Qian

In recognition of the past contribution of Mr. Qian to the growth and development of the Group and as incentive of his continued efforts, CUAS and Aotecar International entered into a share transfer agreement with Mr. Qian on 11 September 2008, and as supplemented by two supplemental agreements dated 7 June 2010 and 15 July 2010 respectively (further details of which are set out in “Further information about the business – Summary of material contracts” in Appendix VI to this prospectus), pursuant to which:

- (a) On 11 September 2008, CUAS (i) transferred to Mr. Qian the beneficial interest in 3% of the shareholding in Aotecar International and the creditor’s right to 3% of a US\$30,673,735.7 amount owed by Aotecar Hong Kong to CUAS for an aggregate deferred consideration of US\$1,145,485.0 which was determined after arms’ length negotiations by the parties with reference to a combination of the value of Aotecar Nanjing as at 31 December 2005 as determined by an independent professional valuer in the PRC and subsequent earnings of Aotecar Nanjing and (ii) granted to Mr. Qian an option to acquire a further 2% shareholding in Aotecar International and the creditor’s right to 2% of the US\$30,673,735.7 amount owed by Aotecar Hong Kong to CUAS at an aggregate exercise price of US\$2 upon the fulfilment of certain conditions including the condition that the net profits (excluding the effect of the share transfer agreement dated 11 September 2008 (as supplemented by the two agreements dated 7 June 2010 and 15 July 2010 respectively) in relation to the 5% shareholding in Aotecar International) of Aotecar Nanjing for the year ended 31 December 2008 was at least RMB45.0 million.
- (b) CUAS and Mr. Qian subsequently reached an agreement that the sum of US\$1,145,485.0 would only be paid by Mr. Qian to CUAS at the time when the legal interest in the 5% shareholding in Aotecar International is transferred to Mr. Qian.
- (c) On 22 June 2010, after the net profits for the year ended 31 December 2008 (excluding the effect of the share transfer agreement dated 11 September 2008 as supplemented by the two agreements dated 7 June 2010 and 15 July 2010 respectively) of Aotecar Nanjing achieved RMB45.0 million and upon the exercise by Mr. Qian of the option described at item (a)(ii) above: (i) CUAS transferred to Mr. Qian the beneficial interest in 2% shareholding in Aotecar International and the creditor’s right to 2% of the US\$30,673,735.7 amount owed by Aotecar Hong Kong to CUAS; (ii) CUAS transferred to Mr. Qian the legal interest in 5% of the shareholding in Aotecar International; and (iii) Mr. Qian paid the aggregate cash consideration of US\$1,145,487.0 for the 5% of

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the shareholding in Aotecar International and the creditor's right to 5% of the US\$30,673,735.7 amount owed by Aotecar Hong Kong to CUAS. The said consideration of US\$1,145,487.0 was settled by Mr. Qian on 22 June 2010. The 3% shares in Aotecar International beneficially owned by Mr. Qian since 2008 were not legally transferred to Mr. Qian until 22 June 2010 as it was mutually agreed by the parties that the formalities for the transfer of the shares in Aotecar International from CUAS to Mr. Qian would be deferred until the time when Mr. Qian exercised his option described above.

The aggregate consideration of US\$1,145,487.0 (equivalent to HK\$8,911,888.9) paid by Mr. Qian in respect of the 5% of the shareholding in Aotecar International and the creditor's right to 5% owed by Aotecar Hong Kong to CUAS, equivalent to HK\$0.24 per Share for the 37,500,000 Shares held by him immediately following the completion of the Reorganisation and the Capitalisation Issue, represents a discount of 89.9% to the minimum Offer Price of HK\$2.35 and a discount of 92.2% to the maximum Offer Price of HK\$3.05.

The above transactions entered into between CUAS and Mr. Qian were accounted for as equity-settled share-based payment transactions and other benefit granted to Mr. Qian, and were recognised as staff costs of RMB3.2 million and RMB4.2 million, respectively, for the year ended 31 December 2008. In respect of the equity-settled share based payment transaction accounted for, the amount represents the estimate of the fair value of equity interest in Aotecar International which was primarily determined by the income approach and cross checked by the market approach. In respect of the other benefit recognised, the amount was recognised by reference to the fair value of the creditor's right acquired from CUAS. For further details of the equity-settled share-based payment transactions accounted for and the other benefit recognised, please refer to notes 5(b)(ii) and 22 of Appendix IA to this prospectus.

Aotecar Hong Kong

Aotecar Hong Kong was incorporated as a limited liability company in Hong Kong on 30 October 2007 for investment holding purposes and is a wholly-owned subsidiary of Aotecar International. Aotecar Hong Kong has not carried out any business activity since its incorporation other than as an investment holding company.

Aotecar Nanjing

Background

Aotecar Nanjing was established as a Sino-foreign equity joint venture company in the PRC on 16 May 2000 and became a WFOE on 25 December 2007. Aotecar Nanjing is a wholly-owned subsidiary of Aotecar Hong Kong and is principally engaged in the manufacture and sale of automobile air-conditioning compressors.

Establishment and initial shareholding structure

On 28 April 2000, Jiangsu Aviation Industry Group Co., Ltd. (江蘇航空產業集團有限公司) (“**Jiangsu Aviation**”), Fang Brothers, Nanjing Lukou International Airport Co., Ltd. (南京祿口國際機場有限公司) (“**Lukou Airport**”), Longshan Group Co., Ltd. (龍山集團有限責任公司)

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(“**Longshan Group**”), Dantu County Sanqiang Technology Development Centre (丹徒縣三強科技開發中心) (“**Dantu Sanqiang**”), Nanjing Zhende Medical Technology Sales Centre (南京振德醫療科技銷售中心) (“**Nanjing Zhende**”) and Zhuhai Sanjin Hi-tech Industrial Co., Ltd (珠海三金高科技產業有限公司) (“**Zhuhai Sanjin**”) entered into an agreement, pursuant to which Jiangsu Aviation, Fang Brothers, Lukou Airport, Longshan Group and Zhuhai Sanjin agreed to hold 40.68%, 33.6%, 20.2%, 2.76% and 2.76% of the equity interest in Aotecar Nanjing respectively. Under the same agreement, since Dantu Sanqiang and Nanjing Zhende are considered as a sole proprietor (“個人獨資企業”) and an individual-owned business (“個體工商戶”) respectively, which do not have separate status of legal person under the PRC laws, Jiangsu Aviation agreed to hold 2.76% of equity interest in Aotecar Nanjing for each of Dantu Sanqiang and Nanjing Zhende respectively. On 16 May 2000, Aotecar Nanjing was formally established in the PRC as a Sino-foreign equity joint venture company with a registered capital of US\$14,460,000.

Jiangsu Aviation is a company established in the PRC and principally engaged in aviation-related businesses including airport construction, airport operation and management, passenger and cargo services, tourism, catering and aviation fuels. Fang Brothers is an investment holding company incorporated in Hong Kong. Lukou Airport is a company established in the PRC and principally engaged in the operation and management of Nanjing Lukou International Airport. Longshan Group is a company established in the PRC and principally engaged in general trading and development, processing and marketing of products. Dantu Sanqiang is a sole proprietorship enterprise (個人獨資企業) established in the PRC owned by Mr. Qian and principally engaged in R&D of environmentally friendly products. Nanjing Zhende is an individual business (個體工商戶) established in the PRC owned by Mr. Li Baowei and principally engaged in the sale of medical equipment. Zhuhai Sanjin is a company established in the PRC and principally engaged in the development, manufacture and sale of computers and accessories, computer services and technical services.

Withdrawal of Jiangsu Aviation

On 29 May 2000, Aotecar Nanjing passed a board resolution approving the transfer of 14.96% of the unpaid equity interest in Aotecar Nanjing from Jiangsu Aviation to Lukou Airport for nil consideration.

On 8 January 2001, Jiangsu Aviation and Lukou Airport entered into an agreement, pursuant to which Jiangsu Aviation transferred 9.72% of its fully paid equity interest in Aotecar Nanjing to Lukou Airport in consideration of the transfer of a creditor’s right in the sum of RMB10.7 million in Suzhou Taihu Star Company Limited (蘇州太湖之星有限公司) from Lukou Airport to Jiangsu Aviation.

On 15 February 2001, the shareholders of Aotecar Nanjing passed resolutions approving the transfer of 4.41% and 3.31% of the unpaid equity interests in Aotecar Nanjing from Jiangsu Aviation to Lukou Airport and Fang Brothers respectively for nil consideration.

On 13 June 2002, Aotecar Nanjing passed a board resolution approving the transfer of 2.76% of the unpaid equity interest in its registered capital from Jiangsu Aviation to Nanjing Sanqiang for nil consideration.

On 18 March 2002, Nanjing Zhende, for which its 2.76% unpaid equity interest in Aotecar Nanjing were held by Jiangsu Aviation on its behalf, transferred the said 2.76% to Nanjing Shenqian

HISTORY, DEVELOPMENT AND REORGANISATION

Industry Co., Ltd. (南京深乾實業有限公司) (“**Nanjing Shenqian**”), a company established in the PRC and principally engaged in general trading, for nil consideration. At that time, Nanjing Shenqian was owned as to 42.5% by Mr. Li Baowei, who also owned Nanjing Zhende.

On 12 June 2002, Dantu Sanqiang, for which its 2.76% unpaid equity interest in Aotecar Nanjing were held by Jiangsu Aviation on its behalf, transferred the said 2.76% to Nanjing Sanqiang Technology and Environmental Protection Co., Ltd. (南京三強環保科技有限公司) (“**Nanjing Sanqiang**”), a company established in the PRC and principally engaged in R&D of environmentally friendly products, for nil consideration. Dantu Sanqiang and Nanjing Sanqiang were both beneficially owned by Mr. Qian. At that time, Nanjing Sanqiang was held as to 99% by Mr. Qian.

Following the above transactions, Jiangsu Aviation ceased to be a shareholder of Aotecar Nanjing, and Aotecar Nanjing was held as to 49.29% by Lukou Airport, 36.91% by Fang Brothers, 5.52% by Nanjing Sanqiang, 2.76% by Longshan Group, 2.76% by Zhuhai Sanjin and 2.76% by Nanjing Shenqian. On 26 June 2002, the parties entered into a joint venture agreement regulating their contributions in cash or in kind. On 8 July 2002, Bureau of Foreign Trade and Economic Cooperation, Qinhuai District, Nanjing (南京市秦淮區對外貿易經濟合作局) approved the withdrawal by Jiangsu Aviation of all its equity interests in Aotecar Nanjing and the change in the shareholding structure of Aotecar Nanjing.

Transfer of equity interest by Longshan Group

In 2005, Longshan Group, Fang Brothers, Shanghai Pudong Development Bank (Nanjing Branch) (上海浦東發展銀行 (南京分行)) (“**Shanghai Pudong Bank**”) and Aotecar Nanjing entered into a equity transfer agreement pursuant to which Longshan Group agreed to transfer its 2.76% equity interest in Aotecar Nanjing to Fang Brothers for a cash consideration of RMB2,000,000.0. The 2.76% equity interest was originally under a freezing order by the People’s Court of Nanjing Baixia Province (南京市白下區人民法院) due to the unsettled debt due to Shanghai Pudong Bank by Longshan Group. A judgment was passed by the People’s Court of Nanjing Baixia Province on 2 March 2006 to confirm the above transaction. The above transfer was completed on 30 March 2006.

Transfer of equity interest from Nanjing Sanqiang, Nanjing Shenqian and Zhuhai Sanjin to Fang Brothers

On 29 January 2007, each of Nanjing Sanqiang, Nanjing Shenqian and Zhuhai Sanjin entered into equity transfer agreements with Fang Brothers and as supplemented by respective supplemental agreements to the equity transfer agreements dated 17 December 2007 for the transfer of 5.52%, 2.76% and 2.76% of equity interest, respectively, in Aotecar Nanjing to Fang Brothers for a cash consideration of US\$2,290,970.0, US\$1,145,485.0 and US\$1,145,485.0, respectively (equivalent to RMB16,878,724.0, RMB8,439,362.0 and RMB8,439,362.0, respectively) which was determined after arms’ length negotiations by the parties with reference to a combination of the value of Aotecar Nanjing as at 31 December 2005 as determined by an independent professional valuer in the PRC and subsequent earnings of Aotecar Nanjing and were paid on 23 January 2008. The above transfers were completed on 25 December 2007.

Equity Transfer by Lukou Airport

On 6 December 2007, Lukou Airport and Fang Brothers entered into an equity transfer agreement, pursuant to which Lukou Airport agreed to transfer 49.29% equity interest in Aotecar

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Nanjing to Fang Brothers for a cash consideration of US\$20,454,699.7 (equivalent to RMB150,700,000.0) which was determined after arms' length negotiations by the parties with reference to a combination of the value of Aotecar Nanjing as at 31 December 2005 as determined by an independent professional valuer in the PRC and subsequent earnings of Aotecar Nanjing and was paid on 12 December 2007. The above transfer was completed on 29 December 2007.

Transfer of equity interest from Fang Brothers to Aotecar Hong Kong

On 20 March 2008, Fang Brothers and Aotecar Hong Kong entered into an agreement, pursuant to which Fang Brothers agreed to transfer 100% equity interest in Aotecar Nanjing to Aotecar Hong Kong for a cash consideration of US\$30,673,735.7 which was determined after arms' length negotiations by the parties with reference to a combination of the value of Aotecar Nanjing as at 31 December 2005 as determined by an independent professional valuer in the PRC, subsequent earnings of Aotecar Nanjing, and Fang Brother's contribution to the registered capital of Aotecar Nanjing and the cost of acquisition of Longhsan Group's interest in Aotecar Nanjing by Fang Brothers. On the same day, pursuant to the Tripartite Confirmation referred to in "Aotecar International – CUAS as a holding company of Aotecar International prior to the Reorganisation and shareholding changes in CUAS", CUAS assumed Aotecar Hong Kong's obligation to pay the said cash consideration to Fang Brothers and as a result, CUAS became indebted to Fang Brothers in the amount of US\$30,673,735.7 and Aotecar Hong Kong became indebted to CUAS in the same amount. The above transfer was completed on 6 May 2008. Aotecar Hong Kong fully settled the US\$30,673,735.7 it owed on 30 June 2010.

The considerations for the share transfers in Aotecar Nanjing amongst the different parties in 2007 and 2008 as described above were all based on the value of Aotecar Nanjing as at 31 December 2005 rather than the latest financial position of Aotecar Nanjing at the time when the respective transfer agreements were signed because the negotiations between the parties all commenced in 2006 when the latest available audited financial statements and the latest available independent valuation report of Aotecar Nanjing were all made up to 31 December 2005. Although by the time negotiations were concluded amongst some of the parties the audited financial statements for the year ended 31 December 2006 were also available and the parties could have obtained an updated valuation report, the parties decided to use the 2005 year end value as the starting reference point for determining the consideration but would take into account the subsequent earnings of Aotecar Nanjing in determining the respective considerations.

Aotecar Nanjing is our major PRC operating subsidiary wholly-owned by Aotecar Hong Kong and is responsible for the operation of our Old Production Base for the manufacturing and sales of automobile air-conditioning compressors.

Aotecar Xiangyun

On 27 June 2008, Aotecar Hong Kong established Aotecar Xiangyun as a WFOE with an initial registered capital of US\$12,000,000.0 in the PRC. Aotecar Xiangyun is one of our major PRC operating subsidiaries and is responsible for the operation of our New Production Base for the manufacturing of automobile air-conditioning compressors.

HISTORY, DEVELOPMENT AND REORGANISATION

Aotecar Casting

On 4 December 2008, Aotecar Nanjing and Changheng Casting established Aotecar Casting as a limited company with an initial registered capital of RMB5,000,000.0, which is held as to 51.0% by Aotecar Nanjing and 49.0% by Changheng Casting. Aotecar Casting is principally engaged in the manufacture of assembly parts for our production of automobile air-conditioning compressors. On 26 May 2010, the registered capital of Aotecar Casting was increased to RMB7,000,000.0. As Changheng Casting is a connected person only by virtue of its equity interests in Aotecar Casting, Aotecar Casting is not a connected person of our Company pursuant to Rule 14A.11(5) of the Listing Rules.

Our relationship with Changheng Casting

Changheng Casting is principally engaged in the manufacture and sale of alloy casting and R&D of relevant machinery products. Changheng Casting is beneficially owned as to 70% by Nanjing Jida Information Technology Services Centre (南京吉大信息技術服務中心), a sole proprietorship enterprise (個人獨資企業) established in the PRC which is owned by Mr. Wu Peirong, and 30% by Ms. Lu Manling. Both Mr. Wu Peirong and Ms. Lu Manling are also directors of Aotecar Casting and Changheng Casting.

Prior to the establishment of Aotecar Casting, Changheng Casting had been the supplier of assembly parts including front end covers, brake discs and static plates, to Aotecar Nanjing for compressor production since 2002. Changheng Casting was one of our top five suppliers for the two years ended 31 December 2007 and 2008 and accounted for 13.9% and 13.1% of the total purchases for the respective years. Such supply relationship ceased in late 2008 when Aotecar Casting was established and began supplying the same components to Aotecar Nanjing.

We have also entered into the following transactions with Changheng Casting:

- (i) In 2008, Changheng Casting subleased to Aotecar Casting certain lands and buildings which Changheng Casting leased from the People's Government of Hengxi Town of Jiangning District of Nanjing (南京市江寧區橫溪鎮人民政府) and the Nanjing Municipality Jiangning County Danyang Town Collective Assets Operating Co., Ltd. (南京市江寧縣丹陽鎮集體資產經營有限公司). For details, please refer to "Connected Transactions – Continuing connected transactions – Exempt continuing connected transactions" in this prospectus.
- (ii) In 2009, Aotecar Casting purchased certain inventory and fixed assets from Changheng Casting at a total consideration of RMB1.6 million. The consideration was determined with reference to the fair value of such inventory and fixed assets as at 31 December 2008 as appraised by an independent valuer and had been settled.
- (iii) In 2008, Changheng Casting advanced a loan of RMB7 million to Aotecar Nanjing at an interest rate of 7.47% per annum for a term from 30 May 2008 to 25 July 2008. The loan had been repaid.
- (iv) On 20 March 2009, Aotecar Casting entered into a sale and purchase agreement with Changheng Casting in relation to the acquisition of Hengxi Owned Factory with a floor area of 2,385.5 sq.m. at a consideration of RMB0.2 million, which was equivalent to

HISTORY, DEVELOPMENT AND REORGANISATION

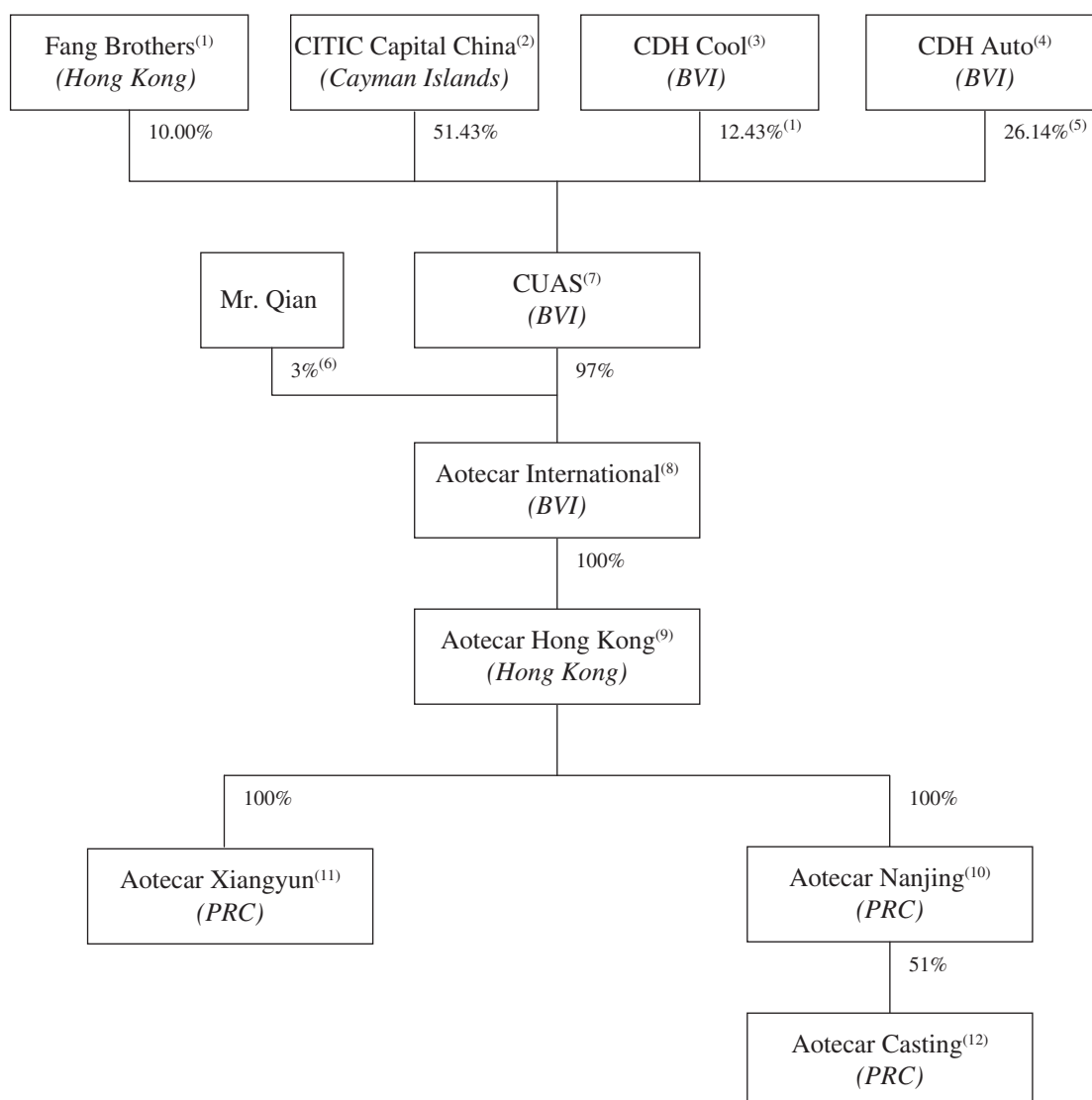
the cost of purchase of the same building by Changheng Casting from the local government pursuant to a sale and purchase agreement dated 18 July 2006 entered into by Changheng Casting and the local government. The consideration had been settled.

- (v) In 2009, Changheng Casting paid operating expenses on behalf of Aotecar Casting in the amount of RMB0.6 million. Such amount was interest-free and has been fully repaid.

Save as disclosed above, Changheng Casting has no other relationship, present or past, with our Group, our shareholders, senior management or their respective associates.

CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

The following chart sets out the corporate and shareholding structure of Aotecar International and its subsidiaries prior to the Reorganisation.



HISTORY, DEVELOPMENT AND REORGANISATION

Notes:

- (1) Fang Brothers is an investment holding company wholly-owned by Fang Brothers Holdings, an investment holding company which in turn is owned as to 50% by Mr. Kenneth Fang, our Director, and 50% by his family members.*
- (2) CITIC Capital China is an investment holding company wholly-owned by CITIC Capital China Fund I, a private equity investment fund which in turn is owned by various limited partners.*
- (3) CDH Cool is an investment holding company wholly-owned by CDH China Growth Capital Fund II, L.P., a private equity investment fund which in turn is owned by various limited partners.*
- (4) CDH Auto is an investment holding company wholly-owned by CDH China Fund III, L.P., a private equity investment fund which in turn is owned by various limited partners.*
- (5) At the commencement of the Reorganisation on 25 May 2010, CDH Cool and CDH Auto held 11.43% and 27.14% of the issued share capital of CUAS respectively. On 31 May 2010, CDH Auto transferred 7 shares in the issued share capital of CUAS to CDH Cool. As a result of such transfer, CDH Cool and CDH Auto held 12.43% and 26.14% of the issued share capital of CUAS respectively.*
- (6) Mr. Qian has had a 3% beneficial interest in the issued share capital of Aotecar International since 11 September 2008. He did not become the registered holder of such shares in Aotecar International until 22 June 2010.*
- (7) CUAS is an investment holding company.*
- (8) Aotecar International is an investment holding company.*
- (9) Aotecar Hong Kong is an investment holding company.*
- (10) Aotecar Nanjing is principally engaged in the manufacture and sale of automobile air-conditioning compressors.*
- (11) Aotecar Xiangyun is principally engaged in the manufacture and sale of automobile air-conditioning compressors.*
- (12) Aotecar Casting is principally engaged in the manufacture of assembly parts for our production of automobile air-conditioning compressors. The remaining 49% of the equity interest of Aotecar Casting is held by Changheng Casting. Changheng Casting is principally engaged in the manufacture and sale of alloy casting and R&D of relevant machinery products and is beneficially owned as to 70% by Nanjing Jida Information Technology Services Centre (南京吉大信息技術服務中心), a sole proprietorship enterprise (個人獨資企業) established in the PRC which is owned by Mr. Wu Peirong, and 30% by Ms. Lu Manling. As Changheng Casting is a connected person only by virtue of its equity interests in Aotecar Casting, Aotecar Casting is not a connected person of our Company pursuant to Rule 14A.11(5) of the Listing Rules.*

REORGANISATION

We underwent the Reorganisation in preparation for the listing of our Shares on the Stock Exchange which involved the following major steps:

(a) Incorporation of the Company

On 25 May 2010, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$100,000 divided into 10,000,000 Shares.

On 25 May 2010, one Share was allotted and issued as nil paid to Mapcal Limited as the initial subscriber.

On 8 June 2010, Mapcal Limited transferred its one Share to Fang Brothers as nil paid Share.

On 8 June 2010, our Company allotted and issued 699 Shares to Fang Brothers, 3,600 Shares to CITIC Capital China, 870 Shares to CDH Cool and 1,830 Shares to CDH Auto, respectively, as nil paid Shares.

(b) Allotment of 99 Shares in Aotecar International to CUAS

On 22 June 2010, Aotecar International allotted and issued for cash at par its 99 shares of US\$1.00 each to CUAS.

HISTORY, DEVELOPMENT AND REORGANISATION

(c) Transfer of five Shares in Aotecar International from CUAS to Mr. Qian

On 22 June 2010:

- (a) CUAS transferred to Mr. Qian legal interest in three shares in Aotecar International (the beneficial interest in which CUAS had previously transferred to Mr. Qian on 11 September 2008);
- (b) CUAS transferred to Mr. Qian the legal and beneficial interests in two shares in Aotecar International; and
- (c) Mr. Qian settled in full (i) the cash consideration of US\$1,145,485 payable to CUAS for the transfer by CUAS to Mr. Qian of the legal and beneficial interests in the three shares described in (a) above and the creditor's right to 3% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS and (ii) the cash consideration of US\$2 payable to CUAS for the transfer by CUAS to Mr. Qian of the legal and beneficial interests in the two shares described in (b) above and the creditor's right to 2% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS.

(For details regarding the transfers by CUAS to Mr. Qian of the legal and beneficial interests in a total of five shares in Aotecar International and the creditor's right to 5% of a US\$30,673,735.7 amount owed by Aotecar Hong Kong to CUAS, please refer to "History, Development and Reorganisation – Corporate history" in this prospectus.)

(d) Increase in authorised share capital of the Company

On 9 November 2010, the authorised share capital of our Company increased from HK\$100,000 to HK\$20,000,000 by the creation of an additional 1,990,000,000 Shares.

(e) Share swap for our Company's Shares

On 10 November 2010, CUAS transferred its 95 shares in the issued share capital of Aotecar International to our Company in consideration of:–

- (i) the crediting as fully paid up at par by our Company of the 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares held by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively; and
- (ii) the allotment and issue by our Company of a further 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares credited as fully paid up to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively.

On 10 November 2010, Mr. Qian transferred his five shares in Aotecar International to our Company in consideration of the allotment and issue by our Company to him of 737 Shares credited as fully paid up.

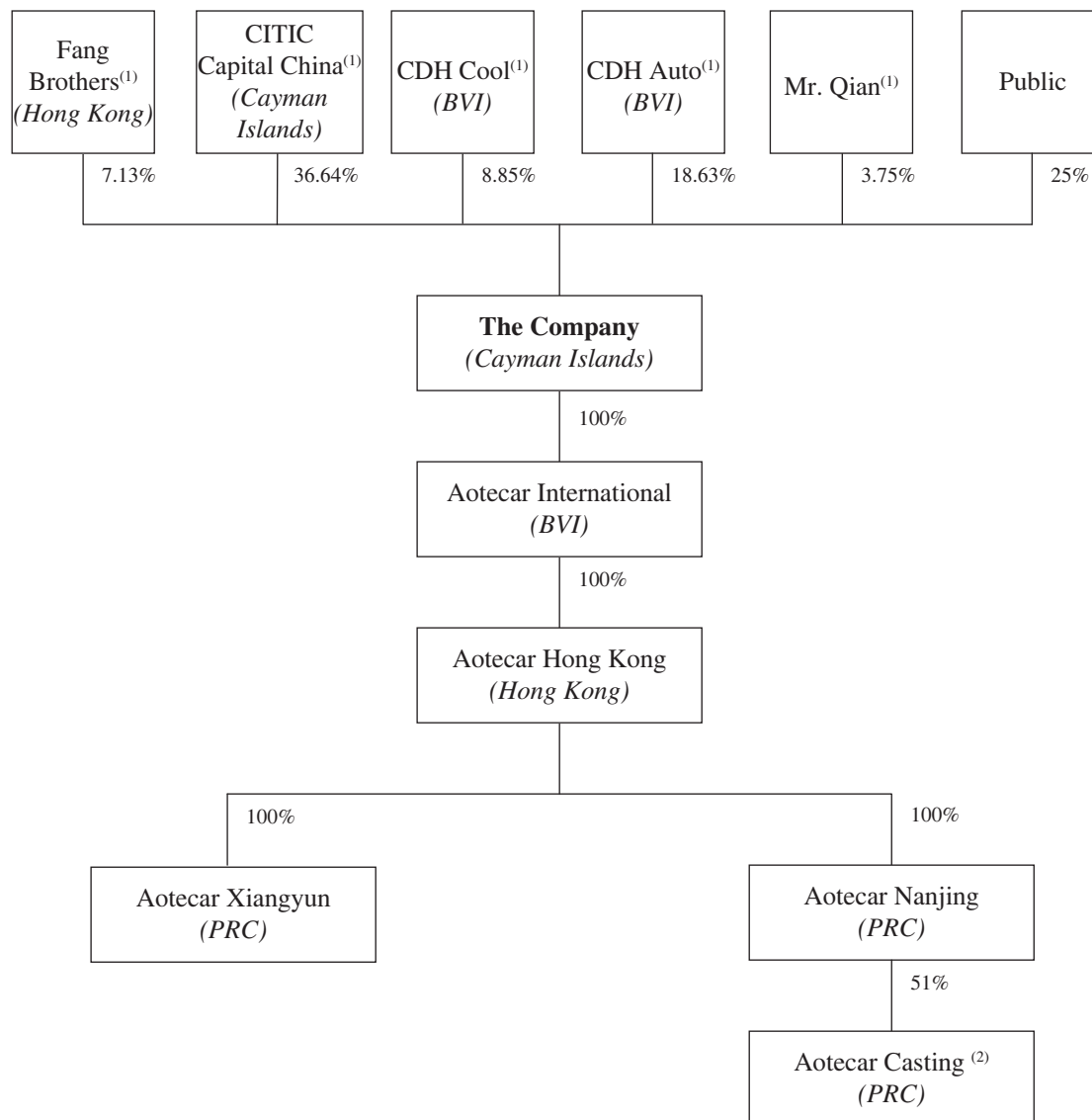
HISTORY, DEVELOPMENT AND REORGANISATION

(f) Capitalisation Issue

Pursuant to the written resolutions of the Shareholders passed on 9 November 2010 and conditional on the conditions set out in “Structure and Conditions of the Global Offering – Conditions of the Public Offering” in this prospectus and conditional on the share premium account of our Company being created as a result of the Global Offering, the Directors were authorised to allot and issue an aggregate of 749,985,263 Shares by way of capitalisation of the amount of HK\$7,499,852.63 from the amount standing to the credit of the share premium account of our Company, details of which are set out in “Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010” in Appendix VI to this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets out our corporate and shareholding structure immediately after the Capitalisation Issue and Global Offering, assuming none of the Over-allotment Option, the Pre-IPO Share Options and options that may be granted under the Share Option Scheme has been exercised.



Notes:

- ⁽¹⁾ None of Fang Brothers, CITIC Capital China, CDH Cool, CDH Auto and Mr. Qian will be treated as a member of the public for the purpose of satisfying the minimum public float requirement under the Listing Rules.
- ⁽²⁾ The remaining 49% of the equity interest of Aotecar Casting is held by Changheng Casting.

BUSINESS

OVERVIEW

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

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

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

Notes:

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

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

BUSINESS

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

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

The following table shows our revenue by product type during the Track Record Period. For details, please refer to 'Financial Information' in this prospectus:

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

Note:

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

BUSINESS

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

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

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

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

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

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

BUSINESS

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

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

The following table sets forth the revenue breakdown by our customers during the Track Record Period:

<u>Type of Customers</u>	<u>Aotecar Nanjing</u>		<u>Our Group</u>							
	<u>Year ended 31 December</u>						<u>Six months ended 30 June</u>			
	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2009</u>		<u>2010</u>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i> (unaudited)	%	<i>RMB'000</i>	%
Automobile										
manufacturers	196,552	63.6	254,109	67.2	468,860	58.8	172,959	55.2	358,691	55.8
Air-conditioning system										
suppliers	59,437	19.2	67,584	17.9	212,245	26.6	80,949	25.8	150,516	23.4
Automobile part										
distributors	39,996	13.0	40,238	10.6	82,369	10.4	47,828	15.3	96,799	15.1
Others	12,830	4.2	16,456	4.3	33,552	4.2	11,683	3.7	36,577	5.7
Total	<u>308,815</u>	<u>100.0</u>	<u>378,387</u>	<u>100.0</u>	<u>797,026</u>	<u>100.0</u>	<u>313,419</u>	<u>100.0</u>	<u>642,583</u>	<u>100.0</u>

For the six months ended 30 June 2010, most of our revenues were generated from 41 automobile manufacturers, 35 air-conditioning system suppliers and 104 automobile part distributors.

BUSINESS

We also generated a small portion of our revenue from overseas sales. We mainly export our products to the US, Japan, Malaysia and other Southeast Asia regions.

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

Information published by CAAM suggests that passenger vehicle sales have cooled down since April 2010, even though the PRC automobile production for the seven months ended 31 July 2010 amounted to 10.2 million units, representing an increase of 43.6% over the same period last year. Although we anticipate our revenue for the second half of 2010 will likely decrease as compared with the first half of 2010, given our recent production levels, and in light of government support to boost demand for the new energy vehicles sector (please refer to “Industry Overview – New energy automobile” in this prospectus for government support policies), which is the future focus of the automobile market and one of our competitive strengths, together with our own proprietary technologies, our robust growth in production capacity, stringent cost control and experienced management team as set out in “Business – Competitive strengths” in this prospectus, we believe our Group will continue to grow and maintain its leading position as a supplier of automobile air-conditioning compressors to leading automobile manufacturers.

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

Our two production bases (the Old Production Base and the New Production Base) are located in Nanjing, Jiangsu Province, with an aggregate current annual production capacity of 3.0 million

Note:

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

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

The table below sets out the estimated production capacity and utilisation rates of our production facilities located at the Old Production Base and the New Production Base. For details of computation, please refer to “Business – Production facilities and production capacity” in this prospectus.

	Estimated Production Capacity (’000 sets)			Actual Production Volume (’000 sets)			Utilisation Rate (%)	
	Old Production Base	New Production Base	Total	Old Production Base	New Production Base	Total	Old Production Base	New Production Base
31 December 2007	714	—	714	634	—	634	88.8	—
31 December 2008	984	—	984	869	—	869	88.3	—
31 December 2009	1,256	620	1,876	1,294	576	1,870	103.0	92.9
30 June 2010	697	814	1,511	709	818	1,527	101.7	100.5

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

COMPETITIVE STRENGTHS

Leading position and strong brand recognition in the PRC automobile air-conditioning compressor industry

According to the Ourview Report, we were the second largest PRC manufacturer of automobile air-conditioning compressors in 2009 in terms of production and sales volumes, and our production volume accounted for 14.6% of the entire PRC automobile air-conditioning compressor manufacturing industry in 2009. According to the same report, we were the largest PRC manufacturer of scroll automobile air-conditioning compressors in 2009, and our production volume represented 72.2% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2009. In 2010, our Aotecar brand was acknowledged as a “Well-known Trademark” (馳名商標) in the PRC.

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We have also received many awards, including “National Top 100 Automotive Parts Suppliers”⁽¹⁾ (全國百佳汽車零部件供應商) from “Newspaper Office for China Automotive News” (中國汽車報社) for three consecutive years since 2007 and “China Best Small and Medium-sized Enterprise” (中國潛力企業) from Forbes magazine for three consecutive years since 2008. We believe that our established position in the industry, together with our well-recognised brand is of great help to us in attracting new customers and recruiting talent.

Advanced products and technologies

As our primary product, the scroll compressor represents the latest generation of the technology which went to market in the late 90s. Its market share in the PRC automobile market, in terms of production volume, was 20.3% in 2009. Compared with the previous three generations (namely, the piston compressor, the swash plate compressor and the rotary vane compressor), the scroll compressor has the benefits of higher energy efficiency, lower starting torque, lower noise and being lighter weight. Not only are they widely used in traditional gasoline and diesel engines vehicles, they are also especially suitable for use in electric vehicles. According to the national standard for “Automobile Air-conditioning Electrically Driven Compressor Assembly” (汽車空調用電動壓縮機總成), an electric compressor should comprise both a scroll compressor and an electric motor. We have patents for our products and have accumulated strong expertise and experience in relation to our products and industry.

We commenced our R&D for the electric vehicle air-conditioning compressor in 2006. In 2009, our “Electric Hermetic Scroll Compressor Industrialisation for use in Hybrid Electric Vehicles” (混合動力車用電動全封閉渦旋式壓縮機產業化) project was approved by the Jiangsu Province Science and Technology Department to receive a special grant from the Ministry of Finance for the commercialisation of technological advancements. The project aims to ameliorate the imperfect mechanisms in the electric hermetic scroll compressor in order to reduce its noise and thus vibration, its size and weight, to increase its displacement level and to simplify its installation procedures. The project commenced in October 2009 and is scheduled to complete in September 2012. We shall continue receiving the remaining subsidies so long as we complete the phases of work in accordance with the agreed schedule. As at 31 May 2010, our Group had received various subsidies totalling RMB4.6 million for this project. The grant may cease or we may be required to return the grant if we fail to comply with the agreed terms in the project unless in circumstances beyond our control. As at the Latest Practicable Date, we had duly followed the agreed schedule. In 2010, we received an invention patent for “High efficiency low noise electric vehicle scroll compressor” (電動汽車用高效低噪渦旋式壓縮機).

Our electric vehicle air-conditioning compressors have been widely used by various automobile manufacturers and, by way of example, we contributed to the R&D of BYD’s electric vehicle air-conditioning compressor. Our Group will strive to maintain our technological advantage by collaborating with automobile manufacturers and continuously enhancing our R&D capabilities.

Long established and stable business relationships with the leading domestic automobile manufacturers

Due to our technological advantages, high product quality, competitive pricing (when compared with the earlier generations of automobile air-conditioning compressors due to fewer

Note:

(1) In 2009, the name of the award “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商) has been changed to “National Top 100 Excellent Automotive Parts Suppliers” (全國百佳優秀汽車零部件供應商).

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production parts and the effect from economies of scale) and market responsiveness, our Group has become a supplier to the top self-owned automobile brands (such as BYD, Chery, Geely, Brilliance and Foton) and Sino-foreign joint venture automobile brands (such as DPCA, NAVECO and SGMW). More importantly, we have established business relationships with a majority of our top five customers for more than five years. In addition, we are seeking to extend sales to international brands and, having passed FIAT's quality management system assessment, have become one of its potential suppliers. We have also been rewarded by many of our customers as their "Excellent Supplier" (優秀供應商).

In the past few years, the market share of the self-owned brands increased from 24.1% in 2005 to 43.2% in 2009. As some of the self-owned brands, including BYD and Geely, are our core customers, our Directors believe that the future development of the self-owned brands will continue to benefit the growth of our Group.

Strong R&D capabilities

As at the Latest Practicable Date, our Group had 48 registered patents, including seven invention patents. Our strong R&D capabilities comprise: i) an R&D team with more than 50 R&D employees and the key employees have rich experience; ii) comprehensive in-house R&D facilities including the copyright in our "Aotecar scroll compressor process simulation software V1.0" (奧特佳渦旋壓縮機過程模擬軟件V1.0); and iii) our Group had collaborated with Purdue University in the US. The collaboration between Aotecar Nanjing and Purdue University was a one-year research project from 1 January 2002 to 31 December 2002 carried out at Purdue University under the sponsorship of Aotecar Nanjing at a cost of US\$79,193.0 for developing a modeling tool for one of the Company's automotive scroll compressors. Save for the two research papers entitled "Modeling and Testing of an automobile AC Scroll Compressor" published by Aotecar Nanjing and Purdue University, of which they jointly own the copyright, there was no invention or copyrightable material that had been developed or published from the project at Purdue University.

Through the continuous efforts of our R&D employees, we have developed a range of technologies with our own intellectual property rights thereby helping us maintain our technological advantages. Our Group has been approved by the National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China (全國冷凍空調設備標準化技術委員會), an institute authorised by the PRC Standardisation Administration, as the key drafting organisation for the national standards for "Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles" (汽車空調用小排量渦旋式壓縮機), which are expected to be published in 2011 as the relevant national standards in the PRC. We have also been accredited with the titles "High and New Technology Enterprise" (高新技術企業) and "Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology" (江蘇省節能環保汽車空調壓縮機工程技術研究中心).

We have received financial support from different levels of the PRC Government for our product development. During the Track Record Period, we received subsidies of RMB6.9 million in total from relevant government authorities.

Cost advantages

We have adopted a platform-based design approach in which we consider factors of cost, broadening product use and the proportion of simple-structured common parts at the design stage. Our Group has maintained a very high capacity utilisation rate during the Track Record Period. At

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the same time, our average purchasing costs and fixed costs have reduced as our scale has increased. Moreover, with our own intellectual property rights, we do not need to pay technology transfer fees. For these reasons, our Group enjoys certain cost advantages in the industry and our Directors believe that our Group will be able to further maintain our cost advantages.

Advanced production facilities and measures

As the largest scroll automobile air-conditioning compressor manufacturer in PRC in terms of production volume in 2009, we have accumulated more than 10 years of manufacturing experience and have developed comprehensive measures for mass production. We have over 400 sets of advanced numerically controlled production equipment and two imported intelligent assembly lines at our two production bases. We believe that our production equipment and experience can help us to better control our product quality and production costs. Our production capacity will increase from 3.0 million sets to 4.0 million sets upon completion of our expansion project at our New Production Base in mid 2011. Our Directors believe that our advanced production equipment and extensive manufacturing experience have greatly contributed to our success in the industry.

Stringent quality control

We view product quality of critical importance to our business. Therefore, we have been paying special attention to quality control and we have been implementing very high production standards at our two production bases. We also believe that a good quality assurance system is a reliable mechanism to ensure the quality of our products, thus increasing our customers' confidence in our products. Our Group has been awarded numerous internationally recognised quality system certifications which include quality management system certification ISO/TS 16949:2009, CCCAP certification and the National Production License of Industrial Products. We have also earned numerous recognitions and honourable titles from our customers such as "Excellent Supplier" (優秀供應商), "exempted examination products" (免檢產品) and "core supplier" (核心供應商). For further details of the titles awarded to us or our products by our customers, please see "Business – Awards and recognitions" in this prospectus. These certifications, recognitions and titles are important indicators of our success and reflect our commitment to strict quality standards which help us to retain our existing customers and attract new customers, such as international automobile brands.

Experienced, stable and committed management team

Many of our senior executives, including Mr. Qian, our chief executive officer and executive Director and Mr. Yi Fengshou, Mr. Zhao Chengzhou, Mr. Liu Shantong and Mr. Yu Heyuan of our senior management, have extensive experience in the automobile air-conditioning compressor industry. They have over ten years' experience working with the Group and have joined us since the establishment of our first operating subsidiary, Aotecar Nanjing, in 2000. Under the leadership of our executive Director, Mr. Qian, our management team is self-motivated, dedicated and possesses in-depth technical knowledge of automobile air-conditioning compressors. Mr. Qian has over 20 years of experience and has received various recognition and honours in the industry. Our Directors believe that the extensive experience and strong commitment of our management team will enable us to continue to capture the growing opportunities in the industry. For relevant experience of our Directors and our senior management, please refer to "Directors, Senior Management and Employees" in this prospectus.

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BUSINESS STRATEGIES

We aim to become a competitive automobile air-conditioning compressor supplier in the global market. We intend to achieve this by focusing on the following strategies:

Further strengthening our leading position in the small-displacement vehicle and domestic self-owned brand vehicle markets and increasing our sales to Sino-foreign joint venture automobile brands

With the improving living standards in the PRC, especially the fast development of second-tier and third-tier cities and the increasing emphasis for energy efficiency and environmental protection, we believe there will be a growing demand for small-displacement vehicles in the PRC and domestic self-owned brand vehicle manufacturers will benefit from the trend. Therefore our Group will continue to strengthen our leading position in sales to small-displacement vehicle manufacturers and further expand our market shares in domestic self-owned brand vehicle manufacturers. Furthermore, we will continue improving our product quality and R&D capabilities, optimising both our production processes and management system to further develop Sino-foreign joint venture automobile customers.

Strengthening our R&D capabilities

We believe that the ongoing enhancement of our R&D capabilities is critical for us to maintain our competitiveness in the automobile air-conditioning compressor industry.

In order to strengthen our R&D capabilities, we are in the process of setting up a new product test centre for, by way of example, testing the cooling capacity and efficiency of our new products and their resistance to temperature, humidity and pressure. The capital expenditure for setting up the new product test centre is estimated to be RMB17.9 million. By setting up a new test centre we can formulate our testing procedures and establish a better system for keeping our test results. We also plan to increase our R&D facilities and we will continue to conduct R&D collaborations with leading academic and research institutions.

We propose to use 5.0% of the net proceeds from the Global Offering (assuming the Offer Price is determined at the midpoint of the indicative Offer Price range and the Over-allotment Option is not exercised) toward strengthening our R&D capabilities.

Increasing our investment in electric vehicle air-conditioning compressors

We believe that as a result of the growing environmental protection concerns, electric vehicles will become the future focus of the automobile industry. As previously mentioned, the scroll compressor is most suitable for electric vehicles. We have developed four series constituting 25 models of compressors for different kinds of electric vehicles and are a leading supplier to leading electric vehicle manufacturers such as BYD, Chery and Geely in the PRC during the Track Record Period. With our established market position and product pipeline, we will further increase our investment into the electric vehicle air-conditioning compressor sector to capture emerging opportunities.

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Increasing our production capacities

To increase our production capacities, we are in the course of expanding our New Production Base. We estimate that the new production facilities will commence operations in mid 2011 and our overall annual production capacity will increase from 3.0 million sets currently to 4.0 million sets of compressors. We will use 22.8% of the net proceeds of the Global Offering (assuming the Offer Price is determined at the midpoint of the indicative Offer Price range and the Over-allotment Option is not exercised) for the capacity expansion plans of our New Production Base (please refer to “Future Plans and Use of Proceeds” in this prospectus). In light of the information published by CAAM showing the increase of 43.6% in PRC automobile production for the seven months ended 31 July 2010 as compared to the same period last year, the government support to boost demand for new energy vehicles sector and our competitive strengths, including our own proprietary technologies and stringent cost control, which accounted for the Company’s continued growth in revenue during the Track Record Period, the Directors believe that there should be strong demand for the Company’s products in the implementation of new production capacity.

Maintaining our cost advantages

In order to maintain our long term competitiveness and stable profit margins, we will endeavour to maintain our cost advantages through strengthening product R&D, optimising our production processes, reducing our procurement costs and leveraging off our growing scale.

Gradually expanding our sales in overseas markets

At present, we generated more than 95% of our revenue from sales in the PRC. We also sold compressors to overseas after-sales markets, including the United States, Japan, Malaysia and other Southeast Asia regions. The Directors believe that the overseas market, in particular the OEM (or original equipment manufacturer) market, is of significant size and will help us to improve our brand image. Therefore, we will continue improving our R&D capabilities, product quality and services to gradually enter overseas markets. We are in the course of approaching many overseas automobile brands. For example, we have passed FIAT’s quality management system assessment and have become one of its potential suppliers.

PRINCIPAL PRODUCTS

Our Group primarily manufactures scroll automobile air-conditioning compressors. Our automobile air-conditioning compressors range from the 066 series to the 206 series, classified by displacement, and are suitable for vehicles with various displacement volumes. Our main products include the 066 series, the 086 series and the 106 series.

We have also developed and produced scroll compressors specifically designed for electric vehicles, ranging from the 018 series to the 036 series. According to the “Automobile Air-conditioning Electrically Driven Compressor Assembly” (汽車空調用電動壓縮機總成), the relevant national standard in the PRC, an electric compressor should comprise a scroll compressor and an electric motor.

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The following table sets forth our major product series:

<u>Product Series</u>	<u>Examples of Major Applicable Automobiles</u>
066 series 	BYD (<i>F3</i>); Chery (<i>QQ</i>); Chang'an Automobiles (<i>SC6399</i> , <i>CV6</i>); SGMW (<i>N106</i>)
086 series 	BYD (<i>F6</i>); Chery (<i>A15</i>); FAW-Tianjin: (Three-Cylinder Machine (三缸機), Four-Cylinder Machine (四缸機)); Geely (遠景); DPCA (Ailishe (愛麗舍)); Dongfeng Motor; SGMW (N300)
106 series 	Brilliance
166 and 206 series 	KLM; NAVECO; KLU
018 series to 036 series of electric vehicle compressors 	BYD; Chery; Chang'an Automobiles; Geely

PRODUCTION FACILITIES AND PRODUCTION CAPACITY

We have two production bases in the Jiangsu Province, namely the Old Production Base and the New Production Base, which have aggregate gross floor areas of 21,279.1 sq.m. and 28,675.6 sq.m. and site areas of 27,707.5 sq.m. and 82,843.8 sq.m., respectively. The Group also manufactures assembly parts for our compressor production through Aotecar Casting, our joint capital company.

Our Old Production Base and New Production Base started to produce automobile air-conditioning compressors in 2001 and 2009 respectively. We currently have a total of over 400 sets of numerically controlled equipment and two imported assembly lines in our Old Production Base and New Production Base which provide an aggregate annual production capacity of about

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3.0 million sets of compressors. The expansion of our New Production Base which is expected to be completed in mid 2011 will have a total gross floor area of 32,000.0 sq.m. and will allow for an increase of our overall annual production capacity to 4.0 million sets of compressors. Aotecar Casting currently provides the production parts for brake discs, static plates, cases and front end covers for assembly at the Old Production Base and the New Production Base, which guarantees the production of our key components.

The table below sets out the estimated production capacity and utilisation rates of our production facilities located at the Old Production Base and the New Production Base.

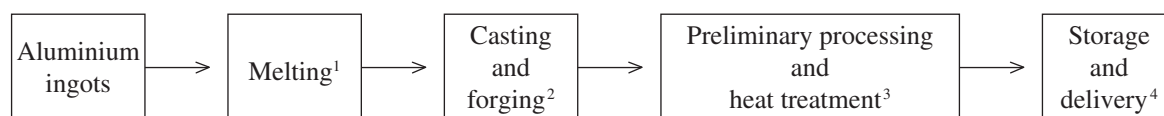
	Estimated Production Capacity ⁽¹⁾ ('000 sets)			Actual Production Volume ⁽²⁾ ('000 sets)			Utilisation Rate ⁽³⁾ (%)	
	Old Production Base	New Production Base	Total	Old Production Base	New Production Base	Total	Old Production Base	New Production Base
31 December 2007 ..	714	—	714	634	—	634	88.8	—
31 December 2008 ..	984 ⁽⁴⁾	—	984	869	—	869	88.3	—
31 December 2009 ..	1,256 ⁽⁵⁾	620 ⁽⁵⁾	1,876	1,294	576 ⁽⁵⁾	1,870	103.0 ⁽⁷⁾	92.9
30 June 2010	697 ⁽⁶⁾	814 ⁽⁶⁾	1,511	709	818	1,527	101.7 ⁽⁷⁾	100.5 ⁽⁷⁾

Notes:

- (1) The estimated production capacity is determined based on the analysis and figures of actual production volume of the highest output month in the relevant year/period. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not truly reflect the capacity of our production facilities in reality.
- (2) The actual production volume refers to the actual number of compressors produced in the relevant year/period.
- (3) Utilisation rate is derived by dividing the actual production volume by the estimated production capacity.
- (4) The increase in estimated production capacity from 2007 to 2008 is mainly due to our purchase of additional production facilities and an increase in production staff.
- (5) Our New Production Base commenced operation in March 2009. The estimated production capacity and actual production volume for the New Production Base are calculated from the commencement of operation in that year. Given the transition to our New Production Base, we have used a basis for calculating estimated production capacity which is different to 2007 and 2008 to allow for fluctuations in production capacity arising from the transition to the New Production Base. The estimated production capacity of our Old Production Base for 2009 was calculated by taking the total of (i) the average of the highest and lowest output months' production for the first half of 2009 and multiplying that average by six and (ii) the average of the highest and lowest output months' production for the second half of 2009 and multiplying that average by six. The estimated production capacity of the New Production base for 2009 was calculated by taking the total of (i) the average of the highest and lowest output months' production for April to June of 2009 and multiplying that average by three and (ii) the average of the highest and lowest output months' production for the second half of 2009 and multiplying that average by six.
- (6) The estimated production capacity of the Old Production Base and New Production Base for 2010 were calculated by taking the average of the highest and lowest output months' production for the first half of 2010 and multiplying that average by six.
- (7) Utilisation rate over 100% represented over-time operation of the respective production bases.

PRODUCTION PROCESSES

The following diagram illustrates the major processes for our production of blank parts which is partially undertaken by Aotecar Casting:

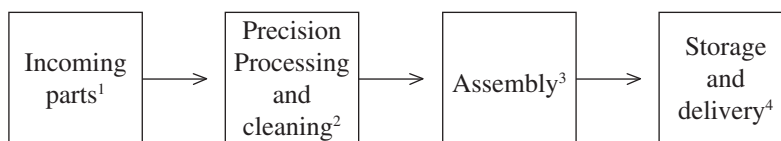


Notes:

- (1) Aluminium ingots are melted in coal-fuelled furnaces.
- (2) Melted aluminium is casted and forged into different production parts (i.e. brake discs, static plates, cases and front end covers) by casting stoves and forging machines.
- (3) Production parts undergo preliminary processing such as cutting of ragged ends and heat treatment to improve their quality.
- (4) Parts are stored and delivered for our compressor production.

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The following diagram illustrates the major processes for our production of compressors which are conducted at our Old Production Base and New Production Base:



Notes:

- (1) Incoming materials are inspected on a sampling basis and substandard materials will be returned to the suppliers.
- (2) Blank parts (i.e. brake discs, static plates, cases and front end covers) undergo a series of processing such as cutting and punching with numerical control machines. Quality checks are performed during the processing stage. Processed parts are cleaned before passing to assembly.
- (3) Processed parts are assembled into compressors on our assembly lines. Quality checks are performed automatically by testing facilities.
- (4) Our Group will perform key indicators testing (i.e. testing on cooling capacity, crankshaft power and energy efficiency ratio) for all of our compressor products and have automatic work stations equipped with testing equipment to perform quality checks on all of our outputs to ensure its quality. Depending on product specifications, delivery lead time of our compressors is typically seven to nine days.

QUALITY CONTROL

We have implemented systematic quality control measures throughout our production process. As at the Latest Practicable Date, our quality control department comprised more than 110 quality management and testing personnel. The head of this department is Mr. Zhao Chengzhou, who obtained an associate's degree from the Workers' University of Northwest Machinery Factory (西北機器廠職工大學) in 1983. He completed his undergraduate studies in machinery design and manufacturing from Mechanical Engineering Continuing Education University (機械工程師進修大學) in 1987. Mr. Zhao has been in charge of our quality control department since 2004.

We take "zero defect" as our quality goal throughout the whole production process. We received quality management system certification ISO/TS 16949:2009 for our products, which is due for renewal in September 2012. ISO/TS 16949:2009 is a particular set of standards for the application of ISO9001 in the automobile industry. We design and implement our quality control measures and procedures in accordance with the ISO/TS 16949:2009 standard. We strive to meet the quality requirements of our customers by rapidly responding to the quality control queries and continuous improvement in quality control measures.

Our comprehensive quality control measures are applied to four areas: (i) quality control in the design and R&D processes; (ii) quality control of raw materials, parts and components; (iii) quality control in the production process; and (iv) quality control in the application process.

Quality control in the design and R&D processes

Product design has a direct impact on product quality. We designed and implemented a structured "Pre-production Product Quality Planning System" (產品品質先期策劃程式) based on the requirements of the quality standard ISO/TS 16949:2009. The product design and R&D procedures are in four correlated stages: (1) various relevant departments of the Group form a product quality planning team to discuss R&D and product design; (2) product design is based on discussion outcome to eliminate potential defects at the design stage; (3) manufacturing trial products and conducting trial production; and (4) conducting evaluations on mass production by assessing the production facilities, casting mould and experimental and testing measures in order to satisfy mass

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production requirements. Through the above strict, standardised and systematic procedures, we can ensure the quality of our products.

Quality control of raw materials, parts and components

We conduct occasional quality control assessments on our suppliers to optimise our suppliers' portfolio. Raw materials, parts and components which we use in our production are subject to strict quality control. We conduct sample testing prior to adding suppliers to our approved suppliers list to ensure that their standards meet our requirements. In relation to the parts and components for our production, our quality control staff conduct quality testing on every batch of parts and components on a sampling basis. In the event we detect any substandard parts, we will return the whole batch of parts to the relevant suppliers and may claim compensation in accordance with the terms of the procurement agreements. If such suppliers are still unable to meet our standards within a certain period, we will stop purchasing from them. In addition, our quality control staff regularly visit our suppliers to carry out on-site inspections of their supplies in order to have better control on product quality.

Quality control in the production process

Our compressor production process is continuously monitored and inspected at prescribed intervals to ensure product quality. Our quality control staff conduct testing and inspections at various production stages. Our production lines have been installed with integrated measurement instruments and these automatic work stations are equipped with testing equipment with an error prevention function. We use the data acquisition and storage system to record and analyse the functional data at key production stages of each compressor to detect defective products. In addition, our production facilities are numerically controlled which enhances product quality. To ensure our products meet the standards of customers, our Group performs comprehensive testing for finished products before delivery. We have an advanced compressor integrated laboratory for doing different testing for finished products. In order to complement our quality control measures, the Group has established a simulation laboratory for evaluating the cooling effect in vehicles.

Quality control in the product application process

We provide precise and detailed pre-sale technical support services to ensure that our customers understand the right way of using our products in order to prevent product damage caused by improper use. We closely cooperate with automobile manufacturers or air-conditioning system suppliers so that our compressors can better fit our customers' air-conditioning systems. We also help customers to compile an installation instruction handbook, train operation staff in the assembly line and compile an after-sale service instruction handbook in an attempt to avoid unnecessary compressor malfunctions due to workers' lack of experience and knowledge.

We generally provide a warranty for 60,000 kilometres of travel with our compressor installed or for two years from the date of sale, whichever is earlier. We will examine each air-conditioning compressor brought to us for repair to determine the cause of the problem. In situations covered by a relevant product warranty, we would either refund or repair and return the compressors to our customers free of charge.

During the Track Record Period, the provision of Aotecar Nanjing and our Group (as the case may be) for product warranties amounted to RMB10.9 million, RMB13.1 million, RMB27.2 million and RMB20.2 million, respectively. The amount of provisions utilised during the Track Record

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Period amounted to RMB10.7 million, RMB12.7 million, RMB13.9 million and RMB6.2 million, respectively.

PRODUCTION LICENCE

We failed to obtain a production licence for the production plant of Aotecar Xiangyun between March 2009 upon its commencement of production and July 2010. The maximum fine/penalty would be confiscation of products so produced and the resultant income gained and a fine of up to three times the value of the manufactured products. In the event that the administrative penalties were imposed on the Group in any particular financial year, the Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us. However, on the basis that (i) Aotecar Xiangyun had properly rectified its non-compliance by obtaining a valid production licence on 2 July 2010, (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 12 October 2010 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with the production licence and administration of product quality, and Aotecar Xiangyun's products are in line with the relevant national quality standards, and (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the said production licence, our PRC Legal Advisers advised that the risk of any fine and penalty in relation to the above historical non-compliance is low, and as such our Directors consider that such historical non-compliance would not have any operational and financial impacts on the Group. Please refer to "Regulatory Overview – Production licence of industrial products and implementation procedures" in this prospectus for details about the production licences related to our products of Aotecar Nanjing and Aotecar Xiangyun.

RESEARCH AND DEVELOPMENT

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

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We have adopted the following R&D strategies:

(i) to expand product categories and specifications

In order to meet the increasing demand for new and better products from our customers, we have to strengthen our development of new products and improve existing products.

We began to develop the electric vehicle air-conditioning compressor in 2006 and commenced sales in 2008, which created advantages for us as the first comer to the electric vehicles market. According to the Ourview Report, we were the largest manufacturer of air-conditioning compressors for electric vehicles in the PRC in 2009. Our Directors believe that with increasing awareness of environmental protection, automobile manufacturers will shift their focus to electric vehicles resulting in greater demand for our electric scroll compressors.

Our R&D efforts in reducing the size and weight of our existing compressors help to reduce power consumption and make our compressors suitable for use in more types of automobiles, particularly small-displacement vehicles.

(ii) to strengthen the simultaneous R&D with automobile manufacturers

In order to satisfy our customers' requirements and consolidate our leading supplier position, we usually get involved in compressor R&D at an early stage such as when the automobile manufacturers initiate R&D for a new car. For example, our Group is an air-conditioning compressor supplier to BYD. We commenced R&D for our new compressor (EWXH-036) when BYD started its R&D on its F3DM dual-mode hybrid cars. Our Group will continue with such collaborative R&D efforts with the automobile manufacturers to further enhance our R&D capabilities and customer loyalty.

(iii) to strengthen cooperation with leading R&D institutions

We believe that through extensive external R&D collaboration, we are able to leverage on external expertise in product R&D. In 2002, we have collaborated with Purdue University on new compressor technologies. Under the R&D collaboration arrangement, we sent our R&D staff to Purdue University for studies and R&D exchange. The collaboration between Aotecar Nanjing and Purdue University was an one-year research project carried out at Purdue University under the sponsorship of Aotecar Nanjing at a cost of US\$79,193 for developing a modeling tool for one of the Company's automotive scroll compressors. Save for the two research papers entitled "Modeling and Testing of an automobile AC scroll compressors" published by Aotecar Nanjing and Purdue University, of which they jointly own the copyright, there was no invention or copyrightable material had been developed or published from the project at Purdue University. We believe that it will be helpful for us to keep up with the most advanced technology in the automobile air-conditioning compressor industry through the cooperation with leading R&D institutions.

We have received various recognitions of our R&D efforts. In 2009, our "Electric Hermetic Scroll Compressor Industrialisation for use in Hybrid Electric Vehicles" (混合動力車用電動全封閉渦旋式壓縮機產業化) project was approved by the Jiangsu Province

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Science and Technology Department to receive a special grant from the Ministry of Finance for the commercialisation of technological advancements. The project aims to ameliorate the imperfect mechanisms in the electric hermetic scroll compressor in order to reduce its noise and thus vibration, its size and weight, to increase its displacement level and to simplify its installation procedures and the R&D expenditures are estimated to be RMB11.8 million. For details of the awards and recognitions we have received, please refer to “Business – Awards and recognitions” in this prospectus.

We believe that successful R&D is crucial for us to stay competitive in the industry. As such, we have been increasing our R&D expenses and have dedicated RMB1.3 million, RMB1.9 million, RMB3.0 million and RMB0.5 million during the Track Record Period. We intend to continue increasing the R&D expenses and enhancing our R&D capabilities by using 5.0% of the net proceeds from the Global Offering (assuming the Offer Price is determined at the midpoint of the indicative Offer Price range and the Over-allotment Option is not exercised).

PROCUREMENT AND SUPPLIES

Raw materials, parts and components

We procure raw materials and parts for our production, such as aluminium, which is the main raw material of our products. We source our supplies mainly from domestic suppliers, in particular, we have sourced our aluminium ingots from a single supplier, namely Nanjing Yunhai since 1 January 2009. As Nanjing Yunhai is a Shenzhen-listed company situated in Nanjing, it is capable of providing us with quality aluminium at lower transportation cost. We do not have fixed-term supply agreement with Nanjing Yunhai. The amount of aluminium we purchased from Nanjing Yunhai was RMB54.0 million and RMB53.0 million respectively for the year ended 31 December 2009 and for the six months ended 30 June 2010. As there are abundant aluminium ingot suppliers in the PRC, we have also shortlisted six suppliers, which we can order aluminium ingots from them if necessary.

We have not adopted any policy to hedge against the fluctuation in aluminium price; however we normally maintain a level of aluminium stock based on anticipated production requirements which is sufficient to support us for seven days of production. We closely monitor movements in the market price of aluminium and will adjust our stock level should we anticipate any significant fluctuation in price, or supply.

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The following table shows the aluminium parts and components and aluminium ingots in the total raw material, components and accessories during the Track Record Period:

	Aotecar Nanjing		Our Group							
	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Aluminium parts and components	56,406	28.0	72,012	28.6	94,834	18.0	43,697	21.2	68,858	16.2
Aluminium ingots	—	—	—	—	45,902	8.7	12,673	6.2	41,169	9.7
Clutches and crankshafts	64,358	31.9	83,794	33.2	182,888	34.8	70,396	34.1	180,947	42.4
Others ⁽¹⁾	80,912	40.1	96,105	38.2	202,146	38.5	79,456	38.5	135,370	31.7
Total	201,676	100.0	251,911	100.0	525,770	100.0	206,222	100.0	426,344	100.0

Note:

⁽¹⁾ Others include more than 40 types of other parts and components for use in the manufacturing of compressors and no single type of parts and components contributed more than 5% of the total raw material, components and accessories during the Track Record Period.

Generally, our procurement department usually places a part-order each month based on the monthly sales forecast plan made by the sales department after considering the overall delivery date of various parts. Adjustments are then made to the monthly procurement plan in accordance with the monthly production plan made by the production planning department, the number of stock parts and their specific quality level. Our suppliers have to ensure they have sufficient supplies for our monthly orders and usually make delivery to us within the delivery time stipulated in the order so as to reduce our storage costs for unused supplies. We normally settle 30% of the total aggregate outstanding accounts payable with each respective supplier on a monthly basis. In this connection, the account payable to each supplier will normally be settled within three months.

We currently maintain a multiple supplier policy for most of our supplies in an effort to avoid reliance on any single supplier and we typically have at least two suppliers for each key supply. We believe that the sources of supply of raw materials, parts and components required for our production are abundant in China and in the event that any of our existing suppliers are no longer able or willing to supply to us at an attractive price, we will be able to identify suitable substitute suppliers in a timely manner. We generally enter into procurement agreements which set out the prices of our supplies for the current year but fix our purchase quantities when we place our orders. Such procurement agreements are not exclusive and we are free to source the same supplies from other suppliers. We enjoy stable relationships with our major suppliers, most of whom have had a business relationship with us for over five years. During the Track Record Period, we did not experience any significant difficulties in sourcing our supplies.

During the Track Record Period, the single largest supplier of our Group accounted for 13.9%, 13.1%, 12.7% and 11.6%, respectively of our total purchases, and the five largest suppliers of our Group together accounted for 46.8%, 45.4%, 41.5% and 41.6%, respectively, of our total

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purchases. Our relationship with our top five suppliers are generally over one year to seven years and they mainly supplied aluminium parts and components, aluminium ingots and clutches to us.

None of our Directors or their associates or any Shareholder who own more than 5% of our issued share capital has, to the best knowledge of our Directors, any interest in any of the five largest suppliers of our Group for the three years ended 31 December 2007, 2008, 2009 and six months ended 30 June 2010. Changheng Casting, which was one of our top five suppliers for the two years ended 31 December 2007 and 2008, was an independent third party until 4 December 2008, being the date of the establishment of Aotecar Casting by Aotecar Nanjing and Changheng Casting. Since then, Changheng Casting became our related party by virtue of it holding 49.0% of Aotecar Casting. Changheng Casting ceased to be our supplier in late 2008.

Fuels and utilities

We incurred expenses in the amount of RMB2.6 million, RMB3.3 million, RMB9.7 million and RMB8.4 million for coke, electricity, water and other supplies, respectively, representing 1.1%, 1.2%, 1.7% and 1.8%, respectively, of the total cost of sales of our Group during the Track Record Period.

We are able to meet fuel and utilities requirements for production by sourcing from domestic suppliers. We currently source coke which we use in the production process of parts by Aotecar Casting from independent PRC distributors. We source our electricity supply from the State-owned local power grid and our water supply from an independent local water supplier for our manufacturing operations as well as for domestic use. During the Track Record Period, we did not experience any difficulties in sourcing fuel and utility supplies which adversely affected our operations.

INVENTORY MANAGEMENT

Our inventory mainly comprises raw materials, parts, work in progress and finished goods. 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.

We have a strict inventory management system and comprehensive warehousing management procedures. There is close coordination among our production, sales and marketing, raw materials procurement and storage departments. They meet daily to monitor our inventory level and to plan production levels. Our inventory management is carried out at our logistics centre and warehouses. We also maintain a database which enables us to monitor our inventory turnover in our warehouses on real-time basis. Upon receipt, inventory will be properly labelled and corresponding data will be

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updated. We check quantities, specifications, appearance and the packaging condition of finished goods before storage. We retrieve our inventory on a first-in-first-out principle and proper approvals are required for inventory retrievals. We also conduct annual stocktake at year ends.

We usually engage independent third party logistics companies and have maintained a certain level of stock with them. As the warehouses of the independent third party logistics companies are located near to our customers, it would facilitate prompt delivery of our products to our customers. To provide better service to our customers, we have also maintained a minimum inventory at the production sites of our major customers to facilitate their normal production. Our inventory maintained with our third party logistics companies and production sites of our major customers was valued at RMB46.9 million as at 30 June 2010. We have right to access to our major customers' database to monitor our stock level with them. As to our inventories in the independent third party logistics companies, we conduct regular checks and annual stocktake on these external inventories and the third party logistics companies would keep records of the consumption of our inventory maintained with them and report the balance to us at least twice every week in order to ensure the accuracy of our records, and depending on our relationship with our customers, we issue invoices once or twice per month.

Owing to the above measures and close coordination between various departments, our inventory turnover is well managed. During the Track Record Period, we had not encountered any material issue in relation to the inventory and no provision has been made. The average inventory turnover of our Group for the three years ended 31 December 2009 and the six months ended 30 June 2010 were 99, 100, 62 and 52 days, respectively.

Having (i) reviewed the inventory management policy adopted by the Group; (ii) discussed with the Company's management and noted that no inventory provision was made during the Track Record Period; and (iii) conducted due diligence on the stock checking efforts of the Group, the Joint Sponsors consider that the internal control in the Group's inventory management, including those stocks kept by the logistics companies and customers, is satisfactory.

SALES AND MARKETING

Sales

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

We generated the majority of our revenue from domestic sales in the PRC market during the Track Record Period. With respect to our overseas sales, we mainly export our products to the US, Japan, Malaysia and other Southeast Asia regions.

Our overseas sales recorded significant growth from 2008 to 2009. Our Directors believe that with more global automobile manufacturers' increasing purchases of parts from the PRC and the continuous improvement of our product quality, our overseas sales will continue to grow in the future. Please refer to the "Business – Marketing activities" in this prospectus for the activities we have undertaken in order to increase our overseas orders.

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Our primary sales derived from our 066, 086 and 106 series products, which accounted for 85.3% of our total sales in 2009. Our sales of electric scroll compressors have been growing quickly although the number of sales was still small during the Track Record Period. Our Directors believe that as a result of the growing emphasis on environmental protection, electric vehicles will become the focus of the automobile industry in the future leading to a rising demand for our electric scroll compressors.

The following table shows the breakdown of the Group's turnover by geographical area during the Track Record Period.

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

Customers

We sell most of our products directly to automobile manufacturers or through air-conditioning system suppliers. We offer our customers high quality products together with competitive prices and excellent service, which has enabled us to rapidly increase our customer base whilst maintaining our customer relationships.

Our customers include most of the leading domestic automobile brands such as BYD, Geely, Brilliance and Foton, and certain Sino-foreign joint-venture automobile brands, such as DPCA, NAVECO and SGMW. During the Track Record Period, our five largest customers were all automobile manufacturers, except one which was an air-conditioning system supplier. The average years of our relationship with those five largest customers as at 31 December 2009 ranges from three to eight years. By leveraging on our reputation in the PRC market and improving our quality standard, we are now gradually expanding into the overseas market. We usually sign framework agreements with our major customers. Purchase orders with precise volumes are placed on a monthly basis.

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We also sell our products to the automobile after-sales market. We sell our products through established automobile part distributors covering several major cities in the PRC. The table below sets out the movement in the number of distributors during the Track Record Period:

For the year/six months ended	Number of distributors	Number of newly appointed distributors	Number of distributors that had ceased relationship with us ⁽¹⁾
31 December 2007	79	36	23
31 December 2008	85	47	41
31 December 2009	118	62	29
30 June 2010	104	41	55

Note:

⁽¹⁾ *The distributors that had ceased relationship with us were mainly those distributors who placed relatively small amount of orders with us. We believe the main reason for the ceased relationship is due to the fact that most of our technological supports had been directed to those distributors that placed large amount of orders with us for more efficient resources management.*

We normally enter into a one-year contract with them under which they place orders with us on a monthly basis and for some of our distributors, we set an annual sales commitment. During the Track Record Period, the maximum annual sales commitment we had set for the distributors was 80,000 sets or RMB40 million. We were entitled to terminate our contracts with those distributors which failed to meet the sales commitment. However, the Directors confirmed that, no action had been taken against the distributors which failed to meet the requirement during the Track Record Period. Generally, our distributors settled the payment before delivery. Depending on our relationship with our distributors, the maximum credit period we had given to our distributors was 90 days. We may also require a deposit, depending on the customer's relationship with us, as a guarantee for their orders. These agreements typically provide a warranty on our products for one year. Under the warranty, we agree to repair and replace defective products and to provide a refund to customers if the defective products are not replaceable. We have set up a sales network and started to use the "Alibaba" and "Gasgoo" business platforms as the after-sales windows so that customers can conduct online real time procurement and communication with us. We have obtained all relevant approvals or licences for our sales network on "Alibaba" and "Gasgoo".

During the Track Record Period, sales to the five largest customers of our Group, in aggregate, accounted for 50.0%, 47.1%, 49.0% and 47.2%, of our Group's total sales revenue, respectively, and sales to the largest customer of our Group accounted for 18.5%, 17.4%, 17.7%, and 14.8%, of our Group's total sales revenue, respectively. None of our Directors or their associates, or any Shareholders who own more than 5% of our issued share capital, had, to the best of our Directors' knowledge, any interest in any of our five largest customers during the Track Record Period.

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The following table sets forth the revenue breakdown by our customers during the Track Record Period:

Type of Customers	Aotecar Nanjing		Our Group							
	Year ended 31 December				Six months ended 30 June					
	2007		2008		2009		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Automobile manufacturers	196,552	63.6	254,109	67.2	468,860	58.8	172,959	55.2	358,691	55.8
Air-conditioning system suppliers	59,437	19.2	67,584	17.9	212,245	26.6	80,949	25.8	150,516	23.4
Automobile part distributors	39,996	13.0	40,238	10.6	82,369	10.4	47,828	15.3	96,799	15.1
Others	12,830	4.2	16,456	4.3	33,552	4.2	11,683	3.7	36,577	5.7
Total	<u>308,815</u>	<u>100.0</u>	<u>378,387</u>	<u>100.0</u>	<u>797,026</u>	<u>100.0</u>	<u>313,419</u>	<u>100.0</u>	<u>642,583</u>	<u>100.0</u>

For the six months ended 30 June 2010, most of our revenues were generated from 41 automobile manufacturers, 35 air-conditioning system suppliers and 104 automobile part distributors.

During the Track Record Period, we sold most of our products directly to automobile manufacturers and air-conditioning system suppliers. These air-conditioning system suppliers incorporated our products into their automobile air-conditioning systems and sold the entire automobile air-conditioning system to the automobile manufacturers. In addition, we also derived part of our income from sales of our products to automobile part distributors, who distributed our products to the automobile after-sales market.

Revenue generated from our customers can be divided into the following categories:

A. Automobile manufacturers that are:

- (a) domestic enterprises accounted for 87.3%, 91.0%, 92.5% and 93.7% of our total revenue generated by automobile manufacturers during the Track Record Period, respectively; and
- (b) foreign-invested enterprises accounted for 12.7%, 9.0%, 7.5% and 6.3% of our total revenue generated by automobile manufacturers during the Track Record Period, respectively.

B. Air-conditioning system suppliers that are:

- (a) domestic enterprises accounted for 75.9%, 73.8%, 72.6% and 79.9% of our total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively; and

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- (b) foreign-invested enterprises accounted for: 24.1%, 26.2%, 27.4% and 20.1% of our total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively.

C. Automobile part distributors located in:

- (a) Eastern China⁽¹⁾ accounted for 33.6%, 46.8%, 48.0% and 53.2% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;
- (b) Northern China⁽²⁾ accounted for 13.6%, 14.3%, 7.9% and 7.1% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;
- (c) Southwest China⁽³⁾ accounted for 7.3%, 7.7%, 9.7% and 7.8% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;
- (d) Central and Southern China⁽⁴⁾ accounted for 16.6%, 19.3%, 20.7% and 13.0% of our total revenue generated by automobile part distributors during the Track Record Period, respectively; and
- (e) Overseas accounted for 29.0%, 11.9%, 13.6% and 18.8% of our total revenue generated by automobile part distributors during the Track Record Period, respectively.

Pricing policy and payment terms

Our pricing to all customers is based on a variety of factors, including raw material prices, production costs, overhead sales volume, past relationship and the specifications of different customers. We do not have different pricing strategies for different types of customers. For each specific sales order, our sales department determines the appropriate pricing for that order based on our internal pricing criteria which would be reviewed every three months. Orders with special production requirements are jointly reviewed by the relevant departments, such as the production department and the quality control department, and approved by our general manager before a price quotation is provided to the customer. Since our major customers are automobile manufacturers from whom we generate most of our revenue, we do not offer discount to distributors in exchange for committed sales volume, and we do not have a practice of sales rebate.

Notes:

- (1) Eastern China: Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
- (2) Northern China: Beijing, Tianjin, Hebei Province, Liaoning Province, Jilin Province, Shaanxi Province and Heilongjiang Province
- (3) Southwest China: Chongqing, Sichuan Province and Guizhou Province
- (4) Central and Southern China: Henan Province, Hubei Province, Hunan Province, Guangdong Province and Guangxi Autonomous Region

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During the Track Record Period, our gross profit margins for compressors were 26.6%, 25.2%, 26.6% and 26.1% respectively. We were able to maintain a stable gross profit margin since we set up (i) Aotecar Casting (in which our Group owns 51% interest) in 2008, and (ii) the significant increase in scale of production which help to lower our product. In the event that there may be increases in certain cost components increase, instead of passing the increased cost to our customers, we would first endeavour to maintain our cost through products R&D, optimising our production processes, reducing our procurement costs and leveraging off our growing scale as mentioned in “Business – Business strategies – Maintaining our cost advantages”.

Our credit terms are assessed on a case-by-case basis and are normally in the range of 90 to 120 days depending on, as to new customers, purchase size and customer reputation and, as to existing customers, payment history. Depending on our relationship with our distributors, the maximum credit period we had given to our distributors was 90 days. All of our domestic orders are settled in RMB while our export orders are generally settled in U.S. dollars. Our customers usually pay us by cash or bills of acceptance issued by banks with payment within three to six months after acceptance.

Marketing activities

We place emphasis on promoting market awareness of our products. We keep abreast of market trends and actively collect feedback from our customers. We have strategically conducted advertising campaigns through various media, including newspapers, the internet, magazines and outdoor advertisements. We have also regularly participated in international and domestic industry exhibitions in order to identify new customers and to promote our products. With our increasing brand awareness and market position, our Group has hosted international industry technical conferences, through which we are able to better understand market development trends.

To expand our overseas customer base, we also participate in tenders arranged by international automobile brands. In 2009 we successfully participated in several tenders through which we accumulated experience and received some business opportunities. Some of these tendering projects are now under sample testing and implementation testing stages.

We have also participated in exhibitions organised for the air-conditioning compressor industry, such as “Guangzhou International Automobile Air-conditioning and Refrigeration Chain Technology Exhibition” (廣州國際車用空調及冷藏鏈技術展覽會), “CIAPE China International Auto Parts Expo” (中國國際汽車零部件博覽會) and “Gohua China International Automobile Air-conditioning and Refrigeration Technology Exhibition” (歌華中國國際車用空調及冷藏技術展覽會). We have also used the “Alibaba” and “Gasgoo” business platforms and have updated our product catalogue on a regular basis so that our customers can conduct online real time procurement and communication with us.

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AWARDS AND RECOGNITIONS

In the past, we and Mr. Qian obtained the following major awards and recognitions.

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Technology</i>			
Acceptance Certificate for the Projects of State Innovation Fund for Technology Based Firms 科技型中小企業 技術創新基金項目 驗收合格	May 2002	Management Centre of Innovation Fund for Technology Based Firms of Ministry of Science 科學技術部科技型 中小企業技術創新 基金管理中心	Fluorine-free and environmental protection scroll automobile air- conditioning compressors
National Torch Project 國家級火炬計劃項目	July 2002	Ministry of Science for High-tech Torch Production Centre 科學技術部火炬高技術 產業開發中心	Fluorine-free and environmental protection scroll automobile air- conditioning compressors
Gold Award for the 10th Chinese Symposium on New Patented Technology and Products 第十屆中國專利新技術 新產品博覽會金獎	August 2002	Organizing Committee and Validation Committee for the 10th Chinese Symposium on New Patented Technology and Products 第十屆中國專利新技術 新產品博覽會組織委員會 及評審委員會	Aotecar Nanjing (Name of the patent: Variable scroll compressor using micro- motor valve to control its displacement)
High and New Technology Products 高新技術產品	May 2003	Nanjing Science & Technology Bureau 南京市科學技術局	Fluorine-free and environmental protection scroll automobile air- conditioning compressors
Third Prize Science & Technology Progress of Nanjing 南京市科學技術進步三等獎	December 2004	The People's Government of Nanjing 南京市人民政府	Environmental protection scroll automobile air- conditioning compressors (WXH086)
Second Prize Science & Technology Progress of Jiangsu Province 江蘇省科學技術進步二等獎	2004	The People's Government of Jiangsu Province 江蘇省人民政府	Environmental protection scroll automobile air- conditioning compressors (WXH086)

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Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Technology (Continued)</i>			
High and New Technology Products 高新技術產品	September 2005	Jiangsu Science and Technology Department 江蘇省科學技術廳	Scroll compressors for passenger vehicle air- conditioning
High and New Technology Enterprise 高新技術企業	December 2007	Jiangsu Science and Technology Department 江蘇省科學技術廳	Aotecar Nanjing
Nanjing municipal automobile air- conditioning compressor engineering technology research centre 南京市渦旋式汽車空調壓縮機 工程技術研究中心	September 2008	Nanjing Science and Technology Bureau 南京市科學技術局	Aotecar Nanjing
High and New Technology Enterprise 高新技術企業	October 2008	Jiangsu Science and Technology Department 江蘇省科學技術廳 Jiangsu Provincial Department of Finance 江蘇省財政廳 Jiangsu Provincial Office. SAT 江蘇省國家稅務局 Jiangsu Local Taxation Bureau 江蘇省地方稅務局	Aotecar Nanjing
2008 Top 100 Enterprises with High Growth and Technology Innovation in Nanjing 二〇〇八年度南京市高成長 科技創新型百優優秀企業	January 2009	Nanjing Municipal of the PRC Nanjing Municipal People's Government 中國南京市委南京市人民政府	Aotecar Nanjing
High and New Technology Products 高新技術產品	July 2009	Jiangsu Science and Technology Department 江蘇省科學技術廳	Electric and hermetic scroll compressors for hybrid vehicles

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Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Technology (Continued)</i>			
Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology 江蘇省節能環保 汽車空調壓縮機工程 技術研究中心	August 2009	Jiangsu Science and Technology Department 江蘇省科學技術廳	Aotecar Nanjing
Commercialisation of the new science & technology achievements in Jiangsu Province 江蘇省科技創新與成果轉化 (重大科技成果轉化) 專項引導資金項目	September 2009	Jiangsu Science and Technology Department and Jiangsu Department of Finance 江蘇省科學技術廳及 江蘇省財政廳	Aotecar Nanjing and Aotecar Xiangyun (Commercialisation of electric and hermetic scroll compressors for hybrid vehicles 南京奧特佳及奧特佳祥雲 混合動力車用電動全封閉 渦旋式壓縮機產業化)
<i>Quality</i>			
Products with Trustworthy Quality in Nanjing 南京市質量信得過產品	August 2003	Nanjing Bureau of Quality and Technical Supervision 南京市質量技術監督局	Aotecar brand fluorine- free and environmental protection scroll automobile air- conditioning compressors (奧特佳牌渦旋式無氟 環保汽車空調壓縮機)
Brilliant enterprise with good quality management in Jiangsu Province 江蘇省質量管理優秀企業	December 2005	Quality Management Association of Jiangsu Province 江蘇省質量管理協會	Aotecar Nanjing
Nanjing Municipal Quality Management Award 南京市質量管理獎	March 2008	Nanjing Municipal People's Government 南京市人民政府	Aotecar Nanjing

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Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Quality (Continued)</i>			
One of the drafting party for national standards for Scroll Automobile Air- conditioning Compressors for use in Small-displacement Vehicles 《汽車空調用小排量渦旋壓縮機》 國家標準起草單位之一	2009	National TC238 on Refrigerating & Air- conditioning Equipment of Standardisation of China 全國冷凍空調設備標準化 技術委員會	Aotecar Nanjing
ISO/TS 16949:2009	September 2009	Quality Austria Training Certification and Evaluation Ltd. 國際認證公司	Aotecar Nanjing
The National Industrial Production License 全國工業產品生產許可證	November 2009	General Administration of Quality Supervision and Quarantine 國家質量監督檢驗檢疫總局	Aotecar Nanjing
CCCAP Certification 汽車產品認證證書	December 2009	CCCAP 中汽認證中心	Aotecar Nanjing
<i>Brand</i>			
Credible Entity in Labour and Social Security in Nanjing City 南京市勞動和社會保障 誠信單位	February 2006	Nanjing Labour and Society Security Bureau 南京市勞動和社會 保障局	Aotecar Nanjing
Famous Trademark in Nanjing City 南京市著名商標	December 2006	Nanjing Industry and Commerce Administration 南京市工商行政管理局	“ATC and Graphic” Trademark
Contract trustworthy enterprise of Nanjing City 南京市重合同守信用企業	2006	Nanjing Municipal People’s Government 南京市人民政府	Aotecar Nanjing
Original Innovation Award in Chinese Auto Independent-Innovation Result Grand Ceremony 中國汽車自主創新成果 大典原始創新獎	December 2006	China Automotive News 《中國汽車報》	Aotecar Nanjing

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Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Brand (Continued)</i>			
Advanced Technology Enterprise with Foreign Investment 外商投資先進技術企業	March 2007	Nanjing Foreign Trade and Economic Cooperation Bureau 南京市對外貿易經濟 合作局	Aotecar Nanjing
China Best Small & Medium-sized Enterprises 2008 2008中國潛力企業	January 2008	Forbes Magazine 《福布斯》雜誌	Aotecar Nanjing
Nanjing Famous Product 南京名牌產品	January 2005 and March 2008	Nanjing Municipal People's Government 南京市人民政府	Aotecar brand fluorine- free scroll automobile air-conditioning compressors (奧特佳牌渦旋式無氟 環保汽車空調壓縮機)
Outstanding Individuals in China Automobile Industry for the 30th Anniversary of Reform and Opening 改革開放30年中國汽車 工業傑出人物	November 2008	China Association Of Automobile Manufacturers 中國汽車工業協會 Society of Automotive Engineers of China 中國汽車工程學會 China Automotive Technology and Research Centre 中國汽車技術研究中心 China Council for the Promotion of International Trade, Automotive Industry Sub-Council 中國貿促會汽車行業分會 Newspaper Office for China Automotive News 中國汽車報社	Mr. Qian
The Enterprises Honouring contracts and credit 重合同守信用企業	December 2008	Jiangsu Provincial People's Government 江蘇省人民政府	Aotecar Nanjing

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Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
<i>Brand (Continued)</i>			
The Gold Medal Tally for New Energy and New Technology of China Automobile (Science and Technology Cup for FPT Fiat Motive Power) 中國汽車新能源新技術 金牌榜 (FPT菲亞特動力 科技杯)	December 2008	China Automotive News 《中國汽車報》	Aotecar Nanjing
2009 China Up and Comers 2009中國潛力企業	2009	Forbes Magazine 《Forbes福布斯》雜誌	Aotecar Nanjing
National Top 100 Automotive Parts Suppliers ⁽¹⁾ 全國百佳汽車零部件 供應商	November 2007, November 2008 and October 2009	Newspaper Office for China Automotive News 《中國汽車報》報社	Aotecar Nanjing
Jiangsu Famous Brand 江蘇名牌產品	December 2006	Famous Brand Strategy Promotion Committee of Jiangsu Province 江蘇省名牌戰略推進 委員會	Aotecar brand fluorine- free Scroll automobile air-conditioning compressors (奧特佳牌渦旋式無氟 環保汽車空調壓縮機)
Jiangsu Famous Brand 江蘇名牌產品	December 2009	Famous Brand Strategy Promotion Committee of Jiangsu Province 江蘇省名牌戰略推進 委員會	Aotecar brand passenger vehicle scroll automobile air-conditioning compressor (奧特佳牌轎車空 調用渦旋壓縮機)
Jiangsu Famous Trademark 江蘇省著名商標	2007-2010	Industry and Commerce Administration of Jiangsu Province 江蘇省工商行政管理局	“ATC and Graphic” Trademark
2010 Forbes China Up & Comers 2010福布斯中國潛力企業	2010	Forbes Magazine 《福布斯》雜誌	Aotecar Nanjing
Well-known Trademark 馳名商標	2010	Jiangsu Nanjing Intermediate People's Court 江蘇省南京市中級 人民法院	“ATC and Graphic” Trademark

Note:

(1) In 2009, the name of the award “National Top 100 Automotive Parts Suppliers” (全國百佳汽車零部件供應商) has been changed to “National Top 100 Excellent Automotive Parts Suppliers” (全國百佳優秀汽車零部件供應商).

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In addition, we are highly decorated by our customers who have granted us or our products following honourable titles.

Customers

FAW-Tianjin

NAVECO

China FAW

Brilliance

KLM

Dongfeng Motor

BYD

Chang'an Automobile

Foton

Hafei Auto

FAW-Haima

Geely

DPCA

Honours

Exempted Examination Products in 2005 and
Excellent Supplier in 2006

2005年免檢產品及2006年優秀供應商

Excellent Supplier in 2005, 2006 and 2009

2005年、2006年及2009年優秀供應商

Cost Improvement Award in 2006

2006年成本改善獎

Cost Contribution Award in 2007 and 2008

2007年及2008年成本貢獻獎

Excellent Supplier in 2008 and 2009

2008年及2009年優秀供應商

Excellent Supplier in 2008 and 2009

2008年及2009年優秀供應商

Excellent Supplier in 2008 and 2009

2008年及2009年優秀供應商

Award for Best Cost Optimisation in 2008

2008年最佳成本優化獎

Technology Innovation Awards in 2008

2008年科技創新獎

Excellent Supplier in 2005, 2006, 2007, 2008
and 2009

2005年、2006年、2007年、2008年及2009年優秀供應商

Excellent Supplier in 2009

2009年優秀供應商

Excellent Supplier in 2009

2009年優秀供應商

Award for Excellent Supplier in Localisation in
2010

2010年國產化優勝獎供應商

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, our Group was the registered owner of 12 trademarks, one software copyright and owned 48 registered patents in the PRC. In addition, as at the Latest Practicable Date, we were applying for the registration of 43 patents in the PRC and seven trademarks in Hong Kong. For further details of our trademarks, patents and other intellectual property rights, please refer to “Further information about the business – Our intellectual property rights” in Appendix VI to this prospectus.

COMPETITION

Our Directors consider that the auto part industry in which we operate is highly competitive. Although the industry has high entry barriers such as capital requirements, individually-invented

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production technology protected by patent and market recognition, the competition among existing market players is keen in terms of quality, pricing, product performance, reliability and timeliness of delivery, product development capability, customer service and overall management.

Due to the high entry barrier as mentioned above, there were only a few market players engaged in the production of scroll compressors in the PRC. After the establishment of Aotecar Nanjing in 2000, we improved the technology catering for the mass production of scroll compressors for automobiles and the scroll compressors had then started to get the attention of the public.

Currently, the PRC automobile air-conditioning compressor market is almost self-supported by production from domestic manufacturers, most of whom have foreign investment, an OEM (or original equipment manufacturer) background and who leverage on imported technology. Major market players in the PRC are engaged in the production of swash plate compressors which are at present the most common types of automobile air-conditioning compressors. Nevertheless, given the comparative advantages of scroll compressors, automobile manufacturers have gradually adopted scroll compressors in their new vehicle models. We believe that scroll compressors will continue to capture the existing market potential and become the leading product in the market. Our competitive advantage lies in both our status as first-comer and our leading role in the sector.

EMPLOYEES

As at 30 June 2010, we had over 2,000 full-time employees. The following table set out a breakdown of our personnel by function as at 30 June 2010:

Production	1,648
Sales and marketing	38
Sourcing and procurement	21
R&D	52
Quality management and testing	113
Management and administration	164
Finance	11
Total	2,047

Social Insurance and housing provident fund contributions

Pursuant to applicable PRC laws and regulations, we are required to contribute to Social Insurance and housing provident funds, for our staff.

Aotecar Nanjing, Aotecar Xiangyun and Aotecar Casting, as PRC entities, are obliged by the PRC laws and regulations to make contributions to the Social Insurance and housing provident funds. As advised by our PRC Legal Advisers, Aotecar Xiangyun has fully complied with the laws and regulations on the contributions to the Social Insurance and housing provident funds. However, the amount of contributions paid by Aotecar Nanjing and Aotecar Casting were less than the amount required under the PRC laws and regulations as they had adopted an amount less than the average monthly salary received by each employee in the preceding year as the basis for calculation. Further, since many employees of Aotecar Casting are migrant workers from rural areas or other cities other

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than Nanjing, they were unwilling to participate in Social Insurance and housing provident fund schemes and they requested our Group not to make the Social Insurance and housing provident fund contributions for them, Aotecar Casting had only made Social Insurance and housing provident fund contributions for some of its employees. Aotecar Casting did not make contributions to housing provident funds for its staff before June 2010.

The amounts of unpaid contributions to Social Insurance of Aotecar Nanjing and Aotecar Casting for the three financial years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010 were RMB185,000, RMB922,000, RMB1,682,000 and RMB1,332,000 respectively, while the amounts of the unpaid contributions to housing provident funds of Aotecar Nanjing and Aotecar Casting for the three financial years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010 were RMB79,000, RMB424,000, RMB754,000 and RMB557,000 respectively. In relation to the unpaid contribution amounts, since (i) employees themselves shall also assume the liability to pay part of Social Insurance and housing provident fund contributions as stipulated in the PRC laws and rules and such payment will reduce their direct disposable income, the employees are unwilling to pay up those amounts and decline our requests for payments of Social Insurance and housing provident fund contributions on their behalf; and (ii) due to turnover of our employees and it is not practicable for us to pay up those contribution amounts for those who are no longer our employees, it is not feasible for us to make the relevant contributions under the PRC law unless it is so demanded by the relevant authorities or agreed by those employees.

As advised by our PRC Legal Advisers, the amount of maximum fine/penalty that may be imposed on our Group for the non-compliance with Social Insurance regulations is three times of the amount equivalent to the salary amount not reported to the relevant Social Insurance authorities. We may be required by the relevant authorities to contribute all the unpaid amounts in the prescribed period. A daily overdue fine calculated at 0.2% of any unpaid Social Insurance contributions will be imposed if we fail to contribute in such prescribed period. No fines will be imposed for the unpaid housing provident fund contribution after the company opens the house provident fund account with the competent authority, in accordance with the existing laws and regulations. In the event that the administrative penalties are imposed on the Group in any particular financial year, the Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us.

Aotecar Nanjing and Aotecar Casting had communicated with the relevant authorities regarding the contributions of Social Insurance and housing provident fund. Aotecar Nanjing obtained a written confirmation from the Social Insurance Collection and Payment Administration Centre of Nanjing (南京市社會保險徵繳管理中心), the competent Social Insurance authority, on 12 October 2010, which confirmed that Aotecar Nanjing had duly contributed Social Insurance for its employees since its incorporation and Aotecar Nanjing had no record of overdue contributions. Aotecar Nanjing further obtained a written confirmation from the Provincial Institutions Housing Provident Fund Administration Centre of Jiangsu Province (江蘇省省級機關住房資金管理中心), the competent housing provident fund authority, on 13 October 2010, which confirmed that Aotecar Nanjing had duly contributed housing provident fund without any record of being sanctioned for any overdue contribution or non-compliance and there is no record of overdue contribution of Aotecar Nanjing. Aotecar Casting obtained a written confirmation from the Social and Labor Insurance

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Administration of Nanjing City Jiangning District (南京市江寧區社會勞動保險所), the competent Social Insurance authority, on 13 August 2010, which confirmed that Aotecar Casting had duly contributed Social Insurance for its employees since its incorporation without any record of being sanctioned for any non-compliance and the basis and percentage of Social Insurance contribution complied with the requirements of the PRC law. Aotecar Casting further obtained a written confirmation from the Housing Provident Fund Administration Centre of Nanjing (南京住房公積金管理中心), the competent housing provident fund authority, on 14 September 2010, which confirmed that Aotecar Casting had promptly and duly contributed housing provident fund for its employees without any non-compliance with laws, regulations or local rules related to housing provident fund. On the basis that the above confirmations are issued by competent Social Insurance and housing provident fund authorities, our PRC Legal Advisers are of the view that the risk of Aotecar Nanjing and Aotecar Casting being required to contribute unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the advice from our PRC Legal Advisers above, the Directors consider that the financial impact to the Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendices IA and IB to this prospectus.

The Group has started regulating its practice of the Social Insurance and housing provident fund contribution in accordance with the national and local regulations, as advised by our PRC Legal Advisers, according to the general practice in Nanjing, the contribution basis can only be adjusted in July every year. Aotecar Nanjing will adjust the amount of contribution basis to the lawful level in July 2011. As at the Latest Practicable Date, we had not received any complaint from our employees in relation to the Social Insurance and housing provident fund contributions. In March 2010, Aotecar Nanjing was accredited as “Harmonious Labour Relationship Enterprise of Nanjing City” (南京市勞動關係和諧企業).

We undertake to pay all outstanding contributions as soon as possible should our employee(s) agree to contribute to the Social Insurance and housing provident funds or should we receive any payment notice from the relevant authorities. As at the Latest Practicable Date, we had not received any notice from the relevant authorities demanding for the outstanding contributions. Also, Aotecar Casting had entered into Labour Service Despatch Agreements (勞務派遣合同) with Nanjing Baiye which had taken up the employment of such workers. Nanjing Baiye would provide foundry and general operational workers to Aotecar Casting as required with effect from 26 September 2010 and would bear the liability to make sufficient Social Insurance and housing provident contributions for and on behalf of each worker dispatched to Aotecar Casting. As agreed, Aotecar Casting would then pay the labour service fees to Nanjing Baiye in accordance with the aforesaid agreement. Since Nanjing Baiye is a qualified institute for providing labour despatch service, the dispatched workers are of supportive function as required by PRC laws and the Labour Service Despatch Agreements (勞務派遣合同) also comply with the PRC legal requirements, our PRC Legal Advisers consider that the above arrangement is legal and valid under the PRC Laws. On the basis as above, our Directors consider that such non-compliance would only have minimal financial and operational impacts on the Group.

Save for the non-compliance disclosed in this prospectus, as advised by our PRC Legal Advisers, the Group has complied with the relevant labour and social welfare laws and regulations in PRC.

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Remuneration

The staff costs of our Group (including staff welfare expenses but excluding Directors' remuneration, which are set out in "Directors, Senior Management and Employees – Remuneration of directors and senior management" in this prospectus) during the Track Record Period were RMB18.1 million, RMB22.4 million, RMB46.9 million and RMB39.4 million, respectively.

We conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme.

Please refer to "Share Option Schemes" in Appendix VI to this prospectus for further information.

INSURANCE

We maintain insurance coverage for our main production facilities. As at the Latest Practicable Date, no incident had occurred as a result of which we would need to make any significant claims under these insurance policies.

However, in line with the customary practice in the PRC, we do not maintain any product liability insurance, which is not required under the PRC laws and regulations. To control our product liability risk, we place significant emphasis on quality assurance and have set aside provision for product warranties for any product liability claims from our customers.

SAFETY AND ENVIRONMENTAL MATTERS

Workplace safety

We are subject to the PRC laws and regulations regarding labour, safety and work-related incidents. Our production safety protection measures include the following:

- personnel operating lifts and other specialised equipment must possess necessary certifications required by laws;
- installation of safety devices such as safety interlock protective doors and windows, safety monitors and two-hand handling buttons in our production lines; and
- clear fire escape routes, sufficient emergency lighting and implementation of fire-fighting facilities.

As at the Latest Practicable Date, we had complied with the PRC workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our operations.

Environmental assessment and approvals

We are subject to environmental protection laws and regulations promulgated by the PRC government on matters such as the discharge of waste water, exhaust fumes and solid waste. We

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believe that our production process does not generate hazardous materials that have any significant adverse effects on the environment because of the composition of our products, the nature of our production process and the environmental protection control measures we have adopted. During the Track Record Period, our levels of waste discharge, noise, water or air pollution are below the statutory limits. Furthermore, we have duly obtained valid pollutant discharge permits from the relevant local environmental authorities for the discharge of pollutants.

We have our own environmental management policy and a team of members to implement the policy and to ensure compliance with the relevant laws and regulations. The team comprises of four core members, including Mr. Qian and three members from the senior management of the Group, who will, through regular contacts with different departments monitor that the discharge of pollutants by the Group are within the prescribed limits under the PRC laws, ensure that the environmental management policy has been duly implemented.

Aotecar Nanjing and Aotecar Xiangyun had received confirmation from, as to Aotecar Nanjing, the Nanjing Qinhuai District Environmental Bureau (南京市秦淮區環境保護局) on 14 October 2010, and as to Aotecar Xiangyun, the Nanjing Jiangning District Environmental Bureau (南京市江寧區環境保護局) (the “**Jiangning Environmental Bureau**”) on 13 October 2010. Both bureaus are competent authorities to issue written confirmations that Aotecar Nanjing and Aotecar Xiangyun have no record of violating environmental rules and regulations since incorporation.

According to the PRC regulations, any new project which involves construction must comply with applicable state environmental protection regulations by obtaining the approval on the environmental impact assessment of such projects prior to construction and to obtain relevant approval on the environmental protection facilities verification from the local environmental protection bureau after construction. Aotecar Nanjing and Aotecar Xiangyun has each obtained the above-mentioned approvals.

Prior to commencement of production, Aotecar Casting consulted the Jiangning Environmental Bureau, the competent environmental protection authority of Jiangning District, regarding approval of environmental impact assessment and verification of environmental protection facilities. The Jiangning Environmental Bureau explained that, in line with the national policy of energy saving and pollutants reduction, it would grant approval of environmental impact assessment and verification of environmental protection facilities only to enterprises with improved environment-friendly measures. Applications from enterprises like Aotecar Casting using traditional energy such as coke in its operation had been suspended. The Jiangning Environmental Bureau also told Aotecar Casting that it would formulate a resolution plan for enterprises such as Aotecar Casting after conducting some investigations and that they did not definitely prohibit such enterprises from commencing constructions. Accordingly, Aotecar Casting finished the construction project without conducting any environmental impact assessment prior to construction and obtaining approval from the local environmental protection bureau after completion of construction. Our PRC Legal Advisers advised that the relevant environmental authority may impose a fine from RMB50,000.0 to RMB200,000.0 on Aotecar Casting if it fails to obtain the approval on the environmental impact assessment within the prescribed period if later required by the relevant authority to rectify the same, and Aotecar Casting may further be subject to a suspension order and a fine of not more than RMB50,000.0 for not having obtained the approval on the environmental protection facilities verification after construction within the prescribed period. In order to mitigate

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the financial and operational impact on the Group of a suspension order being imposed, on 16 July 2010 and 25 August 2010, Aotecar Nanjing had entered into two memoranda of understanding with two of its existing suppliers namely Danyang Yongyue and Nanjing Yunhai which are independent third parties which provide that, in the event that Aotecar Casting is required to suspend operations or is required to vacate the Hengxi Properties, such suppliers would be willing to be contracted to Aotecar Nanjing to produce the products that are currently produced at the Hengxi Properties. The products to be supplied by Danyang Yongyue and Nanjing Yunhai will be at prevailing market prices at the relevant times.

To rectify the above environmental non-compliance issue, in May 2010, Aotecar Casting submitted an application for approval of an environmental impact assessment to Jiangning Environmental Bureau. However, the application had been suspended. We consulted the officer in charge of the Jiangning Environmental Bureau in May 2010 and August 2010 and were informed that the application from Aotecar Casting was still suspended for the same reason explained above. Nevertheless, the officer further explained that since a lot of enterprises in Jiangning District were not able to obtain the approval due to the above reason and in order to promote the local economy, Jiangning Environmental Bureau had verbally confirmed that a two years' grace period had been granted to Aotecar Casting from May 2010 to gradually replace coke with electricity or other clean energies, during which no penalties or order of suspension will be imposed on Aotecar Casting.

As advised by our PRC Legal Advisers, the existing PRC laws and regulations do not definitely prohibit enterprises from using coke in aluminium alloy casting or stipulate any deadline for enterprises to replace coke with clean energies. Our PRC Legal Advisers further advised that as the Jiangning Environmental Bureau is the competent authority to enforce and supervise environmental protection, it has the discretionary power to grant such grace period and the higher authorities would not challenge the administrative action taken by the lower authorities which was made in accordance with the PRC laws. As such, it is unlikely that the decision made by the Jiangning Environmental Bureau will be challenged by the higher authorities. In addition, Aotecar Casting obtained a confirmation letter from the Jiangning Environmental Bureau on 14 October 2010 stating that there is no circumstances which trigger penalties being imposed on Aotecar Casting for violation of environmental laws. Our PRC Legal Advisers advised that the Jiangning Environmental Bureau, being the supervising environmental protection authority of Aotecar Casting, has the power to issue these confirmations. Based on the above, our PRC Legal Advisers further advised that the risk of Aotecar Casting being fined for non-compliance with environmental impact assessment rules is low. Our Directors are of the view that such non-compliance would not have material financial and operational impact on the Group.

Please refer to “Regulatory Overview – Environmental protection regulation” of this prospectus for details about the environmental protection requirements related to our operations.

As at the Latest Practicable Date, our Company had commenced the study for the deployment of the improved environment-friendly measures, utilising cleaner energies such as electricity or gas rather than coke (the “**Environmental Improvement Project**”). A task force comprises of three senior staff had been formed for the Environmental Improvement Project and it had been in close contacts with the relevant local authorities for the improvements in Aotecar Casting. If required, the Group will also engage an environmental consultancy firm to advise on the effectiveness of the plan

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to ensure an effective implementation of the improvement plan. Our Company plans to (i) finalise the implementation plan of the Environmental Improvement Project by the end of 2010, (ii) submit an application for construction of voltage transformer to the Nanjing Power Supply Bureau (南京供電局) by the end of 2010, (iii) complete all the preliminary work of the Environmental Improvement Project by the end of 2011, (iv) install and trial-run the improved environmental facilities in 2012, and (v) apply for verification of the improved environmental facilities and deploy the same in the production by May 2012. Given the procedures set out above, we would need about two years to complete the Environmental Improvement Project. The expenditures of the Environmental Improvement Project are estimated to be RMB1.9 million. Having reviewed the Environmental Improvement Project, our Directors consider that our Group should be able to implement the Environmental Improvement Project before the end of the grace period and further believe that Aotecar Casting would be able to comply with the environmental assessment requirements of the Jiangning Environmental Bureau after implementation of the above project.

As at the Latest Practicable Date, neither we nor any company of our Group had received any warnings, nor had any company of our Group been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which may materially and adversely affect our production. The annual cost of compliance with the applicable environmental rules and regulations of our Group was RMB88,900.0, RMB0.8 million, RMB1.3 million and RMB0.3 million for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. The cost of compliance going forward is expected to be similar to the amounts spent during the year ended 31 December 2009.

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As at the Latest Practicable Date, we owned 27,707.5 sq.m. of land in the Old Production Base, 82,843.8 sq.m. of land in the New Production Base and leased a total of 6,832.0 sq.m. of land in Hengxi Lands, on which we have been operating our production facilities.

We do not have valid building ownership certificates for 15,020.9 sq.m. in the Old Production Base, of which 4,465.5 sq.m. is used for the processing of brake discs, static plates, front end covers and cases and production of a small quantity of air-conditioning compressors, and we do not have valid building ownership certificates for the buildings with a total gross floor area of 24921.1 sq.m. in the New Production Base, and our lessor does not have valid land use right certificates for the Hengxi Lands (with an aggregate site area of 6,832.0 sq.m.) on which our Hengxi Owned Factory, Hengxi Leased Factory and Hengxi Workshop are located (of which 3,909.4 sq.m. are used for production purposes).

Aotecar Nanjing

Aotecar Nanjing occupied the Old Production Base with a site area of 27,707.5 sq.m., on which various workshops, offices, warehouses and ancillary facilities were built with a total gross floor area of 21,279.1 sq.m..

While Aotecar Nanjing obtained the valid land use rights certificate for the entire site area, it only obtained building ownership certificates for certain buildings on the land with a total gross floor area of 6,258.3 sq.m. but failed to obtain the said building ownership certificates for the

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remaining building structures with a total gross floor area of 15,020.9 sq.m. (the “**Non-Permitted Old Production Buildings**”) due to failure to obtain relevant construction project planning permits (建設工程規劃許可證) and construction licences (建設工程施工許可證) prior to the construction for the Non-permitted Old Production Buildings. Amongst the Non-Permitted Old Production Buildings, 3,224.0 sq.m. is used as offices and staff canteen, 4,465.5 sq.m. is used as production workshops, 3,742.5 sq.m. is used as warehouses and 592.9 sq.m. is for miscellaneous purposes including building an environment simulation lab with a gross floor area of 400.9 sq.m. and a boiler and pump room with a gross floor area of 192.0 sq.m., and the remaining portion (2,996.0 sq.m.) (the “**Leased Portion**”) is leased to an independent third party (the “**Lessee**”). The term of our lease with the Lessee is from 1 November 2007 up to and including 31 October 2017 for an aggregate rental of RMB3.5 million from 1 November 2007 to 31 October 2009, and an annual rental of RMB0.8 million from 1 November 2009 onwards.

In respect of the Non-Permitted Old Production Buildings:-

- (i) in May 2007, the Nanjing Planning Bureau (南京規劃局) issued a construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 7,000.0 sq.m. were ordered to be suspended (this structure now includes the Leased Portion occupied by the Lessee as well as the building used by Aotecar Nanjing as offices and staff canteen);
- (ii) in June 2007, the Nanjing Planning Bureau issued another construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 1,000.0 sq.m. were ordered to be suspended (this structure is now being used by Aotecar Nanjing as warehouse);
- (iii) in August 2007, the Nanjing Planning Bureau issued a demolition order against Aotecar Nanjing to demolish a structure having a total gross floor area of 900.0 sq.m. (this structure is now being used by Aotecar Nanjing as warehouse); and
- (iv) in March 2010, the Nanjing Planning Bureau imposed an administrative fine of RMB36,000.0 against Aotecar Nanjing for an unlawful warehouse structure (this structure is now being used by Aotecar Nanjing as workshop with an actual gross area of 1,339 sq.m.), and to require an unconditional demolition of that structure in future if it would be so required for the purpose of town planning. When Nanjing Planning Bureau imposed the said administrative fine, the Nanjing Planning Bureau had acknowledged and taken into consideration the special and factual circumstances of the matter and decided not to impose the maximum administrative fine of up to 10% of the construction costs of the relevant unlawful structure, and had agreed that the unlawful structure be demolished only when such demolition would become necessary for town planning purposes.

Save for the administrative fine of RMB36,000.0 which Aotecar Nanjing settled in March 2010, up to the Latest Practicable Date, the abovementioned construction suspension notices and demolition orders had not yet been enforced by Nanjing Planning Bureau.

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As advised by our PRC Legal Advisers, for those portions of the Non-Permitted Old Production Buildings that have not yet been subject to any administrative fine, there are legal risks that the responsible planning authorities may order demolition of the Non-Permitted Old Production within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB1,183,200.

In respect of our lease with the Lessee for the Leased Portion, since the lease relates to a property which has not duly obtained the relevant construction permits and certificates, including the building ownership certificates, according to our PRC Legal Advisers, the Leased Portion should not have been rented to any third party and the lease may be held as invalid and unenforceable, and Aotecar Nanjing may be subject to an administrative penalty in the amount ranging from RMB500.0 to RMB2,000.0 and may be required to rectify the non-compliance.

However, since the Lessee has actual knowledge of the non-compliance, it is unlikely that Aotecar Nanjing will be held liable for the compensation as stipulated in the lease contract. Also, the amount of administrative penalty is relatively small. As such, the PRC Legal Advisers and the Directors are of the view that such non-compliance would not have material financial and operational impact on the Group.

Aotecar Nanjing was one of the corporations originally invited by the People's Government of Qinhuai District (the **"Qinhuai Government"**) to establish the Old Production Base in Qinhuai, and in order to support the continual stable development of Aotecar Nanjing, the Qinhuai Government issued a letter to Aotecar Nanjing on 15 July 2010 confirming that (i) applications for the relevant licences and permits for the Non-Permitted Old Production Buildings with an aggregate floor area of 15,020.9 sq.m. were originally acceptable but due to the need to relocate the Da Xiao Chang Airport in Nanjing, processing of all zone planning permits and licences had been suspended pending determination of the relocation, leading to it being fined and enforced by the relevant governmental authorities; and (ii) the Qinhuai Government had already communicated and liaised with other relevant governmental authorities to seek that no further fine or enforcement action would be imposed on the Non-Permitted Old Production Buildings and in the event there would in the future be any new fine or punishment, the Qinhuai Government would bear full responsibilities to ensure that Aotecar Nanjing would not suffer any economic loss. Our PRC Legal Advisers consider that as Qinhuai Government will take measures to ensure the above matters, the risk of any future fine/penalty being imposed on us is low and the financial and operational impact on our Group due to such non-compliance is minimal.

As advised by our PRC legal Advisers, in accordance with the relevant PRC laws and regulations, the Nanjing Planning Bureau (南京市規劃局), the Nanjing Commission of Housing and Urban-Rural Development (南京市住房和城鄉建設委員會), the Nanjing Housing Support and Real Estate Bureau (南京市住房保障和房產局) are the competent authorities governing and approving the construction, the use as well as the application for certificates of the Non-Permitted Old Production Buildings and have power to make decisions to whether or not impose the administrative penalty on Aotecar Nanjing. Any other governmental department or entity has no power to make such decisions on this issue. Therefore, as advised by our PRC Legal advisers, the Company is unable to ensure that no fine or enforcement action would be imposed on the Non-Permitted Old Production Buildings even upon receipt of the above-mentioned letter issued by Qinhuai Government.

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Although Qinhuai Government is not a competent authority to approve the application, our PRC Legal Advisers consider that the Qinhuai Government has the authority to issue the above-mentioned letter, and as such, our Directors consider that the financial impact on the Group due to such non-compliance is minimal.

The relocation plan for Da Xiao Chang Airport had not been announced as at the Latest Practicable Date. Aotecar Nanjing has checked with Nanjing Qinhuai District Development and Reform Bureau (南京市秦淮區發展和改革局) and Nanjing Daming Road Automobile Street Management Office (南京市大明路汽車街管理辦公室) and they have confirmed that they are not aware of any relocation plan for Aotecar Nanjing. Pursuant to the Law of the PRC on Urban and Rural Planning (城鄉規劃法), the Regulation on the Dismantlement of Urban Houses (城市房屋拆遷管理條例), the Administrative Adjudication Ordinance on the Dismantlement of Urban Houses (城市房屋拆遷行政裁決工作規程), and the Circular of the General Office of the State Council on Controlling Dismantlement Scope of Urban Houses and Making Strict Administration on Dismantlement (國務院辦公廳關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知), the provincial construction administrative departments and the development and reform departments of the same level can approve medium-and-long-term plans and annual plans to dismantle urban houses formulated by the local governments, and the construction projects not included in the annual plans for dismantling shall not be dismantled. Therefore, the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office are not the competent authorities for approving the plans for dismantling. Nevertheless, once the plans for dismantling have been approved by the abovementioned competent authorities and become enforced, the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office, as their functional departments, are entitled to obtain such information. Based on the above, our PRC Legal Advisers are of the opinion that the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office can confirm whether Aotecar Nanjing has been included in any plan of dismantling.

Our PRC Legal Advisers further advised that in common circumstances, the governmental authorities are not duty-bound to issue written confirmation as to whether a building will be demolished or an enterprise will be subject to a new penalty. Qinhuai Government, Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office voluntarily issued such confirmations to show support in the operation of Aotecar Nanjing. As such, the Directors consider that the risk of Aotecar Nanjing being required to relocate in the near future is minimal.

Please refer to “Property Valuation” in Appendix IV to this prospectus for further information about the Old Production Base. Our Directors consider that the Non-Permitted Old Production Buildings will not affect our operations since in respect of those parts of the Non-Permitted Old Production Buildings, only 4,465.5 sq.m. are used for production purposes, the production only relates to processing of brake discs, static plates, front end covers and cases and production of a small quantity of air-conditioning compressors, and in respect of the remaining parts of the Non-Permitted Old Production Buildings, they are used for non-production purposes.

Moreover, Aotecar Nanjing and Aotecar Xiangyun have already formulated and adopted a relocation plan in July 2010 which set out the planned procedures for relocating the production lines currently installed in the Non-Permitted Old Production Buildings to the alternate production

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facilities totalling 12,000.0 sq.m. and owned by Aotecar Xiangyun, which aims to ensure a coordinated relocation process and minimise disruptions to the production of Aotecar Nanjing in the event the Non-Permitted Old Production Buildings would be required by the government to be demolished. Based on the relocation plan, the relocation would be completed within 10 days and may involve relocation expenses of about RMB400,000.0 and as such, our Directors consider that the non-compliance would not have material financial and operational impact on the Group. Save for the 166 series and 206 series compressors, all products produced in the Non-Permitted Old Production Buildings are also produced in the New Production Base owned by Aotecar Xiangyun. Since the existing facilities in the New Production Base can also be used for producing 166 series and 266 series compressors when required, the Directors consider that the relocation would not have material disruption to the production of Aotecar Nanjing.

Aotecar Xiangyun

Aotecar Xiangyun owned the New Production Base with a site area of 82,843.8 sq.m. (“**Jiangning Land**”). The Moling Street Office of Jiangning District, Nanjing City (南京市江寧區秣陵街道辦事處) (“**Street Office**”), the administrative agency (派出機關) in charge of Moling Street Sub-district under the People’s Government of Jiangning District, Nanjing City, invited Aotecar Xiangyun to establish the New Production Base as one of the key construction projects of Moling Street Sub-district for three consecutive years from 2008 onwards in order to improve the local economy. In connection with such invitation, the Street Office agreed to assist Aotecar Xiangyun to liaise with the local government authorities and obtain the relevant land use rights certificates for the New Production Base. The Group is not required to pay any consideration for the Street Office’s assistance in obtaining the land use rights. As Aotecar Xiangyun did not have the land use rights certificate prior to construction, Nanjing State Land Resources Bureau, Jiangning Office (南京市國土資源局江寧分局) imposed a fine of RMB804,000.0 on Aotecar Xiangyun and subsequently the People’s Court of Jiangning District, Nanjing City (南京市江寧區人民法院) made an enforcement order for the fine payment. Pursuant to a clarification letter dated 25 March 2010 issued by the Street Office to Aotecar Xiangyun, the fine imposed by the Nanjing State Land Resources Bureau, Jiangning Office was due to the failure of the Street Office to assist Aotecar Xiangyun to obtain the relevant land use rights certificate as originally agreed and Aotecar Xiangyun should not be held responsible for such. The Street Office agreed that it would continue to coordinate with the relevant governmental departments and would bear all the fines and relevant fees if coordination failed. On 11 June 2010, the Street Office fully paid the fine of RMB804,000.0.

Aotecar Xiangyun obtained the valid land use right certificate for a portion of Jiangning Land with a site area of 34,236.3 sq.m. on 13 May 2010 and the land use right certificate for the entire Jiangning land on 30 August 2010 after surrendering the land use rights certificate in relation to the site area of 34,236.3 sq.m. to the relevant government authority.

As advised by our PRC Legal Advisers, given that the land use right certificate of the Jiangning Land had eventually been granted to Aotecar Xiangyun and that the Street Office had clarified and settled the fine of RMB804,000.0, there is no risk that Aotecar Xiangyun would be penalised for the same non-compliance.

In relation to land use right grant contract for the site area of 34,236.3 sq.m. in the Jiangning Land, Aotecar Xiangyun was required to settle the consideration for acquisition of 34,236.3 sq.m. in the

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Jiangning Land on or before 30 October 2009. However, the last instalment was paid on 27 November 2009, therefore a surcharge of RMB246,680.0 was imposed on Aotecar Xiangyun as a penalty for late payment of the above contractual sum. On 24 March 2010, the Street Office paid the fine of RMB246,680.0 to Nanjing State Land Resources Bureau, Jiangning Office on behalf of Aotecar Xiangyun. On 10 June 2010, the Street Office further issued a notice to Aotecar Xiangyun confirming that it would not seek any recovery or damages from Aotecar Xiangyun. As advised by our PRC Legal Advisers, given the above, there is no risk for Aotecar Xiangyun that either Nanjing State Land Resources Bureau, Jiangning Office or the Street Office will seek any recovery or damages from Aotecar Xiangyun in relation to its failure to pay the contractual sum before the payment deadline.

Aotecar Xiangyun occupies the Jiangning Buildings with a total gross floor area of 28,675.6 sq.m. on the Jiangning Land. The Jiangning Buildings comprises 17,540.3 sq.m. of production workshops, 8,230.7 sq.m. of dormitory and canteen house, 2,692.1 sq.m. of ancillary facilities and 212.5 sq.m. for miscellaneous use. In relation to the 17,540.3 sq.m. of production workshops, 3,754.5 sq.m. of which is under construction. Aotecar Xiangyun has already obtained the relevant construction project planning permits (建設工程規劃許可證) and construction licences (建築工程施工許可證), and the workshop will finish construction by January 2011. Afterwards, Aotecar Xiangyun shall arrange for application for building ownership certificate which is expected to be obtained by March 2011. As to the constructed Jiangning Building, i.e., 24,921.1 sq.m., it was constructed before Aotecar Xiangyun had obtained the relevant construction project planning permits (建設工程規劃許可證) and construction licences (建築工程施工許可證) (the “**Jiangning Defective Buildings**”). The Jiangning Defective Buildings comprise 13,785.8 sq.m. of workshops, and the remaining areas are not for workshop purposes. As advised by our PRC Legal Advisers, there were legal risks that the relevant governmental authorities may order demolition of Jiangning Defective Buildings within a prescribed period and confiscate any realty or unlawful gains from parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB3,475,900.0. Aotecar Xiangyun had subsequently obtained the construction project planning permits (建設工程規劃許可證) for Jiangning Defective Buildings on 14 July 2010 and 16 September 2010.

On 28 October 2010 and 18 November 2010, Aotecar Xiangyun had obtained construction licences (建築工程施工許可證) for the Jiangning Defective Buildings, Aotecar Xiangyun shall arrange for the application for building ownership certificate by the end of November 2010, which is expected to be obtained by the end of 2010. As advised by our PRC Legal Advisers, since Aotecar Xiangyun had already obtained the land use rights certificate, the construction project planning permits (建設工程規劃許可證) and the construction licences (建築工程施工許可證) for the Jiangning Defective Buildings, there should not be any legal impediment for Aotecar Xiangyun to obtain the building ownership certificate for the Jiangning Defective Buildings subject to the submission of all the necessary documents in compliance with the required procedures in accordance with the PRC laws. As such, the Directors are of the view that such would not have material financial and operational impact on the Group. Our PRC Legal Advisers further advised that, in light of the fact that approval was obtained on 22 April 2010 from Nanjing Planning Bureau (南京市規劃局) for the plan of construction work in Jiangning Defective Buildings and that the construction land planning permits (建設用地規劃許可證) in relation to the constructions of Jiangning Defective Buildings and Jiangning Land were obtained on 17 March 2010 and 14 May 2010 respectively, the risk for future fine or penalty arising out of the above non-compliance is minimal.

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Aotecar Casting

Aotecar Casting has leased the Hengxi Lands with site areas of 4,840.0 sq.m. and 1992.0 sq.m., respectively and the Hengxi Leased Factory pursuant to the Hengxi Lease. The terms of the Hengxi Lease for these two pieces of lands are from 1 December 2008 to on 30 July 2036, and from 1 December 2008 to 30 March 2012 respectively and the annual rentals payable by Aotecar Casting are respectively RMB24,200.0 and RMB24,000.0 (rental includes the lease of the Hengxi Leased Factory with a gross floor area of 1,377.6 sq.m. as mentioned below). Hengxi Lands are collective construction lands. Before Changheng Casting leased the Hengxi Lands to Aotecar Casting, the consent of the collective construction land owners should have been obtained and the relevant certification procedures of collective construction lands should have been completed. Since these legal requirements have not been fulfilled, the Hengxi Lease may become void and the rights of Aotecar Casting in the Hengxi Lands and the Hengxi Leased Factory may not be protected by law.

Aotecar Casting occupies three properties on the Hengxi Lands, namely the Hengxi Owned Factory, the Hengxi Leased Factory and Hengxi Workshop, with a gross floor area of 2,385.5 sq.m. and 1,377.6 sq.m. and 2,056.3 sq.m., respectively. Aotecar Casting acquired the Hengxi Owned Factory from Changheng Casting for RMB200,000 and leased the Hengxi Leased Factory together with the 1,992.0 sq.m. site area from Changheng Casting at an aggregate annual rental of RMB24,000 as mentioned above. Aotecar Casting also built the Hengxi Workshop on the Hengxi Lands.

In relation to the Hengxi Owned Factory, since Changheng Casting had not obtained the relevant land use right certificate and the building ownership certificate at the time when it transferred the Hengxi Owned Factory to Aotecar Casting, the PRC Legal Advisers advised that the said transfer had not been duly registered in accordance with PRC laws. Therefore Aotecar Casting is not entitled to the immovable property right in the Hengxi Owned Factory.

As to the Hengxi Workshop, since the relevant construction permits and certificates were not obtained before the construction of Hengxi Workshop commenced, there is the risk that the relevant governmental authorities may order demolition of the Hengxi Workshop within a prescribed time and confiscate any realty or unlawful gain for parts which cannot be demolished, and may impose a fine of equivalent to not more than 10% of the construction costs, which is RMB161,600.

In order to rectify the title issues of the Hengxi Lands and the Hengxi Properties, Aotecar Casting has contacted its lessor, Changheng Casting, and asked for its assistance in contacting the relevant authorities with a view to completing the relevant certification procedures. Changheng Casting has agreed to offer its help in discussing the same with the relevant parties.

Aotecar Casting produces brake discs, static plates, front end covers and cases in the properties situated on Hengxi Lands. In the event Aotecar Casting will be required to vacate the Hengxi Properties due to land title issues, given that the products that are produced at the Hengxi Properties are not highly technically complicated products and only involve general aluminium casting procedures, our Directors plan to deploy measures such as leveraging on our established relationships with certain third party suppliers to cover our production needs and to stock up additional stocks to meet our production requirements during the transitional period for the transfer from producing our own brake discs, static plates, front end covers and cases to purchasing them

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from third party suppliers. In relation to this, on 16 July 2010 and 25 August 2010, Aotecar Nanjing had entered into two memoranda of understanding with two of its existing suppliers namely Danyang Yongyue and Nanjing Yunhai which are independent third parties to provide that, in the event Aotecar Casting requires, the supplier would be willing to be contracted by Aotecar Nanjing to produce the products that are currently produced at the Hengxi Properties. The products supplied by Danyang Yongyue and Nanjing Yunhai will be at prevailing market prices at the relevant times. Our Directors anticipate that the transfer process would have only minimal impact on our overall operations and production costs.

Please refer to “Property Valuation” in Appendix IV to this prospectus for further information about the lands and properties of Aotecar Nanjing, Aotecar Xiangyun and Aotecar Casting.

Leased Staff Quarters

As at the Latest Practicable Date, (i) Aotecar Nanjing had entered into 38 lease agreements with various independent third parties in respect of 38 residential flats (“**Aotecar Nanjing Leased Staff Quarters**”) for a total gross floor area of 3,352.0 sq.m. at a total monthly rental of RMB47,580.0 which are due to expire between November 2010 and February 2012, all of which are used as staff quarters of Aotecar Nanjing, and (ii) Aotecar Xiangyun had entered into a lease agreement with an independent third party in respect of 18 residential flats (“**Aotecar Xiangyun Leased Staff Quarters**”) for a total gross floor area of 450.0 sq.m. at a total monthly rental of RMB10,800.0 for the period from 1 June 2010 to 31 May 2011, all of which are used as staff quarters of Aotecar Xiangyun.

All 38 lease agreements for the Aotecar Nanjing Leased Staff Quarters have been duly registered with the relevant authority.

In respect of the Aotecar Xiangyun Leased Staff Quarters, the landlord has not provided Aotecar Xiangyun with evidence of its legal title to the properties and hence our PRC Legal Advisers have advised that the lease agreement may not be legally valid and enforceable, but that Aotecar Xiangyun as lessee would not be liable for any civil or criminal responsibilities or any administrative penalty. Moreover, the lease agreement has not been registered at the relevant authority. As a result of the non-registration of the lease agreement, our PRC Legal Advisers have advised that each of the landlord and Aotecar Xiangyun may be liable for a fine from RMB100 to RMB1,000, but our PRC Legal Advisers have further advised that the non-registration of the lease agreement does not affect the validity of the lease agreement. Given that all the Aotecar Xiangyun Leased Staff Quarters are used as staff dormitories under a short term lease, our Directors are of the view that any early termination of the lease agreement would not materially impact on the business operations of Aotecar Xiangyun.

Please refer to “Property Valuation” in Appendix IV to this prospectus for further information about the Aotecar Nanjing Leased Staff Quarters and the Aotecar Xiangyun Leased Staff Quarters.

COMPLIANCE AND LEGAL PROCEEDING

During the Track Record Period, the Group had inadvertently failed to strictly comply with some PRC laws, rules or regulations due to lack of a very comprehensive understanding in certain rules and regulations in the PRC. For those non-compliance of the Group mentioned in “Summary –

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Non-compliance of the Group” in this prospectus, the Company’s PRC Legal Advisers considered that most of the risks of future fines/penalties being imposed on the Group were low. Taking into account the advice from our PRC Legal Advisers, the Directors consider that the financial and operational impact of such non-compliance to the Group is minimal and would not affect our future expansion plan and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendices IA and IB to this prospectus. In light of the opinion from the PRC Legal Advisers, the Directors are of the view and the Joint Sponsors concur with the Directors’ view that the non-compliance of the Group, whether individually and collectively, has minimal impact on its business operations and financial positions and such will not affect the Company’s compliance with Rule 8.05(1)(a) of the Listing Rules. For further details, please refer to the relevant paragraphs under “Business” in this prospectus.

Save as disclosed in this prospectus, as at the Latest Practicable Date and for the Track Record Period, the Group was not engaged in any litigation, arbitration or claim of material importance, and there was no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations.

INTERNAL CONTROLS

In connection with the Listing, the Group has undertaken an evaluation of its internal controls over financial reporting, including engaging an external advisory firm to perform certain agreed upon procedures. The scope of the agreed upon procedures work undertaken by the external advisory firm was limited to certain areas and did not extend to all aspects of the Company’s internal controls over financial reporting. The scope of the agreed-upon procedures covered (i) entity wide and corporate level controls including conflict of interests policy, composition and competency of the Board and its committees, risk assessment policies and procedures and information and communication policies and procedures and (ii) business process level controls including sales and receipts, purchases and payments, inventory management, capital expenditure and fixed assets management, human resources and payroll, treasury management, insurance management, budgeting, tax management, financial reporting, information technology controls. As a result of such scope, the findings of the internal control review may not include all control deficiencies in internal controls over financial reporting. The following table set forth a summary of the major findings:

Major findings	Recommended measures	Actions taken by the Group
We have developed relevant working practices for our key operations and some of our daily operations. However some of these practices were not formally documented in the existing policies and procedures	We should establish and formalise the working practices requirements, in particular those with financial impact, and periodically review and update these policies and manuals	We had established and formalised the relevant policies and procedures, including the “Corporate Governance Manual” and “Internal Control Policy” for our key operations and other policies in relation to the control activities of our daily operations on 31 October 2010

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Major findings	Recommended measures	Actions taken by the Group
Cut-off adjustments in respect of sales recognition, inventory and construction in progress mainly due to the booking of accounting entries based on issuance of value-added tax invoices and supplier invoices instead of actual delivery and receipt of goods or actual completion of construction in progress	- We should recognise sales upon customers' acceptance of goods receipt instead of upon issuance of value-added tax invoices - We should calculate any sales timing differences on a monthly basis and make relevant journal adjustments accordingly - We should make monthly accruals for inventories received in the warehouse for which corresponding invoices have not been received - We should recognise the construction in progress according to the completion stage of the construction in progress - We should transfer construction in progress into fixed assets at the point when the construction in progress is substantially ready for its intended use	Management has put through all these cut-off adjustments in the Group's financial statements in the relevant periods and had amended the relevant operational policies and procedures to address such issues. In addition, the Group had appointed an assistant manager in the finance department to conduct a monthly review and to make appropriate adjustments if necessary

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Major findings	Recommended measures	Actions taken by the Group
Failed to adhere to the PRC laws and regulations in relation to the calculation of Social Insurance and housing provident fund contributions	- We should consult our PRC Legal Advisers or external professional advisers in respect of the provisions of Social Insurance and housing provident funds - We should adjust the contribution basis to comply with the local laws and regulations based on advice from our PRC Legal Advisers or external professional advisers	The Group had started to regulate its practice of the Social Insurance and housing provident fund contributions in accordance with the national and local regulations, including making contributions for and on behalf of all the eligible employees from September 2010 and adjusting the amount of contribution basis to the lawful level in July 2011 as the contribution basis can only be adjusted in July every year in accordance with the general practice in Nanjing as advised by the PRC Legal Advisers

We have further retained the external advisory firm to assist us in conducting two follow up reviews. A review was conducted in September 2010 to confirm that we have established proper policies and procedures in respect of the previous findings and we noted no adverse findings from such review. Another review is scheduled to be conducted in December 2010 to check that the above-mentioned policies and procedures are properly followed. We currently expect such second review will be completed by the end of 2010.

Based on the remedial actions taken by the Group as detailed above and the due diligence enquiries conducted, including discussions with the external advisory firm in respect of its findings, the Joint Sponsors have reasonable grounds to believe that the Company has established procedures, systems and controls (including accounting and management systems) which are adequate and effective having regard to the obligations of the Company and the Directors to comply with the Listing Rules and other relevant legal and regulatory requirements (in particular Listing Rules 13.09, 13.10, 13.46, 13.48 and 13.49, Chapters 14 and 14A and Appendix 16) and which are sufficient to enable the Directors to make a proper assessment of the financial position and prospects of our Group both before and after the Listing.

In view of the fact that (i) all Directors had attended the directors' training to familiarise themselves with the Listing Rules and the duties and responsibilities as directors of the Company; (ii) the Company has retained Chen & Co. Law Firm as the Group's PRC Legal Advisers in respect of legal and regulatory compliance matters in the PRC; (iii) the Group's PRC Legal Advisers, Chen & Co. Law Firm, will provide a training to all Directors in relation to the compliance of PRC laws and regulations applicable to the Group's operations; (iv) a majority of the Directors have experiences as directors in other listed companies; (v) none of the Directors has any previous conviction on any offence involving fraud, dishonesty or corruption; (vi) Directors who have overlapping directorships have agreed to devote sufficient time to the Company as required; and (vii) the Directors have shown a positive attitude in enhancing the corporate governance of the

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Group, the Group's previous non-compliance issues have not materially affected the Joint Sponsors' assessment of the Directors' ability to demonstrate a standard of competence commensurate with their positions as directors of a listed company.

MEASURES TO PREVENT FUTURE NON-COMPLIANCE

In order to continuously improve our corporate governance and to prevent future non-compliance, we intend to adopt or have adopted the following measures:

- (i) established a new position of compliance officer, who will report to the Board directly on a monthly basis to ensure that the Group's operations are in compliance with applicable laws, rules and regulations, to strengthen the existing internal control framework and to recommend remedial plans to the Board should there be any internal control deficiencies. Mr. Chui Wing Fai, our Company Secretary has been appointed as our compliance officer. In addition to professional qualifications and solid experience in finance and accounting, Mr. Chui also possesses experience in managing, overseeing, coordinating and handling regulatory compliance, corporate governance and corporate secretarial matters of both listed and unlisted companies with operations in Hong Kong and the PRC closely commensurate with his duties and responsibilities as the compliance officer in handling the legal and regulatory compliance affairs of the Group. He will be assisted by other senior management personnel responsible for legal and regulatory compliance matters in the Group's operating subsidiaries in the PRC as well as the professional advisers described in (ii) below. The biography of Mr. Chui is set out in "Directors, Senior Management and Employees" in this prospectus;
- (ii) the compliance officer will have access to external professionals retained or to be retained by the Group from time to time if applicable, including the compliance adviser, external legal counsel, auditors and other advisers as necessary. We have retained Chen & Co. Law Firm as our PRC legal advisers in respect of legal and regulatory compliance matters in the PRC and our PRC Legal Advisers, Chen & Co. Law Firm, will provide a training to all of our Directors in relation to the compliance of PRC laws and regulations applicable to our Group's operations;
- (iii) the Company has appointed three independent non-executive directors to the Board, among them, Mr. Lai Ni Hium possesses experience in managing listed companies with operations in the PRC and Mr. Zhao Chunming has over 13 years of experience in the automobile technology industry in the PRC. Their depth of experiences could assist us to procure our compliance with laws and regulations on a continuous basis;
- (iv) the appointment of CIMB as the Company's compliance adviser to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules; and
- (v) improving our existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, internal control policy and finance management policy, which cover corporate governance, operations, management, legal matters, finance and audit, subject to periodic review and update, for the need of the Group.

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The Company has also established an audit committee, comprising the three independent non-executive Directors, to review and supervise the financial reporting process and internal control system of the Group.

The Company undertakes to provide an update in each interim and annual results on the progress of obtaining the outstanding licences or permits, the payment of contributions of Social Insurance and housing provident funds to the lawful level and actions that had been taken in respect of those properties without title certificates.

Based on the above and the fact that the Group has retained the external advisory firm to conduct follow-up reviews, the Directors and the Joint Sponsors are of the view that the Company has taken reasonable steps to establish a proper internal control system to prevent future non-compliance of the Group.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options or options which may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering that would affect disclosure in this section), the following persons will have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly and/or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Fang Brothers ⁽²⁾	Beneficial owner	71,250,000 (L)	7.13%
Fang Brothers Holdings ^{(2) (3)}	Interest of a controlled corporation	71,250,000 (L)	7.13%
Mr. Kenneth Fang ⁽³⁾	Interest of a controlled corporation	71,250,000 (L)	7.13%
CDH Cool ⁽⁴⁾	Beneficial owner	88,554,000 (L)	8.85%
CDH China Growth Capital Fund II, L.P. ^{(4) (5)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
CDH China Growth Capital Holdings Company Limited ^{(5) (6)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
China Diamond Holdings II, L.P. ^{(6) (7)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
CDH Auto ⁽⁸⁾	Beneficial owner	186,268,000 (L)	18.63%
CDH China Fund III, L.P. ^{(8) (9)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
CDH III Holdings Company Limited ^{(9) (10)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
China Diamond Holdings III, L.P. ^{(7) (10)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
China Diamond Holdings Company Limited ⁽⁷⁾	Interest of a controlled corporation	274,822,000 (L)	27.48%
CITIC Capital China ⁽¹¹⁾	Beneficial Owner	366,428,000 (L)	36.64%
CITIC Capital China Fund I ^{(11) (12)}	Interest of a controlled corporation	366,428,000 (L)	36.64%
CCP GP Ltd. ⁽¹²⁾	Interest of a controlled corporation	366,428,000 (L)	36.64%

Notes:

⁽¹⁾ The letter "L" denotes long position of the shareholders in the Shares.

⁽²⁾ Fang Brothers is wholly-owned by Fang Brothers Holdings, therefore, Fang Brothers Holdings is deemed to be interested in all the Shares in which Fang Brothers is interested in by virtue of the SFO.

⁽³⁾ Fang Brothers Holdings is owned as to 50% by Mr. Kenneth Fang, therefore, Mr. Kenneth Fang is deemed to be interested in all the Shares in which Fang Brothers Holdings is interested in by virtue of the SFO.

⁽⁴⁾ CDH Cool is wholly-owned by CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Fund II, L.P. is deemed to be interested in all the Shares in which CDH Cool is interested in by virtue of the SFO.

⁽⁵⁾ CDH China Growth Capital Holdings Company Limited is the general partner of CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Growth Capital Fund II, L.P. is interested in by virtue of the SFO.

⁽⁶⁾ CDH China Growth Capital Holdings Company Limited is owned as to 69.5% by China Diamond Holdings II, L.P., therefore, China Diamond Holdings II, L.P. is deemed to be interested in all the Shares in which CDH China Growth Capital Holdings Company Limited is interested in by virtue of the SFO.

⁽⁷⁾ China Diamond Holdings Company Limited is the general partner for each of China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P., therefore, China Diamond Holdings Company Limited is deemed to be interested in all the Shares in which China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P. are interested in by virtue of the SFO.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

- (8) CDH Auto is wholly-owned by CDH China Fund III, L.P., therefore, CDH China Fund III, L.P. is deemed to be interested in all the Shares in which CDH Auto is interested in by virtue of the SFO.*
- (9) CDH III Holdings Company Limited is the general partner of CDH China Fund III, L.P., therefore, CDH III Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Fund III, L.P. is interested in by virtue of the SFO.*
- (10) CDH III Holdings Company Limited is owned as to 80% by China Diamond Holdings III, L.P., therefore, China Diamond Holdings III, L.P. is deemed to be interested in all the Shares in which CDH III Holdings Company Limited is interested in by virtue of the SFO.*
- (11) CITIC Capital China is wholly owned by CITIC Capital China Fund I, therefore, CITIC Capital China Fund I is deemed to be interested in all the Shares in which CITIC Capital is interested in by virtue of the SFO.*
- (12) CCP GP Ltd. is the general partner of CITIC Capital China Fund I, therefore, CCP GP Ltd. is deemed to be interested in all the Shares in which CITIC Capital China Fund I is interested in by virtue of the SFO.*

Immediately following completion of the Global Offering and the Capitalisation Issue, and assuming none of the Over-allotment Option, the Pre-IPO Share Options, and options that may be granted under the Share Option Scheme has been exercised, CITIC Capital China will be our single largest Shareholder with equity interests in 36.64% of our entire issued share capital. For the purposes of Rule 10.07 of the Listing Rules, CITIC Capital China and CITIC Capital China Fund I are treated as our Controlling Shareholders upon Listing and subject to the restrictions on disposal of Relevant Securities set forth in “Underwriting – Undertakings” in this prospectus.

CITIC Capital China is an investment holding company owned by CITIC Capital China Fund I, a private equity investment fund and a financial investor of our Company. For the purpose of Rule 8.10(1) of the Listing Rules, neither CITIC Capital China nor CITIC Capital China Fund I is interested in any business apart from our business which competes or is likely to compete, directly or indirectly, with our business. Our Directors consider that we are capable of carrying on our business independently of CITIC Capital China and CITIC Capital China Fund I and any of their associates. Upon completion of the Global Offering, the Shares held by our Controlling Shareholders do not bear different voting rights than other Shares.

Except as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue (without taking into account shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options or options which may be granted under Share Option Scheme or Shares that may be taken by a person under the Global Offering which would affect disclosure in this section), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

It is currently intended that pursuant to the International Underwriting Agreement, our Company will grant the Over-allotment Option to DBS, the Sole Global Coordinator and the Stabilising Manager, which may call upon our Company to issue up to 37,500,000 Shares to cover over-allocations in the International Offering. If the Over-allotment Option is exercised by our Company in full, the interests of the parties named in the table above in our Company's issued share capital will become:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Fang Brothers ⁽²⁾	Beneficial owner	71,250,000 (L)	6.87%
Fang Brothers Holdings ^{(2) (3)}	Interest of a controlled corporation	71,250,000 (L)	6.87%
Mr. Kenneth Fang ⁽³⁾	Interest of a controlled corporation	71,250,000 (L)	6.87%
CDH Cool ⁽⁴⁾	Beneficial owner	88,554,000 (L)	8.54%
CDH China Growth Capital Fund II, L.P. ^{(4) (5)}	Interest of a controlled corporation	88,554,000 (L)	8.54%
CDH China Growth Capital Holdings Company Limited ^{(5) (6)}	Interest of a controlled corporation	88,554,000 (L)	8.54%
China Diamond Holdings II, L.P. ^{(6) (7)}	Interest of a controlled corporation	88,554,000 (L)	8.54%
CDH Auto ⁽⁸⁾	Beneficial owner	186,268,000 (L)	17.95%
CDH China Fund III, L.P. ^{(8) (9)}	Interest of a controlled corporation	186,268,000 (L)	17.95%
CDH III Holdings Company Limited ^{(9) (10)}	Interest of a controlled corporation	186,268,000 (L)	17.95%
China Diamond Holdings III, L.P. ^{(7) (10)}	Interest of a controlled corporation	186,268,000 (L)	17.95%
China Diamond Holdings Company Limited ⁽⁷⁾	Interest of a controlled corporation	274,822,000 (L)	26.49%
CITIC Capital China ⁽¹¹⁾	Beneficial Owner	366,428,000 (L)	35.32%
CITIC Capital China Fund I ^{(11) (12)}	Interest of a controlled corporation	366,428,000 (L)	35.32%
CCP GP Ltd. ⁽¹²⁾	Interest of a controlled corporation	366,428,000 (L)	35.32%

Notes:

- ⁽¹⁾ The letter "L" denotes long position of the shareholders in the Shares.
- ⁽²⁾ Fang Brothers is wholly-owned by Fang Brothers Holdings, therefore, Fang Brothers Holdings is deemed to be interested in all the Shares in which Fang Brothers is interested in by virtue of the SFO.
- ⁽³⁾ Fang Brothers Holdings is owned as to 50% by Mr. Kenneth Fang, therefore, Mr. Kenneth Fang is deemed to be interested in all the Shares in which Fang Brothers Holdings is interested in by virtue of the SFO.
- ⁽⁴⁾ CDH Cool is wholly-owned by CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Fund II, L.P. is deemed to be interested in all the Shares in which CDH Cool is interested in by virtue of the SFO.
- ⁽⁵⁾ CDH China Growth Capital Holdings Company Limited is the general partner of CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Growth Capital Fund II, L.P. is interested in by virtue of the SFO.
- ⁽⁶⁾ CDH China Growth Capital Holdings Company Limited is owned as to 69.5% by China Diamond Holdings II, L.P., therefore, China Diamond Holdings II, L.P. is deemed to be interested in all the Shares in which CDH China Growth Capital Holdings Company Limited is interested in by virtue of the SFO.
- ⁽⁷⁾ China Diamond Holdings Company Limited is the general partner for each of China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P., therefore, China Diamond Holdings Company Limited is deemed to be interested in all the Shares in which China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P. are interested in by virtue of the SFO.
- ⁽⁸⁾ CDH Auto is wholly-owned by CDH China Fund III, L.P., therefore, CDH China Fund III, L.P. is deemed to be interested in all the Shares in which CDH Auto is interested in by virtue of the SFO.
- ⁽⁹⁾ CDH III Holdings Company Limited is the general partner of CDH China Fund III, L.P., therefore, CDH III Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Fund III, L.P. is interested in by virtue of the SFO.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

- ⁽¹⁰⁾ *CDH III Holdings Company Limited is owned as to 80% by China Diamond Holdings III, L.P., therefore, China Diamond Holdings III, L.P. is deemed to be interested in all the Shares in which CDH III Holdings Company Limited is interested in by virtue of the SFO.*
- ⁽¹¹⁾ *CITIC Capital China is wholly owned by CITIC Capital China Fund I, therefore, CITIC Capital China Fund I is deemed to be interested in all the Shares in which CITIC Capital China is interested in by virtue of the SFO.*
- ⁽¹²⁾ *CCP GP Ltd. is the general partner of CITIC Capital China Fund I, therefore, CCP GP Ltd. is deemed to be interested in all the Shares in which CITIC Capital China Fund I is interested in by virtue of the SFO.*

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options or options which may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering that would affect disclosure in this section), CITIC Capital China Fund I, through its wholly-owned subsidiary, CITIC Capital China, will own 36.64% of the enlarged issued share capital of the Company and accordingly, both CITIC Capital China Fund I and CITIC Capital China will become the Controlling Shareholders of our Company upon Listing. Mr. Zhang Yichen and Mr. Liu Xiaoping are nominated by CITIC Capital China as our Directors; they also hold positions and interests in CITIC Capital China and its affiliated companies. Save for CITIC Capital China's shareholding in our Company and its interest in CUAS which owns a majority interest in Xiezhong International, we do not have any other past or current business relationship with our Controlling Shareholders.

CITIC Capital China is engaged in investment holding and is a wholly-owned subsidiary of CITIC Capital China Fund I. The general partner of CITIC Capital China Fund I is CCP GP Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 30 June 2005 wholly-owned by CCP Ltd., which is an indirect subsidiary of CITIC Capital Holdings Limited, and is principally engaged in acting as a general partner of private equity investment fund entities. The investment manager of CITIC Capital China Fund I is CCP Advisory Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 30 June 2005, an indirect subsidiary of CITIC Capital Holdings Limited, and is principally engaged in the provision of investment advisory and management services. CITIC Capital China Fund I focuses on private equity investments in China with 34 limited partners mainly comprised of institutional investors, such as pension funds, endowment funds, funds of funds and financial institutions.

Pursuant to the Reorganisation, our Controlling Shareholders, through their investee CUAS, transferred all their compressor operations to our Company. The transfer did not affect the respective lines of business originally undertaken by our Group, but to vest our core businesses and assets in our Company and to delineate our businesses from those of our Controlling Shareholders. Our Controlling Shareholders retained the automobile air-conditioning systems business through their shareholding in Xiezhong Nanjing. Apart from their investment in Xiezhong Nanjing, our Controlling Shareholders do not have any other businesses which compete or are likely to compete with our Group.

XIEZHONG NANJING

Xiezhong Nanjing is a wholly-owned subsidiary of Xiezhong Hong Kong. Xiezhong Hong Kong is a wholly-owned subsidiary of Xiezhong International. Xiezhong International is an investment holding company and is owned as to 60% by CUAS and 40% by Sunrise International Investment Management Inc., an investment holding company incorporated in the BVI wholly-owned by Mr. Chen Hao. Mr. Chen Hao is the son of Mr. Chen Cunyou, one of the directors of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing. CUAS is an investment holding company and is owned as to 10% by Fang Brothers, 51.43% by CITIC Capital China, 12.43% by CDH Cool and 26.14% by CDH Auto. As CITIC Capital China is the immediate Controlling Shareholder of the Company, Xiezhong Nanjing, being an associate of our Controlling Shareholder, will become a connected person of our Company upon Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Business of Xiezhong Nanjing

Xiezhong Nanjing is principally engaged in the manufacture and sale of automobile air-conditioning systems and accessories in the PRC. It does not manufacture nor sell air-conditioning compressors.

Depending on the design and layout of the air-conditioning system of a particular car model, an automobile manufacturer will either buy the entire air-conditioning system directly from an air-conditioning system provider such as Xiezhong Nanjing, or individual parts and components, including compressors, from different suppliers and providers such as our Group for its own assembly and production. In the former case, it is an industry practice that the automobile manufacturer has the sole and absolute discretion to determine the types and brands of compressors used and to require the air-conditioning system providers to source the compressors from its designated compressor providers.

Common customers of the Group and Xiezhong Nanjing

There are a number of automobile manufacturers who are customers of both Xiezhong Nanjing and our Group. These common customers purchase automobile air-conditioning systems from Xiezhong Nanjing and concurrently purchase automobile air-conditioning compressors from us. Of all such automobile manufacturers, Foton is the only one which purchases automobile air-conditioning compressors and assembly parts from us directly and at the same time purchases automobile air-conditioning systems from Xiezhong Nanjing which incorporate our compressors and assembly parts. The other automobile manufacturers who are common customers of both our Group and Xiezhong Nanjing purchase automobile air-conditioning systems from Xiezhong Nanjing which do not incorporate our compressors and assembly parts, but rather, compressors and assembly parts from other suppliers. In respect of Foton and such customers, our Group and Xiezhong Nanjing conduct sales and marketing activities separately, independently and without reference to each other.

Sales by our Group to the common customers of the Group and Xiezhong Nanjing

During the Track Record Period, our sales of compressors and assembly parts directly to Foton amounted to RMB12.6 million, RMB19.4 million, RMB24.8 million and RMB15.6 million respectively, representing 4.1%, 5.1%, 3.1% and 2.4% respectively of our Group's total sales; while our aggregate sales of compressors and assembly parts to Xiezhong Nanjing amounted to RMB3.7 million, RMB9.8 million, RMB31.9 million and RMB21.4 million respectively, representing 1.2%, 2.6%, 4.0% and 3.3% respectively of our Group's total turnover.

During the Track Record Period, there were respectively 13, 15, 8 and 4 common customers of both our Group and Xiezhong Nanjing who purchased automobile air-conditioning compressors and assembly parts from us directly and at the same time purchased automobile air-conditioning systems from Xiezhong Nanjing which did not incorporate our compressors and assembly parts. During the Track Record Period, our aggregate sales to such common customers amounted to RMB51.5 million, RMB104.5 million, RMB188.5 million and RMB77.7 million respectively, representing 16.7%, 27.6%, 23.7% and 1.2% respectively of our Group's total sales.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Sales by Xiezhong Nanjing to the common customers of the Group and Xiezhong Nanjing

During the Track Record Period, the turnover of Xiezhong Nanjing amounted to RMB267.6 million, RMB294.0 million, RMB346.7 million and RMB252.5 million (unaudited), respectively.

During the Track Record Period, the aggregate sales of air-conditioning systems from Xiezhong Nanjing to Foton and other common customers amounted to RMB79.7 million, RMB124.8 million, RMB185.5 million and RMB104.3 million (unaudited) respectively, representing 29.8%, 42.5%, 53.5% and 41.3% respectively of Xiezhong Nanjing's total sales, respectively.

Our Directors believe that there is unlikely to be competition between our Group and Xiezhong Nanjing for the following reasons:-

- The products of Xiezhong Nanjing are different from those of our Group. Xiezhong Nanjing mainly provides automobile air-conditioning systems and accessories whereas we provide automobile air-conditioning compressors which are one of the important components of the automobile air-conditioning systems. From the perspective of the automobile manufacturers, they are two distinct products which are incapable of substituting each other. Accordingly, Xiezhong Nanjing and our Group operate in two different markets, the former in the market for the supply of automobile air-conditioning systems and accessories and our Group in the market for the supply of compressors. In the market of compressors in which our Group operates, both automobile manufacturers and air-conditioning system providers, including Xiezhong Nanjing, are target customers.
- Apart from Foton, currently, there are four other common customers of Xiezhong Nanjing and Aotecar Nanjing. Xiezhong Nanjing has no discretion in selecting the suppliers of the automobile air-conditioning compressors in all cases. It is at the sole and absolute discretion of the automobile manufacturers in selecting the suppliers of the automobile air-conditioning compressors. Xiezhong Nanjing has not referred its customers to our Group.

Xiezhong Nanjing has not been transferred to our Group and does not form part of our Group. Our Group positions itself as a leading manufacturer of automobile air-conditioning compressors while Xiezhong Nanjing does not manufacture or sell air-conditioning compressors. There is a clear delineation of business between our Group and Xiezhong Nanjing. Our Group is financially and operationally independent from Xiezhong Nanjing. We have a separate core management group, sales and marketing channels and independent access to sources of raw materials.

As at the Latest Practicable Date, neither our Controlling Shareholders nor our Directors carried on, was engaged or had any interest in, any business which competed or was likely to compete, either directly or indirectly, with our business which would be discloseable under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates after the Listing.

Management Independence

Our Board comprises one executive Director, five non-executive Directors and three independent non-executive Directors. Mr. Zhang Yichen is our chairman and a non-executive Director. Mr. Qian is our executive Director. Mr. Kenneth Fang, Mr. Gao Chunhe, Mr. Liu Xiaoping and Mr. Wang Zhenyu are our non-executive Directors. Mr. Cheung Man Sang, Mr. Lai Ni Hium and Mr. Zhao Chunming are our independent non-executive Directors.

Our chairman and non-executive Director Mr. Zhang Yichen is a member of the investment committee of CCP GP Ltd., the general partner of our Controlling Shareholder, CITIC Capital China Fund I.

All our non-executive Directors (except Mr. Gao Chunhe and the independent non-executive Directors) also hold directorships in Xiezhong Nanjing, and all our non-executive Directors (except the independent non-executive Directors) hold directorships in one or more intermediate holding companies of Xiezhong Nanjing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Set out below is a summary of overlapping directorships held by the Directors within our Group and in our Controlling Shareholders and Xiezhong Nanjing and its intermediate holding companies (the “**Relevant Entities**”) as at the Latest Practicable Date.

Name	Roles within our Group	Roles in the Relevant Entities	Time devoted to our Group and the Relevant Entities
Mr. Kenneth Fang	Non-executive Director	• Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Gao Chunhe	Non-executive Director	• Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Liu Xiaoping	Non-executive Director	• Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Wang Zhenyu	Non-executive Director	• Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Zhang Yichen	Non-executive Director	• Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Messrs. Fang, Gao, Liu, Wang and Zhang, our non-executive Directors, provide advice and guidance at the strategic level over the business and operation to both our Group and CUAS Group. Each of them will not be involved in the daily management of our Group and CUAS Group. Each of them will devote less than 10% of his time to each of our Group and CUAS Group.

Save as disclosed above, none of our Directors has any directorship, other positions or equity interests in any of our Controlling Shareholders or Xiezhong Nanjing and its intermediate holding companies.

Despite the concurrent directorships or offices as mentioned above, our Directors are of the view that our Board will function effectively and independently from our Controlling Shareholders and their respective associates (including Xiezhong Nanjing) for the following reasons:

- (a) Similar to our other non-executive Directors, Mr. Zhang Yichen, although our chairman, is not involved in the daily management of our Group.
- (b) The day-to-day management of our Group is carried out by Mr. Qian and various members of the core management group of our Group. Mr. Qian oversees the performance and operation of our Group. Mr. Qian and the six members of the core management group of our Company namely, Mr. Tian Shichao, Mr. Yi Fengshou, Mr. Zhao Chengzhou, Mr. Wang Jianmin, Mr. Liu Shantong and Mr. Yu Heyuan, are responsible for the daily management of our Company, including assisting the Board in deriving sound management decisions, carrying out the decisions of the Board, performing overall strategic financial planning and analysis of our Group, overseeing the business development, sales, production, research and development as well as financial performance of the business and other essential operations of our Company.
- (c) None of our non-executive Directors who also hold directorships in Xiezhong Nanjing is involved in the day-to-day management of Xiezhong Nanjing or any of its intermediate holding companies. The production, sales and marketing departments of Xiezhong Nanjing are independent from our Group.
- (d) To avoid any potential conflicts of interests between our Group and our Controlling Shareholders and their respective associates (including Xiezhong Nanjing), we have adopted the corporate governance measures described in “Corporate Governance” below.
- (e) Each Director is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the interests of our Company and does not allow any conflict between his duties as a Director and his personal interests.
- (f) Our Board comprises nine Directors, three of whom are independent non-executive Directors, which represent one-third of our Board. This is in line with the recommended best practice of the Model Code on Corporate Governance Practices, Appendix 14 of the Listing Rules and will be able to strike a balance between the number of interested and independent Directors with a view to promoting the best interests of the Company and our Shareholders as a whole.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Having considered the aforesaid, our Directors are satisfied that they are able to discharge their duties to our Company independently and to manage our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have our own organisational structure with independent business and administrative departments and units, each with specific areas of responsibilities. Our Group holds all relevant licences that are material to our business operations and has sufficient operating capacity in terms of capital, equipment and employees to operate our business independently from our Controlling Shareholders. We do not share production facilities with our Controlling Shareholders or their respective associates and none of our major suppliers or major customers has any relationship with our Controlling Shareholders or their respective associates (other than business contacts in the ordinary and usual course of business).

There are continuing connected transactions between our Group and Xiezhong Nanjing, namely, our sales of compressors and assembly parts to Xiezhong Nanjing, the aggregate amounts of sales of which during the Track Record Period were only RMB3.7 million, RMB9.8 million, RMB31.9 million and RMB21.4 million respectively, representing 1.2%, 2.6%, 4.0% and 3.3% of our Group's total turnover. Even though the amount of sales is expected to increase in the three years ending 31 December 2012, the estimated maximum amount of sales of compressors and assembly parts for each of the three financial years ending 31 December 2012 of RMB44.0 million, RMB53.0 million and RMB64.0 million respectively, would still only account for 5.5%, 6.6% and 8.0% respectively of the consolidated turnover of our Group for the year ended 31 December 2009.

Based on the aforesaid, our Directors are of the view that our Company operates independently from our Controlling Shareholders and their respective associates.

Financial Independence

We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources, a strong credit profile to support our daily operations and independent access to third party financing. Please refer to "Financial Information – Liquidity and capital resources" in this prospectus.

We have our own finance department and have established our own internal control and accounting systems, and independent treasury function for cash receipts and payments. We have independent bank accounts and tax registrations as well as a sufficient number of dedicated financial accounting personnel.

During the Track Record Period:

- (a) On 20 March 2008, CUAS assumed the obligation of Aotecar Hong Kong to pay the cash consideration of US\$30,673,735.70 to Fang Brothers for the transfer by Fang Brothers to Aotecar Hong Kong of 100% equity interest in Aotecar Nanjing. As a result of such assumption by CUAS, CUAS became indebted to Fang Brothers in the amount

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

of US\$30,673,735.70 and Aotecar Hong Kong became indebted to CUAS in the same amount. The US\$30,673,735.70 owed by Aotecar Hong Kong had been fully settled as at 30 June 2010; and

- (b) on 30 June 2010, CUAS pledged in favour of BNP Paribas Hong Kong Branch a cash deposit in the sum of US\$31 million as security for a short term loan in the same amount granted by BNP Paribas Hong Kong Branch to Aotecar Hong Kong, which loan has a repayment date of the earlier of one month after the Listing and 31 December 2010. The short term loan from BNP Paribas Hong Kong Branch was used to settle the indebtedness owed by Aotecar Hong Kong to CUAS as mentioned in (a) above (5% of which had been assigned to Mr. Qian on 22 June 2010). The terms of such loan provide that the pledged deposit of US\$31 million will be released after the loan from BNP Paribas Hong Kong Branch is repaid within one month after Listing or by 31 December 2010, whichever is earlier. Our Group will, immediately after Listing, repay such loan in full with the proceeds of the Global Offering and procure BNP Paribas Hong Kong Branch to release the said pledged deposit as soon as practicable.

Save for the above, no guarantees or assurances have been provided by our Controlling Shareholders for the benefit of our Group or provided by our Group for the benefit of our Controlling Shareholders. We are capable of operating financially independent of the Controlling Shareholders based on the following:-

- We have been successful in obtaining financing independent of and without any support from the Controlling Shareholders. For instance, the term loan facilities of HK\$93 million granted by DBS Bank Ltd., Hong Kong Branch as referred to in “Financial Information – Liquidity and capital resources – Indebtedness” in this prospectus, a revolving credit facility in the amount of RMB50 million granted to Aotecar Nanjing by China Merchants Bank Co., Ltd., Nanjing Branch (“**CMB Nanjing Branch**”) and a loan facility in the amount of RMB5.0 million granted to Aotecar Xiangyun by CMB Nanjing Branch, both granted in July 2010. The agreement on the part of Hang Seng Bank (China) Limited to replace Mr. Qian’s personal guarantee with the Company’s guarantee as from Listing in respect of two general banking facilities to Aotecar Nanjing of up to RMB51 million and RMB10 million respectively also demonstrates our ability to independently obtain bank financing post-Listing.
- During the Track Record Period, we were able to generate profits with an increasing trend and positive net cash from operating activities to sustain our own operations through internally generated funds.
- The amount of US\$31 million was borrowed from BNP Paribas Hong Kong Branch not for operational purposes but for the purposes of effecting the transfer of all the compressor operations and assets from the Controlling Shareholders to the Company as part of the Reorganisation.

NON-COMPETITION UNDERTAKING

In order to manage any potential competing or conflict of interests between our Group and our Controlling Shareholders and Mr. Qian, each of our Controlling Shareholders, namely, CITIC

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Capital China and CITIC Capital China Fund I and Mr. Qian (each a “**Non-Compete Covenantor**”), has entered into a non-competition deed (the “**Non-competition Deed**”) dated 9 November 2010 in favour of our Company, pursuant to which each Non-Compete Covenantor has unconditionally and irrevocably undertaken to and covenanted with our Company (for itself and as trustee for each of the other members of our Group) that as long as (i) the securities of our Company are and remain listed on the Stock Exchange and (ii) in the case of a Controlling Shareholder, such Non-Compete Covenantor remains a Controlling Shareholder of our Company and in the case of Mr. Qian, he remains a Director of our Company:

- (a) each of our Controlling Shareholders agreed not to itself compete and would procure that none of the companies that it directly or indirectly controls the exercise of 30% or more of the voting power at general meetings will compete, and Mr. Qian agreed not to himself compete and would procure that none of his associates will compete, in each case with us, whether on its own or jointly with other entities, in the business of the operation and management of automobile air-conditioning compressors unless and until our Group ceases to carry on or be engaged in such business; and
- (b) he/it shall make an annual confirmation in the annual report of our Company on whether he/it and his/its associates (other than our Group) have complied with the undertakings under the Non-competition Deed.

CORPORATE GOVERNANCE

We are committed to the view that the Board should include a good number of non-executive Directors (including the independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. We are also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors, details of whom are set forth in “Directors, Senior Management and Employees” in this prospectus, are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgment.

In view of the overlapping directorships or offices of our Directors in Xiezhong Nanjing and the intermediate holding companies of Xiezhong Nanjing and CITIC Capital China Fund I and the relationship between our Group and Xiezhong Nanjing, the following measures have been adopted by us in respect of any transaction between our Group and Xiezhong Nanjing and its intermediate holding companies or other associates of our Controlling Shareholders as well as the enforceability of the Non-competition Deed and to strengthen our corporate governance practice to safeguard the interests of our Shareholders:

- (a) the Articles provide that any Director and his associates shall abstain from attending and voting at Board meetings in case of any issues of conflict of interests being put to be decided by members of the Board. In the event that any Director is required to abstain from participating in any relevant Board meetings as aforesaid, the other Directors together with all the independent non-executive Directors will maintain the effective functioning of the Board by leveraging on their collective expertise and business acumen;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) without affecting the generality of the foregoing principle in the Articles, matters relating to transactions between our Group and Xiezhong Nanjing and/or its holding companies and subsidiaries shall be decided by a committee (the “**Committee**”) which will meet regularly every six months and whenever any issue arises relating to the transactions with Xiezhong Nanjing.
- (i) The members of the Committee shall be appointed by the Board from time to time and shall consist of not less than three members. It is currently expected that Mr. Qian and all the independent non-executive directors will become members of the Committee. In order to avoid any conflict of interest, Mr. Qian resigned from his office as a director of CUAS on 31 August 2010. All our independent non-executive Directors have not held any directorships or positions in any of our Controlling Shareholders or their respective associates. Mr. Zhao Chunming has extensive experience in automobile technology research in the PRC and he is a chief engineer of Tianjin Qingyuan Electric Vehicle Co., Ltd.. Mr. Cheung Man Sang and Mr. Lai Ni Hium have substantial experience in running and managing successful businesses in Hong Kong and the PRC. In particular, Mr. Lai holds directorships with other Hong Kong listed companies. The Board considers that Mr. Qian and the three independent non-executive Directors have between them sufficient knowledge and experience to make decisions on transactions between the Group on the one hand and Xiezhong Nanjing or other associates of the Controlling Shareholders on the other hand.
- (ii) The duties of the Committee shall include the following:
- to review all transactions between our Group and Xiezhong Nanjing to ensure that they are conducted on normal commercial terms and in the ordinary and usual course of business of our Group and to recommend to the Board the corrective measures in such transactions if needed or not to proceed with such transactions;
 - to establish, where applicable, guidelines for our management to follow in ongoing transactions between our Group and Xiezhong Nanjing;
 - to review and assess ongoing relationships between our Group and Xiezhong Nanjing to ensure compliance with the Committee’s guidelines established as aforesaid and to ensure the continuation of such relationship remains fair to our Group; and
 - to analyse and assess any potential conflict of interests between our Group and Xiezhong Nanjing;
- (c) our independent non-executive Directors will hold an annual meeting to review the compliance of our Controlling Shareholders and Mr. Qian with the Non-competition Deed and to evaluate the effective implementation of the Non-competition Deed;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the enforcement of the Non-competition Deed (if any) in our annual report or, where the Board considers it appropriate, by way of an announcement;
- (e) our Controlling Shareholders and Mr. Qian will make an annual confirmation as to their compliance with the Non-competition Deed for inclusion in our annual report; and
- (f) our Controlling Shareholders and Mr. Qian will provide all information necessary for the review of their compliance with the Non-competition Deed to the Committee.

Further, any transaction that is proposed between us and our Controlling Shareholders or their respective associates will comply with the then requirements of the Listing Rules, including, where applicable, the reporting, annual review, announcement and independent shareholders' approval requirements.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Upon Listing, we will carry out the following connected transactions which constitute continuing connected transactions of our Company under the Listing Rules. Our Directors (including the independent non-executive Directors) have confirmed that these continuing connected transactions have been and will be conducted on normal commercial terms and on arm's length basis.

1. Exempt Continuing Connected Transactions

Nature and Terms of the Transactions

By an agreement made in December 2008 (the “**Sublease Agreement**”), Changheng Casting subleased to Aotecar Casting the following lands and buildings located at No. 11 Ningyang Street, Danyang Community, Hengxi Street, Jiangning District, Nanjing, Jiangsu Province, PRC:

- (i) a piece of land with a total area of 4,840 sq.m. at an annual rental of RMB5 per sq.m. i.e. RMB24,200 per year, for a term commencing from 1 December 2008 and ending on 30 July 2036. Such land was originally leased by the People's Government of Hengxi Town of Jiangning District of Nanjing (南京市江寧區橫溪鎮人民政府) (the “**Hengxi Town Government**”) to Changheng Casting for a term from 1 August 2006 to 30 July 2036 at an annual rental of RMB5 per sq.m., i.e. RMB24,200; and
- (ii) another piece of land with a total area of 1,992 sq.m. (including a construction area of 1,377.6 sq.m.) at a monthly rental of RMB2,000 for a term commencing from 1 December 2008 and expiring on 30 March 2012. Such land was originally leased by the Nanjing Municipality Jiangning County Danyang Town Collective Assets Operating Co., Ltd. (南京市江寧縣丹陽鎮集體資產經營有限公司) (the “**Danyang Operating Company**”) to Changheng Casting for a term from 1 April 2002 to 31 March 2012 at a monthly rental of RMB2,000.

Prior to the establishment of Aotecar Casting, Changheng Casting had been the supplier of assembly parts including front end covers, brake discs and static plates to Aotecar Nanjing. When Aotecar Casting was established in late 2008, Changheng Casting ceased such supplier relationship with Aotecar Nanjing and subleased the said properties to Aotecar Casting for production and sales of the same assembly parts to Aotecar Nanjing. Such sublease arrangement was approved by the Hengxi Town Government and the Danyang Operating Company.

Transaction Values

The historical aggregate rent paid by Aotecar Casting to the Hengxi Town Government and the Danyang Operating Company (at the direction of Changheng Casting) for the year ended 31 December 2009 was RMB48,200. No rent was paid for the first month of the term in December 2008.

Savills Valuation and Professional Services Limited has confirmed that the rent payable under the Sublease Agreement is fair and reasonable and reflects the prevailing market rates in the vicinity of the leased premises in Hengxi Street, Jiangning District, Jiangsu Province.

CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) consider that the Sublease Agreement was entered into in the ordinary and usual course of business of Aotecar Casting, on terms no less favourable to Aotecar Casting than terms available to third parties, and was fair and reasonable and in the interests of the Company and its shareholders taken as a whole.

Listing Rules Implications

Changheng Casting is a company established in the PRC. Aotecar Casting is owned as to 51 % by Aotecar Nanjing and 49% by Changheng Casting. On and after the Listing Date, Changheng Casting, as a substantial shareholder of Aotecar Casting, will become a connected person of the Company and the transactions under the Sublease Agreement will constitute continuing connected transactions of the Company.

Based on the annual rental of the sublease, the total assets of the Group as at 30 June 2010, the revenue of the Group for the year ended 31 December 2009 and the Company's expected initial total market capitalisation (based on the low end of the Offer Price range) as at the Listing Date (the **"Expected Capitalisation"**), the assets, revenue and consideration percentage ratios for the transactions contemplated under the Sublease Agreement calculated pursuant to Rule 14.07 of the Listing Rules are expected to be less than 0.1% for the three years ending 31 December 2012. The transactions contemplated under the Sublease Agreement constitute exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules which will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Non-exempt Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements – Transactions under Master Sales Agreement

Nature and Terms of the Transactions

For each financial year during the Track Record Period, Aotecar Nanjing and Xiezhong Nanjing entered into a master sales agreement for the supply of various models of automobile air-conditioning compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing. The prices at which such sales were made were determined with reference to the prices at which the automobile air-conditioning systems (of which our compressors are a component) were sold by Xiezhong Nanjing to the car manufacturers and the prices at which our compressors were sold to other air-conditioning system providers. The aggregate sales of compressors and assembly parts to Xiezhong Nanjing during the Track Record Period and for the nine months ended 30 September 2010 amounted to RMB3.7 million, RMB9.8 million, RMB31.9 million, RMB21.4 million and RMB30.1 million, respectively. The increase in sales to Xiezhong Nanjing during the Track Record Period was primarily due to increased demand for compressors from Xiezhong Nanjing which demand was, in turn, driven by the increased demand for automobile air-conditioning systems from Foton. The increase in demand for our compressors from Foton was mainly the result of the significant increase in automobile sales by Foton and the increased use of our compressors in Foton's automobiles during the same period.

On 20 September 2010, Aotecar Nanjing and Xiezhong Nanjing entered into a master sales agreement (**"Master Sales Agreement"**), pursuant to which Aotecar Nanjing will, among other

CONNECTED TRANSACTIONS

things, supply to Xiezhong Nanjing various models of compressors and assembly parts at prices to be determined with reference to the prevailing market prices. The Master Sales Agreement is for a term commencing on 20 September 2010 and expiring on 31 December 2012.

Our Directors (including the independent non-executive Directors) consider that the Master Sales Agreement was entered into in the ordinary and usual course of business of Aotecar Nanjing, is on normal commercial terms and in line with market practice and is fair and reasonable so far as our Company and the Shareholders taken as a whole are concerned.

Proposed Annual Caps

Our Directors estimate that the maximum amount of sales of compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing pursuant to the Master Sales Agreement for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 will amount to RMB15.8 million, RMB53.0 million and RMB64.0 million, respectively. As disclosed in “Industry Overview – Major automobile air-conditioning compressor enterprises in the PRC” and “Relationship with Controlling Shareholders – Xiezhong Nanjing” in this prospectus, the automobile manufacturers have the absolute discretion in the selection of compressors suppliers, whether by means of direct purchase from the compressor manufacturers or from air-conditioning system suppliers. The proposed annual caps are based on the annualised sales of the compressors and assembly parts to Xiezhong Nanjing for the six months ended 30 June 2010 and projected with a 20% growth each year with reference to the budgeted sales growth of Foton. Such estimates have been made with reference to the historical sales of compressors and assembly parts supplied to Xiezhong Nanjing, the Directors’ estimation of the expected future growth in the business and the production capacity of Aotecar Nanjing.

Listing Rules Implications

Since Xiezhong Nanjing is a connected person of our Company (please refer to “Relationship with Controlling Shareholders – Xiezhong Nanjing” in this prospectus), the supply of compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing pursuant to the Master Sales Agreement will constitute continuing connected transactions of our Company.

Based on the estimated maximum annual amount of sales of compressors and assembly parts, the total assets of our Group as at 30 June 2010, the revenue of our Group for the year ended 31 December 2009 and the Expected Capitalisation, the assets, revenue and consideration percentage ratios for the supply of compressors and assembly parts contemplated under the Master Sales Agreement calculated pursuant to Rule 14.07 of the Listing Rules are expected to be between 5% and 25% and the annual consideration is expected to be more than HK\$10,000,000 for the three years ending 31 December 2012. The supply of compressors and assembly parts contemplated under the Master Sales Agreement constitutes non-exempt continuing connected transactions of our Company which will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Rule 14A.35 of the Listing Rules.

CONNECTED TRANSACTIONS

APPLICATION FOR WAIVERS

Under Rule 14A.33(3) of the Listing Rules, the continuing connected transactions under “Exempt Continuing Connected Transactions” above would be exempt from all the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Under Rule 14A.35 of the Listing Rules, the continuing connected transactions under “Non-exempt continuing connected transactions subject to the reporting, annual review, announcement and independent shareholders’ approval requirements – transactions under Master Sales Agreement” above would be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the non-exempt continuing connected transactions described above will continue immediately or very soon after the Global Offering, our Directors (including the independent non-executive Directors) consider that strict compliance with the reporting, announcement and independent shareholders’ approval requirements, as set out in Chapter 14A of the Listing Rules immediately after the Global Offering would be unduly burdensome and impracticable. Accordingly, we have applied for and the Stock Exchange has granted us a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and independent shareholders’ approval requirements in relation to the said non-exempt continuing connected transactions, subject to the following conditions:

- (a) the annual caps for the continuing connected transactions contemplated under the Master Sales Agreement for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 as stated above will not be exceeded;
- (b) the Company will comply with the annual review and reporting requirements under Rules 14A.37 to 14A.41 and Rules 14A.45 to 14A.46 of the Listing Rules; and
- (c) upon expiry of the waiver granted for the period ending 31 December 2012, where necessary, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

In the event that any of the material terms of the Master Sales Agreement have been altered (unless as provided for under the terms of the relevant agreement or arrangement), or if the Group enters into any new agreement or arrangement in the future which will result in the annual caps referred to above being exceeded, the Company will re-comply with the provisions of Chapter 14A of the Listing Rules.

CONFIRMATION FROM DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable

CONNECTED TRANSACTIONS

and in the interests of our Shareholders taken as a whole, and that the proposed annual caps for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 set out above are fair and reasonable and in the interests of our Company and our shareholders taken as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders taken as a whole, and that the terms of the continuing connected transactions and the proposed annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

GENERAL

The following table sets forth the positions of our Directors and senior management:

Name	Position
<i>Directors</i>	
Mr. Zhang Yichen	Chairman and non-executive Director
Mr. Qian Yonggui	Executive Director and chief executive officer of our Company
Mr. Kenneth Fang	Non-executive Director
Mr. Gao Chunhe	Non-executive Director
Mr. Liu Xiaoping	Non-executive Director
Mr. Wang Zhenyu	Non-executive Director
Mr. Cheung Man Sang	Independent non-executive Director
Mr. Lai Ni Hium	Independent non-executive Director
Mr. Zhao Chunming	Independent non-executive Director
<i>Senior management</i>	
Mr. Mak Wai Man Raymond	Chief financial officer of our Company
Mr. Tian Shichao	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun
Mr. Yi Fengshou	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun
Mr. Zhao Chengzhou	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun
Mr. Wang Jianmin	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun
Mr. Liu Shantong	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun
Mr. Yu Heyuan	Deputy general manager of Aotecar Nanjing and Aotecar Xiangyun

DIRECTORS

Board of Directors

The board of Directors of our Company consists of nine Directors, comprising one executive Director (who is also our chief executive officer), five non-executive Directors (one of whom is our chairman) and three independent non-executive Directors.

Information concerning our Directors and senior management is set forth below:

Chairman and Non-executive Director

Mr. Zhang Yichen, aged 47, is the chairman and a non-executive Director of our Company and a director of Aotecar International, Aotecar Hong Kong, Aotecar Nanjing and Aotecar Xiangyun. He joined our Group in March 2010. He is a Director nominated by CITIC Capital China. Mr. Zhang was appointed as a Director on 25 May 2010.

Mr. Zhang was previously a managing director at Merrill Lynch responsible for debt capital market activities for the Greater China region. He joined CITIC Group in 2000 and served as an executive director of CITIC Pacific Limited, a company listed on the Main Board of the Stock Exchange, from March 2000 to May 2002. In 2002, he joined to set up CITIC Capital Holdings Limited and has been its chief executive officer. He has also been a director of CUAS, Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing since March 2010.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhang is currently a member of the Eleventh National Committee of the Chinese People's Political Consultative Conference and a standing committee member of the All-China Youth Federation (中華全國青年聯合會). He is also the chairman of China Venture Capital Association (中華創業投資協會), a vice chairman of Beijing Private Equity Association (北京股權投資基金協會) and an executive member of Tianjin Private Equity Association (天津股權投資基金協會).

Mr. Zhang obtained a bachelor's degree in computer science and engineering from the Massachusetts Institute of Technology in 1986.

Chief Executive Officer and Executive Director

Mr. Qian Yonggui, aged 62, is the chief executive officer and an executive Director of our Company and a director of Aotecar International, Aotecar Hong Kong, Aotecar Nanjing and Aotecar Xiangyun. He has also been the general manager of Aotecar Nanjing and Aotecar Xiangyun since their establishment in May 2000 and June 2008, respectively. Mr. Qian was appointed as a Director on 25 May 2010.

Since the establishment of Aotecar Nanjing and Aotecar Xiangyun in 2000 and 2008, respectively, Mr. Qian has been responsible for leading the daily management of the business of our Group, including overseeing the production process, sales, procurement, research and development, annual budgeting and financing matters and recruitment, as well as the strategic development of the Group.

Mr. Qian has over 20 years of experience in compressors and mechanical engineering. He is the inventor of various patents with respect to compressors, among which over 40 patents are possessed by us. Prior to joining our Group, Mr. Qian served as the deputy factory manager of Zhuhai Gree Compressor Factory (珠海格力壓縮機廠) from 1993 to 1995. He worked at Zhuhai Compressor Factory (珠海壓縮機廠) from 1986 to 1993, and served in various positions including production manager, deputy factory director of production and deputy factory director of technology. He also worked at Nanjing Changjiang Machinery Factory (南京長江機器製造廠) during the periods from 1969 to 1983 and from 1985 to 1986, and served in several positions including deputy chief and programme leader (計劃組長).

Mr. Qian was honoured with a number of awards within the automobile parts industry, including Jiangsu Provincial Award for Progress in Science and Technology (Second Class) (江蘇省科技進步二等獎) in 2004, Nanjing Award for Progress in Science and Technology (Third Class) (南京市科學技術進步獎(三等獎)) in 2004, Nanjing Outstanding Entrepreneur (南京市優秀企業家) in 2007, Top Ten Persons in the Best 100 Auto Parts Enterprises in China (中國百佳汽車零部件企業十佳風雲人物) in 2007, 30 Outstanding Entrepreneurs in the Chinese Auto Parts Industry in the 30 Years of Reform (改革開放30年中國汽車零部件行業30位傑出企業家) and the Elite in the Chinese Auto Industry in the 30 Years of Reform (改革開放30年中國汽車工業傑出人物) in 2008, China Machinery Industry Science and Technology Award (Second Class) (中國機械工業科學技術獎(貳等獎)) in 2008 and Jiangsu Provincial May 1st Day Labour Medal (江蘇省五一勞動獎章) in 2009. He is one of the principal members who developed the QX hermetic rotary compressor product series (QX全封閉型旋轉式壓縮機系列產品) which was recognised as Zhuhai Science and Technology Research Outcome (珠海市科學技術研究成果) by the Zhuhai Science and Technology Commission (珠海市科學技術委員會) and was awarded Guangdong

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Excellent New Product Prize (廣東省優秀新產品獎) by Guangdong Economic Commission (廣東省經濟委員會) in 1995. In 2007, he was appointed as a representative of Qinhuai District of the 14th Nanjing People's Congress.

He completed his undergraduate studies in industrial management engineering at Northwest Institute of Telecommunications Engineering (西北電訊工程學院) (presently known as Xidian University (西安電子科技大學)) in 1985 and his postgraduate studies in international finance at Wuhan University (武漢大學) in 1992. Mr. Qian is a senior engineer.

Non-executive Directors

Mr. Kenneth Fang, *GBS, CBE, JP*, aged 72, is a non-executive Director of our Company. He has been a director of Aotecar Nanjing and Aotecar Xiangyun since their establishment in May 2000 and June 2008, respectively. He is also a director of Aotecar International and Aotecar Hong Kong. He is a Director nominated by Fang Brothers. Mr. Fang was appointed as a Director on 25 May 2010.

Mr. Fang is a director of Fang Brothers and Fang Brothers Holdings and the chairman of Fang Brothers Knitting Limited. He is also the chairman of Yeebo (International Holdings) Limited, a company listed on the Main Board of the Stock Exchange, and was previously the chairman of Times Ltd., a company listed on the Main Board of the Stock Exchange on 16 July 2007 and subsequently privatised and delisted on 25 May 2010. Mr. Fang also serves as a non-executive director of Jiangsu Expressway Company Limited and as an independent non-executive director of Wing Tai Properties Limited (formerly known as USI Holdings Limited), each being a company listed on the Main Board of the Stock Exchange. Mr. Fang is also the Deputy Managing Director as well as a director of Nantong Jianghai Capacitor Co., Ltd, a company listed on the Shenzhen Stock Exchange. He was awarded the Industrialist of the Year (傑出工業家獎) by the Federation of Hong Kong Industries in 2002. Mr. Fang is an honorary chairman of the Hong Kong Textile Council and an honorary president of Hong Kong Woollen and Synthetic Knitting Manufacturers' Association. He has also been a director of CUAS since January 2008, and of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing since May 2008.

Mr. Fang is a member of the National Committee of Chinese People's Political Consultative Conference and a member of the Standing Committee of Chinese People's Political Consultative Conference of Jiangsu Province.

Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in 1961 with a master's degree in chemical engineering. He was also conferred an honorary degree of doctor of business administration by the Hong Kong Polytechnic University in 2005.

Mr. Gao Chunhe, aged 56, is a non-executive Director of our Company. He has been a director of Aotecar Nanjing and Aotecar Xiangyun since their establishment in May 2000 and June 2008, respectively. He is also a director of Aotecar International and Aotecar Hong Kong. He is a Director nominated by Fang Brothers. Mr. Gao was appointed as a Director on 25 May 2010.

Mr. Gao has been a director of Fang Brothers since March 2007, and was previously a director of Times Ltd., a company listed on the Main Board of the Stock Exchange on 16 July 2007 and subsequently privatised and delisted on 25 May 2010, where he served as its vice-chairman and chief

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

executive officer from 2007 to 2010. He has also been a director of CUAS since January 2008, and of Xiezhong International and Xiezhong Hong Kong since May 2008. Mr. Gao has experience in enterprise management and is familiar with the business operating environment in the PRC. Mr. Gao was awarded the National Young Entrepreneur Award (中國全國優秀青年企業家獎) in 1988.

Mr. Gao obtained a bachelor's degree in engineering from Wuxi Institute of Light Industry (無錫輕工業學院) (presently known as Jiangnan University (江南大學)) in 1982.

Mr. Liu Xiaoping, aged 55, is a non-executive Director of our Company and a director of Aotecar International, Aotecar Hong Kong, Aotecar Nanjing and Aotecar Xiangyun. He joined our Group in December 2007. He is a Director nominated by CITIC Capital China. Mr. Liu was appointed as a Director on 25 May 2010.

Mr. Liu has been a managing director at CITIC Capital Holdings Limited since December 2005. From 2003 to 2005, he served as the managing director of CITIC 21CN Company Limited, a company listed on the Main Board of the Stock Exchange. From 1998 to 2002, Mr. Liu served as vice president in the direct investment department at China International Capital Corporation (Hong Kong) Limited. He has also been a director of CUAS since January 2008, and of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing since May 2008.

Mr. Liu graduated from Jilin University of Technology (吉林工業大學) (now known as Jilin University (吉林大學)) with a bachelor's degree in mechanical engineering in 1980. He then obtained a master's degree in engineering at Beijing University of Aeronautics and Astronautics (北京航空航天大學) in 1982. Mr. Liu subsequently obtained a degree of doctor of philosophy at University of Minnesota in 1990.

Mr. Wang Zhenyu, aged 47, is a non-executive Director of our Company and a director of Aotecar International, Aotecar Hong Kong, Aotecar Nanjing and Aotecar Xiangyun. He joined our Group in December 2007. He is a Director nominated by CDH Cool and CDH Auto. Mr. Wang was appointed as a Director on 25 May 2010.

Mr. Wang joined CDH Investments in 2002 and is currently the managing director. He has also been a director of CDH Cool and CDH Auto since 2007 and 2008, respectively. From 2007 to 2008, he was a director of AirMedia Group Inc., a company listed on the NASDAQ Stock Market. From 2000 to 2002, he served as an associate in the investment consultancy department of China International Capital Corporation Limited. He has also been a director of CUAS since January 2008, and of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing since May 2008.

Mr. Wang graduated from Hefei University of Technology (合肥工業大學) with a bachelor's degree in machinery engineering in 1985 and a master's degree in industrial management engineering in 1988.

Independent Non-executive Directors

Mr. Cheung Man Sang, aged 54, is an independent non-executive Director of our Company. He was appointed on 9 November 2010.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Cheung has been serving as the general manager (Hong Kong) of Vigo Hong Kong Investment Ltd. since August 2010. Prior to that, he served at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. In 2005, he was transferred to Tangshan Guofeng Iron & Steel Co., Ltd. to serve as deputy general manager. He was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager in 2009, and became the senior analyst in the same department in 2010.

Mr. Cheung obtained a master's degree in business administration from Xiamen University (廈門大學) in 2004.

Mr. Lai Ni Hium, aged 49, is an independent non-executive Director of our Company. He was appointed on 9 November 2010.

Mr. Lai has been an executive director, a deputy managing director and the chief financial officer of China Resources Enterprise, Limited, a company listed on the Main Board of the Stock Exchange, since June 2009 and its company secretary since August 2009. Mr. Lai is also a non-executive director of China Resources Microelectronics Limited, a company listed on the Main Board of the Stock Exchange, of which he was previously an executive director, the chief financial officer and the company secretary. Prior to joining China Resources Microelectronics Limited in May 2000, he served as the chief financial officer of Eagle Brand Holdings Limited, a company listed on the Singapore Stock Exchange.

Mr. Lai holds a bachelor's degree in commerce from the University of Western Australia and a graduate diploma in business and administration from the Curtin University of Technology of Western Australia. He is a member of the Hong Kong Institute of Certified Public Accountant and a fellow member of CPA Australia.

Mr. Zhao Chunming, aged 38, is an independent non-executive Director of our Company. He was appointed on 9 November 2010.

Mr. Zhao has over 13 years of experience in automobile technology research. From 1997 to 1998, Mr. Zhao was engaged in research work at the Automotive Engineering Design Research Institute of China Automotive Technology & Research Centre (中國汽車技術研究中心汽車工程設計研究院). He then served at the Auto Testing Research Institute of China Automotive Technology & Research Centre (中國汽車技術研究中心汽車試驗研究所) in various positions including engineer in charge and director of laboratory from 1998 to 2002. He also participated in operating the Secretariat of Technical Sub-Committee of National Automotive Standardisation Technical Committee (全國汽車標準化技術委員會燃氣汽車分技術委員會秘書處) from 1998 to 2002. Since 2002, he has served at Tianjin Qingyuan Electric Vehicle Co., Ltd. (天津清源電動車輛有限責任公司), where he has held various positions including head of power systems department, head of development department, deputy chief engineer and head of research institute and chief engineer. He was appointed as the chief expert in the electric vehicles field by China Automotive Technology & Research Centre (中國汽車技術研究中心) in 2010.

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Mr. Zhao Chunming is an employee of Tianjin Qingyuan Electric Vehicle Co., Ltd. (天津清源電動汽車有限責任公司) (“TQEV”), a customer of our Group since 2009, where he currently serves as the chief engineer and head of research institute of TQEV. In 2009 and 2010, Aotecar Nanjing entered into transactions for the supply of compressors and assembly parts by Aotecar Nanjing to TQEV. Such transactions amounted to RMB16,667 for the year ended 31 December 2009 and RMB12,821 for the six months ended 30 June 2010, representing 0.002% and 0.002% of our Group’s total sales for the same period respectively. Mr. Zhao is neither a director nor a shareholder of TQEV and he has not been involved in the negotiations nor the making of decisions in respect of such transactions. The Joint Sponsors are of view that taking into account the historical transaction amounts involved and the lack of involvement in the transactions on the part of Mr. Zhao, the transactions between our Group and TQEV do not affect the independence necessary for Mr. Zhao to effectively fulfil his role as an independent non-executive Director under Rule 3.13 of the Listing Rules.

Mr. Zhao graduated from Tianjin University (天津大學) with a master’s degree in engineering in 1997. He was also a visiting scholar at Argonne National Laboratory of U.S. Department of Energy in the United States from 2006 to 2007. Mr. Zhao is a senior engineer.

Save as disclosed, each of the Directors confirms with respect to him that: (i) he has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not have any relationship with any other Directors, senior management or substantial shareholders of the Company; (iii) he does not hold any positions in the Company or other members of the Group; (iv) he does not have any interests in the Shares within the meaning of Part XV of SFO; (v) there is no other information that should be disclosed for him pursuant to that requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of securities of the Company.

SENIOR MANAGEMENT

Mr. Mak Wai Man Raymond, aged 46, is the chief financial officer of our Company. He joined our Group in June 2010.

Mr. Mak is also the chief financial officer of CUAS. Prior to joining our Group, Mr. Mak was the chief financial officer and company secretary of Tai Ping Carpets International Ltd., a company listed on the Main Board of the Stock Exchange. From January 2000 to December 2005, he served at SUNDAY Communications Limited, a company listed on the Main Board of the Stock Exchange on 16 March 2000 and subsequently privatised and delisted on 20 December 2006. From 1997 to 1999, he served as an audit manager at The Hong Kong Jockey Club. He worked at Arthur Andersen from 1988 to 1997.

Mr. Mak obtained a professional diploma in accountancy with distinction from Hong Kong Polytechnic University in 1986 and a master’s degree in business administration with distinction from the University of Warwick in 1988. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

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Mr. Tian Shichao, aged 39, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun and is responsible for production. Mr. Tian joined our Group in August 2001. He has 18 years of experience in production and mechanical engineering. Prior to joining our Group, Mr. Tian served as an engineer at Huafei Colour Display System Co., Ltd. (華飛彩色顯示系統有限公司) from 1995 to 2001. From 1992 to 1995, he was an assistant engineer at Nanjing Chenguang Machinery Factory (南京晨光機器廠) (presently known as Nanjing Chenguang Group Co., Ltd. (南京晨光集團有限責任公司)). Mr. Tian received a bachelor's degree in electrical engineering from Hefei University of Technology (合肥工業大學) in 1992 and a master's degree in control engineering from Southeast University (東南大學) in 2003.

Mr. Yi Fengshou, aged 36, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun, and is responsible for research and development. Mr. Yi joined our Group in May 2000. He has 14 years of experience in design and development of automobile compressor. Prior to joining our Group, Mr. Yi was a designer of Xian Qingan Refrigerating Co., Ltd. (西安慶安冷機有限公司). Mr. Yi received a bachelor's degree in compressor from Xi'an Jiaotong University (西安交通大學) in 1996. Mr. Yi was also a visiting scholar at Purdue University from 2002 to 2003.

Mr. Zhao Chengzhou, aged 59, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun, and is responsible for quality control and technology management. Mr. Zhao joined our Group in May 2000 and he is a senior engineer. He has over 30 years of experience in mechanical engineering. Prior to joining our Group, from 1993 to 2000, Mr. Zhao served as the chief engineer of Xian Power Rectifier Factory (西安電力整流器廠). From 1983 to 1992, Mr. Zhao held various positions in Shaanxi Hongling Machinery Factory (陝西紅嶺機械廠) including director of design studio and deputy director of workshop. From 1971 to 1979, Mr. Zhao worked at Northwest Machinery Factory (西北機械廠). Mr. Zhao obtained an associate's degree from the Workers University of Northwest Machinery Factory (西北機器廠職工大學) in 1983. He completed his undergraduate studies in machinery design and manufacturing from Mechanical Engineer Continuing Education University (機械工程師進修大學) in 1987.

Mr. Wang Jianmin, aged 51, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun, and is responsible for infrastructure. Mr. Wang joined our Group in February 2002. He has 30 years of experience in corporate management. Prior to joining our Group, Mr. Wang served as the general manager of Jiangsu Xinchao Printing Co., Ltd. (江蘇新潮印務有限公司) from 1997 to 2002. From 1994 to 1997, he was a director and the chief economist of Jiangsu Huaiyin Electrical Machinery Holdings Co., Ltd. (江蘇淮陰電機股份有限公司). Mr. Wang also held various positions in Jiangsu Qingjiang Electrical Machinery Factory (江蘇清江電機廠) from 1978 to 1986 and from 1988 to 1994 including department head and assistant to the factory director. Mr. Wang obtained an associate's degree from the School of Huaiyin Municipal Committee of the Communist Party of China (中共淮陰市委黨校) in 1988 and graduated from the Distance Learning Institute of the Central Committee of the Communist Party of China (中共中央黨校函授學院) in economics and management in 1995.

Mr. Liu Shantong, aged 35, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun, and is responsible for financial management. He is also a director of Aotecar Casting. Mr. Liu joined our Group in May 2000. He has 14 years of experience in financial management. Prior to joining our Group, Mr. Liu was an accountant of Nanjing Turbine and Electric Machinery

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

(Group) Co., Ltd. (南京汽輪電機(集團)有限責任公司) from 1996 to 2000. Mr. Liu received a bachelor's degree in accounting from Beijing Institute of Machinery (北京機械工業學院) (presently known as Beijing Information Science and Technology University (北京信息科技大學)) in 1996. He is a PRC Certified Public Accountant.

Mr. Yu Heyuan, aged 56, is our deputy general manager of Aotecar Nanjing and Aotecar Xiangyun, and is responsible for logistics. Mr. Yu joined our Group in October 2000. He has over 20 years of experience in corporate management. Prior to joining our Group, Mr. Yu was the deputy general manager of Nanjing Lukou International Airport Investment Management Co., Ltd. (南京祿口國際機場投資管理有限公司) in 2000. He was the department head, the deputy director and the senior economist of Jiangsu Provincial Department of Metallurgical Industry (江蘇省冶金工業廳). Mr. Yu was the director of Nanjing Metal Exchange (南京金屬交易所), and an executive director and the general manager of Jiangsu Jinling Futures Brokerage Co., Ltd. (江蘇金陵期貨經紀有限公司). Mr. Yu received a master's degree in engineering from University of Science and Technology Beijing (北京科技大學) (formerly known as Beijing Steel and Iron Institute (北京鋼鐵學院)) in 1990. Mr. Yu was also a senior visiting scholar at Mississippi State University from 1999 to 2000.

COMPANY SECRETARY

Mr. Chui Wing Fai, aged 44, is the company secretary and the finance manager of our Company. He joined our Group in March 2010.

Prior to joining our Group, Mr. Chui was the company secretary and senior finance manager of China Water Property Group Limited, a company listed on the Main Board of the Stock Exchange, from July 2008 to February 2010. Mr. Chui has over 17 years' of experience in areas of audit and accounting. His commercial accounting experience include those gained at China Resources Light Industries and Textiles (Holdings) Company Limited (currently known as China Resources Textiles (Holdings) Company Limited) and China Resources Enterprise, Limited, a company listed on the Main Board of the Stock Exchange, from 2000 to 2006. He worked at Deloitte Touche Tohmatsu from 1993 to 1999.

Mr. Chui holds a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in business administration from the University of South Australia. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contribution) and benefits-in-kind paid by our Group to our Directors was nil, RMB7.9 million, RMB1.9 million and RMB0.1 million, respectively, and the total remuneration of the five highest-paid individuals (including one Director) of our Group was RMB1.5 million, RMB9.1 million, RMB4.1 million and RMB2.0 million, respectively.

Except as disclosed above, no other amounts have been paid or were payable by our Group to our Directors during the Track Record Period.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The aggregate remuneration and benefits in kind which the Directors are entitled to receive for the financial year ending 31 December 2010 is estimated to be RMB0.3 million, excluding any discretionary bonuses which may be paid to the Directors.

AUDIT COMMITTEE

We have established an audit committee in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee will be to review and supervise our financial reporting process and internal control system and to provide advice and comments to our Board. Our audit committee consists of three members who are Mr. Lai Ni Hium, Mr. Cheung Man Sang and Mr. Zhao Chunming. Mr. Lai Ni Hium was appointed as the chairman of our audit committee.

REMUNERATION COMMITTEE

We have established a remuneration committee which considers and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

Our remuneration committee comprises Mr. Liu Xiaoping, Mr. Cheung Man Sang, Mr. Lai Ni Hium and Mr. Zhao Chunming. Mr. Liu Xiaoping was appointed as the chairman of our remuneration committee.

COMPLIANCE ADVISER

Our Company has entered into a compliance adviser agreement with CIMB to retain CIMB as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to our Company pursuant to the requirements thereunder, the material terms of which are summarised as follows:

- (a) CIMB shall, inter alia, provide advice to our Company as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines in discharge of its duties under Chapter 3A of the Listing Rules;
- (b) our engagement of CIMB shall be for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (c) our Company shall consult with and, if necessary, seek advice from CIMB on a timely basis in the following circumstances:
 - (i) before the publication of any regulatory announcement, circular or financial report;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (ii) where a transaction (including share issue and repurchase) which might be a notifiable transaction, connected transaction or continuing connected transaction, is contemplated under the Listing Rules;
- (iii) where our Company proposes to use the proceeds of Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this prospectus or other listing document issued by our Company;
- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;
- (d) during the term of the engagement, CIMB shall act at all times, in addition to our two authorised representatives, as our principal channel of communication with the Stock Exchange;
- (e) our Company will indemnify CIMB for certain actions against it and losses incurred by it arising out of or in connection with the performance by CIMB of its duties under the agreement; and
- (f) our Company may terminate the engagement of CIMB as its compliance adviser only if its work is of an unacceptable standard, or if there is a material dispute over fees payable to it which dispute cannot be resolved within 30 days, or if approved by the Stock Exchange.

SHARE CAPITAL

The authorised and issued share capital of our Company are as follows:

Number of Shares comprised in the authorised share capital:

Shares	(HK\$)
2,000,000,000	20,000,000.00

- (a) assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following the Global Offering will be as follows:

Shares	(HK\$)
14,737 Shares in issue immediately before completion of the Capitalisation Issue and the Global Offering	147.37
749,985,263 Shares to be issued pursuant to the Capitalisation Issue	7,499,852.63
<u>250,000,000</u> Shares to be issued under the Global Offering	<u>2,500,000.00</u>
Total <u>1,000,000,000</u>	<u>10,000,000.00</u>

- (b) assuming the Over-allotment Option is exercised in full, our Company's share capital immediately following the Global Offering will be as follows:

Shares	(HK\$)
14,737 Shares in issue immediately before completion of the Capitalisation Issue and the Global Offering	147.37
749,985,263 Shares to be issued pursuant to the Capitalisation Issue	7,499,852.63
250,000,000 Shares to be issued under the Global Offering	2,500,000.00
<u>37,500,000</u> Shares to be issued if the Over-allotment Option is exercised in full	<u>375,000.00</u>
Total <u>1,037,500,000</u>	<u>10,375,000.00</u>

Assumptions

The above table assumes that the Global Offering becomes unconditional. It takes no account of any Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options or any options that may be granted under the Share Option Scheme or of any Shares which may be allotted and repurchased by our Company pursuant to the issuing mandate and repurchase mandate as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other

SHARE CAPITAL

distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements to the Capitalisation Issue.

GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- (i) 20% of the aggregate nominal amount of our Company's share capital in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares to be issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme); and
- (ii) the aggregate nominal amount of our Company's share capital repurchased by our Company (if any) pursuant to the repurchase mandate described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, or any scrip dividend shares or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association.

The mandate will expire:

- at the conclusion of our Company's next annual general meeting;
- upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its Shareholders in general meeting, whichever occurs first.

For further information on this general mandate, please refer to "Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares to be issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme).

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock

SHARE CAPITAL

Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “Further information about the Company – Repurchase by our Company of its own securities” in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiry of the period within which our Company is required by applicable laws or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its Shareholders in general meeting,

whichever occurs first.

For further information on this repurchase mandate, please refer to “Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

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

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

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

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

Summary Income Statement Data

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

Note:

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

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

Summary Statement of Financial Information Data

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

Summary Statement of Cash Flows Data

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

BASIS OF PREPARATION

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

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

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

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

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

As the acquisition of Aotecar Nanjing by our Group on 29 December 2007 was recognised using the purchase method of accounting, the financial information for Aotecar Nanjing for the year

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ended 31 December 2007 has not been included in the “Accountants’ Report of the Group” in Appendix IA to this prospectus. Thus the financial information of Aotecar Nanjing has been set out in a separate accountants’ report included in the “Accountants’ Report of Aotecar Nanjing” in Appendix IB to this prospectus.

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

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

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

The financial information has been prepared in accordance with IFRSs.

Before the acquisition of control of Aotecar Nanjing by the Group on 29 December 2007, the financial statements of Aotecar Nanjing were presented on an individual company basis. However,

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

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

OVERVIEW

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

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

Notes:

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

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

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

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

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

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

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

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

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

Note:

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

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

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

Note:

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. Our accounting policies have a significant impact on our operating results. Estimates and judgments are based on historical experience, prevailing marketing conditions and rules and regulations, and are reviewed on a continual basis taking into account the

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changing environment and circumstances. The critical accounting policies adopted and estimates made in preparation of our financial statements are set out as follows:

Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

Property, plant and equipment

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

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

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

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

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

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

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

No depreciation is provided in respect of construction in progress.

Goodwill

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

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

Intangible assets (other than goodwill)

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

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

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

Core technology	15 years
Customer relationships	10 years

Both the period and method of amortisation are reviewed annually.

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

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

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

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

Impairment of trade and other receivables

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

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- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

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

Provisions and contingent liabilities

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

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

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FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Economic conditions

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

Capacity expansion

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

Market competition

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

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Borrowing costs

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

Product liability claims

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

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

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RESULTS OF OPERATIONS

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

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

Turnover

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

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

We sell to domestic and global automobile manufacturers as well as the automobile after-sales market. The Group generated 96.2%, 98.7%, 98.6% and 97.2% respectively of our revenue from

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sales in the PRC market during the Track Record Period. With respect to our overseas sales, we mainly export our products to the US, Japan, Malaysia and other Southeast Asia regions.

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

Cost of sales

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

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

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

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

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expenses. As a percentage to our revenue, our cost of sales remained relatively stable throughout the Track Record Period, representing 73.4%, 74.8%, 73.4% and 73.9% respectively of the Group.

Gross profit and gross profit margin

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

Other revenue and net income

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

Distribution expenses

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

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

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

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

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Administrative expenses

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

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

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

Finance costs

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

Taxation

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

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

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

Turnover

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

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

Costs of sales

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

Gross profit

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

Other revenue and net income

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

Distribution expenses

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

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

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

Administrative expenses

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

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

Finance costs

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

Income tax

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

Profit for the year

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

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

Turnover

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

The increase was mainly due to:

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

Costs of sales

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

Gross profit

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

Other revenue and net income

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

Distribution expenses

Distribution expenses for the year ended 31 December 2009 was RMB42.2 million, an increase of RMB17.0 million, or 67.7%, from distribution expenses of RMB25.2 million for the

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

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

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

Administrative expenses

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

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

Finance costs

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

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Income tax

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

Profit for the year

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

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

Turnover

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

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The increase was mainly due to:

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

Costs of sales

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

Gross profit

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

Other revenue and net income

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

Distribution expenses

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

The increase in distribution expenses was also due to the increase in transportation costs, which increased from RMB3.2 million for the year ended 31 December 2007 to RMB4.1 million for the year ended 31 December 2008, an increase of RMB0.9 million or 29.9%. Such increase was due

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to the increase in sales during the year ended 31 December 2008. Transportation costs as a percentage of revenue remained stable for the two years ended 31 December 2007 and 2008.

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

Administrative expenses

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

Finance costs

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

Income tax

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

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Profit for the year

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

NON-CURRENT ASSETS

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

Intangible assets

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

Goodwill

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

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NET CURRENT ASSETS/(LIABILITIES)

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

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

Aotecar Nanjing had current assets of RMB245.7 million as at 31 December 2007, and the Group had current assets of RMB323.6 million, RMB604.6 million, RMB833.0 million and RMB794.4 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. Aotecar Nanjing had current liabilities of RMB166.2 million as at 31 December 2007, and the Group had current liabilities of RMB426.0 million, RMB712.1 million, RMB912.3 million and RMB856.1 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. During the Track Record Period, Aotecar Nanjing's and our Group's current assets mainly consisted of inventories, trade and other receivables, pledged deposits and cash. Aotecar Nanjing's and our Group's current liabilities mainly consisted of trade and other payables, amounts due to related parties and interest-bearing borrowings. The increase in interest-bearing borrowings was mainly due to a bank loan of US\$31.0 million from BNP Paribas Hong Kong Branch and a bank loan of HK\$93.0 million from DBS Bank Ltd., Hong Kong Branch. Aotecar Nanjing had net current assets of RMB79.4 million as at 31 December 2007. The Group had net current liabilities of RMB102.4 million, RMB107.5 million, RMB79.3 million and RMB61.8 million as at 31 December 2008, 31 December 2009, 30 June 2010 and 30 September 2010 respectively. The net current liabilities of the Group were mainly due to short term bank borrowings and amounts due to CUAS and Mr. Qian, being related parties of the Group, amount due to CUAS was due to the acquisition of Aotecar Nanjing by the Group from Fang Brothers in December 2007. For details, please refer to "History, Development and Reorganisation – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong" in this prospectus. The amount due to Mr. Qian was incurred as a result of the acquisition of 3% creditor's right by Mr. Qian and the amount

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received and subsequently refundable by Aotecar Hong Kong on behalf of CUAS (being the consideration payable by Mr. Qian for the 3% shareholding in Aotecar International and related creditor's rights transferred to him by CUAS) pursuant to the share transfer agreement entered into among CUAS, Aotecar International and Mr. Qian on 11 September 2008, and as supplemented by two supplemental agreements dated 7 June 2010 and 15 July 2010. For details, please refer to "History, Development and Reorganisation – Corporate history – Aotecar International – Transfer of shares in Aotecar International from CUAS to Mr. Qian" in this prospectus. As at 30 September 2010, all the amounts due to related parties had been repaid.

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

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

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

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

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Inventories

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

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	<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	33,836	49,375	63,489	93,674
Total	<u>68,532</u>	<u>84,008</u>	<u>115,940</u>	<u>151,681</u>
	For the year/period ended			
	31 December			30 June
	2007	2008	2009	2010
Average inventory turnover days	99	100	62	52

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

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

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

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

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Trade and other receivables

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

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	116,912	137,406	311,259	410,559
Less: Allowance for doubtful debts	(2,187)	(1,293)	(2,617)	(2,617)
Net trade receivables	114,725	136,113	308,642	407,942
Bills receivable	27,828	36,165	105,336	125,468
Other receivables, deposits and prepayments	3,524	9,737	7,754	23,154
Amounts due from related parties	—	11,510	19,218	25,014
	<u>146,077</u>	<u>193,525</u>	<u>440,950</u>	<u>581,578</u>
	For the year/period ended			
	31 December			30 June
	2007	2008	2009	2010
Average trade receivables turnover days	154	152	134	135

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

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

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

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

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

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<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>

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

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

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

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

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Trade and other payables

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

	Aotecar Nanjing	Our Group		
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	67,585	80,503	211,122	277,104
Bills payable	15,750	7,120	23,959	8,660
Receipts in advance	—	1,741	973	1,837
Other payables	6,821	9,885	35,881	49,289
Other tax payable	4,614	4,671	11,135	12,553
Dividend payable	7,629	—	—	—
	<u>102,399</u>	<u>103,920</u>	<u>283,070</u>	<u>349,443</u>
	For the year/period ended			
	31 December			30 June
	2007	2008	2009	2010
Average trade payables turnover days	117	110	101	100

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

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

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Other payables

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

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

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

Provision

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

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

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

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

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Amount due from/(to) related parties

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Selected combined cash flow statements data

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

Net cash generated from operating activities

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

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

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

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

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

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demand of our products. The gains from foreign exchange were mainly due to gains arising from foreign currency denominated loans.

Net cash used in investing activities

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

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

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

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

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

Net cash used in/generated from financing activities

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

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

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

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

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

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Indebtedness

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

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

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

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

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

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

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

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

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

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

Contingent liabilities

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

Commitments

(a) Capital commitments

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

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

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(b) Operating lease commitments

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

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

Capital expenditure

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

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

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

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

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

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

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

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Planned capital expenditure

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

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

Pledged deposits

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

Certain financial ratios

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

Gearing ratio

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

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

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

Return on equity

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

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

Current ratio

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

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

Quick ratio

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

The decrease in the quick ratio of Aotecar Nanjing from 1.1 as at year ended 31 December 2007 to 0.6 as at year ended 31 December 2008 of our Group. The decrease was mainly due to the increase in other payable to CUAS of RMB203.1 million as a result of the transfer of equity interests in Aotecar Nanjing to our Group by Fang Brothers in December 2007. Please refer to “History,

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Development and Reorganisation – Aotecar Nanjing – Transfer of equity interest from Fang Brothers to Aotecar Hong Kong” in this prospectus for more details. The amount was classified as a current liability as at 31 December 2008.

WORKING CAPITAL CONFIRMATION

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

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Credit risk

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

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

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

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

Liquidity risk

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

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

Interest rate risk

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

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

	Aotecar Nanjing		Our Group					
			As at 31 December			As at 30 June		
	2007		2008		2009		2010	
	<i>Effective interest rate % (annual)</i>	<i>RMB'000</i>	<i>Effective interest rate % (annual)</i>	<i>RMB'000</i>	<i>Effective interest Rate % (annual)</i>	<i>RMB'000</i>	<i>Effective interest rate % (annual)</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><u>28,048</u></u>		<u><u>56,649</u></u>		<u><u>126,045</u></u>		<u><u>408,843</u></u>
Net fixed rate borrowings as a percentage of total net borrowings		<u><u>131%</u></u>		<u><u>90%</u></u>		<u><u>138%</u></u>		<u><u>53%</u></u>

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Foreign currency risk

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

(Expressed in RMB'000)

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

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

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

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

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

Note:

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

DIVIDEND POLICY

No dividend was declared during the Track Record Period. We may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and

FINANCIAL INFORMATION

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

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

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

DISTRIBUTABLE RESERVES

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS STATEMENT

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

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

Notes:

- ⁽¹⁾ The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2010 is extracted from the Accountants' Report set out in Appendix IA to this prospectus.
- ⁽²⁾ The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$2.35 and HK\$3.05 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- ⁽³⁾ The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 1,000,000,000 Shares in issue immediately after the Global Offering without taking into account any Share which may be issued upon the exercise of the Over-allotment Option.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

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

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

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

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

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please refer to the “Business – Business strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds to our Company from the Global Offering, after deducting the underwriting commissions and estimated expenses in relation to the Global Offering payable by us, will be HK\$634.6 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$2.70 per Share, being the midpoint of the Offer Price range set out in this prospectus. We intend to use the net proceeds for the following purposes:

- (i) HK\$222.1 million or 35.0% of the net proceeds will be used for (i) our capacity expansion plans which include the expansion project of our New Production Base and the establishment of a new production base; and (ii) selective acquisitions and investments which either supplement our existing business or fit into our long-term strategy:
 - We plan to use HK\$144.8 million or 22.8% of the net proceeds for the capacity expansion plan of the New Production Base, mainly for purchases and installation of machinery and equipment and/or construction of factory and office buildings and staff quarters, and we expect that the aggregate annual production capacity will increase from 3.0 million sets of compressors to 4.0 million sets of compressors by mid 2011 after the expansion;
 - We plan to use HK\$45.6 million or 7.2% of the net proceeds for the acquisition of land for the establishment of a new production base. It is intended that the new production base will be established in Nanjing or its adjacent areas for the production of automobile air-conditioning compressors. As at the Latest Practicable Date, our Group was in the course of identifying an appropriate site for the new production base and it is expected that such can be identified by the end of 2011; and
 - We plan to use HK\$31.7 million or 5.0% of the net proceeds for acquisitions and investments primarily related to the manufacturing of automobile air conditioning compressors and, to a lesser degree, related to other auto component system providers in the PRC. We plan to selectively target acquisitions or investments that will strengthen our leading position in the manufacturing of automobile air-conditioning compressors in the PRC. We would also selectively target other auto component providers that we could leverage on our extensive customers network in the auto industry in the PRC. No specific acquisition candidates or investment opportunities had been identified as at the Latest Practicable Date;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) HK\$334.2 million or 52.7% of the net proceeds will be used for loan repayment. For details of the loans, please refer to “Financial Information – Indebtedness” in this prospectus:
 - HK\$241.2 million or 38.0% of the net proceeds will be used for the repayment of borrowings from BNP Paribas Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan was used to settle the indebtedness due to CUAS and Mr. Qian in June 2010. The loan facility shall be repaid within one month after the Listing or by 31 December 2010, whichever is earlier, and the applicable interest rate for any outstanding loan amount under the facility is BNP Paribas Hong Kong Branch’s cost of funds (determined conclusively by BNP Paribas Hong Kong Branch at its sole discretion) plus 0.2% per annum. The Group intends to repay the amount due to BNP Paribas Hong Kong Branch immediately after Listing; and
 - HK\$93.0 million or 14.7% of the net proceeds will be used for the repayment of borrowings from DBS Bank Ltd., Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan has been used for general working capital purpose. The tenure of the loan facility is 24 months from the date of the relevant loan agreement (being 11 June 2010) and the applicable interest rate for any outstanding loan amount under the facility is HIBOR plus 1.5% per annum;
- (iii) HK\$31.7 million or 5.0% of the net proceeds will be used to support and strengthen our product R&D capability in respect of our existing product portfolio and potential new products, including (i) enhancing our R&D facilities to improve the quality of our electric compressors and to produce compressors with smaller size for meeting the changing market needs; (ii) collaborating with third party institutions, such as universities in the PRC and overseas to develop new technologies and/or products; and (iii) expediting the commercialisation process of our R&D results; and
- (iv) HK\$46.6 million or 7.3% of the net proceeds will be used for working capital and other general purposes.

Although from time to time, we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we did not have any finalised understanding, commitments or agreements, and we had not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term deposits with financial institutions in Hong Kong and/or the PRC.

If the Offer Price is finally determined at the lower end of the indicative Offer Price range, being HK\$2.35 per Offer Share, the net proceeds from the Global Offering will be decreased by HK\$85.3 million, as compared with the above computation (which is based on the midpoint of the

FUTURE PLANS AND USE OF PROCEEDS

indicative Offer Price range and assuming the Over-allotment Option is not exercised). In such case, our Directors intend to apply HK\$241.2 million or 43.9% and HK\$82.4 million or 15.0% of the net proceeds towards repayment of loans from BNP Paribas Hong Kong Branch and DBS Bank Ltd., Hong Kong Branch respectively and to apply HK\$45.6 million or 8.3% of the net proceeds towards acquisition of land for the establishment of a new production base. The Directors intend to apply the remaining net proceeds of the Global Offering in the same manner as mentioned above with the difference being adjusted to the other items above on a pro rata basis.

If the Offer Price is finally determined at the higher end of the indicative Offer Price range, being HK\$3.05 per Offer Share, the net proceeds of the Global Offering will be increased by HK\$85.3 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). Our Directors intend to allocate the additional net proceeds for the purposes in (i) (solely for the purposes of capacity expansion plan of the New Production Base and for acquisition and investments as mentioned under item (i) above), (iii) and (iv) above on a pro-rata basis.

If the Over-allotment Option is exercised in full, we estimate we would receive additional net proceeds of HK\$98.7 million, assuming an Offer Price of HK\$2.70 per Share, being the midpoint of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Over-allotment Option will be applied to the purposes described in (i) (solely for the purposes of capacity expansion plan of the New Production Base and for acquisition and investments under item (i) above), (iii), and (iv) above on a pro rata basis.

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds described above.

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Public Offering Underwriters

DBS
CIMB
Guotai Junan Securities (Hong Kong) Limited
Mizuho Securities Asia Limited
Celestial Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offering

Public Offering Underwriting Agreement

Pursuant to the Public Offering Underwriting Agreement, we have agreed to offer the Public Offering Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Public Offering Underwriting Agreement, the Public Offering Underwriters have severally and not jointly agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offering Shares now being offered which are not taken up under the Public Offering on the terms and conditions of this prospectus, the Application Forms and the Public Offering Underwriting Agreement.

The Public Offering Underwriting Agreement is conditional on and subject to, amongst others, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Public Offering Underwriters to subscribe or procure subscribers for the Public Offering Shares are subject to termination if certain events, including force majeure, shall occur at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date. The Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) has the right, in its sole and absolute discretion, to terminate the obligations of the Public Offering Underwriters under the Public Offering Underwriting Agreement by giving notice in writing to our Company, if it sees fit upon the occurrence of any of the following events:

- (a) there has come to the notice of the Sole Global Coordinator:
 - (i) that any statement contained in any offer documents as defined in the Public Offering Underwriting Agreement (“**Offer Documents**”) including this prospectus and the Application Forms, considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) in its sole and absolute opinion to be material in the overall context of the

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Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents and/or the relevant Application Forms is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) in its sole and absolute opinion to be material in the overall context of the Global Offering; or
- (iii) any breach of any of the obligations imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to the Public Offering Underwriting Agreement or to the International Underwriting Agreement which is considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (iv) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any member of our Group which is considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (v) any breach of any of the warranties, representations, agreements and undertakings (collectively, the “**Warranties**”) given by our Company, Mr. Qian and/or CITIC Capital China under the Public Offering Underwriting Agreement, considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, or any matter or event showing any of the Warranties contained in the Public Offering Underwriting Agreement to be untrue, misleading or inaccurate in any material respect; or
- (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) we withdraw any of the Offer Documents (or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (viii) any person (other than any of the Public Offering Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or

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- (ix) any event, act or omission which gives rise or is likely to give rise to any material liability of us under the Public Offering Underwriting Agreement pursuant to the indemnities contained in the Public Offering Underwriting Agreement; or
 - (x) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases pandemics or epidemics (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1), swine influenza (H1N1) or any related or mutated forms thereof) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, legal, political, military, industrial, fiscal, regulatory, currency or market conditions, conditions in Hong Kong, the PRC, the United States, the Cayman Islands, the BVI or any other jurisdictions relevant to any member of our Group (the **“Relevant Jurisdictions”**), or matters and/or disaster or monetary or trading settlement system (including without limitation any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Tokyo Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or a material revaluation of the Hong Kong currency against the currency of the United States or the Renminbi against any foreign currencies, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or
 - (iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority (**“Laws”**) or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of the Relevant Jurisdictions; or

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- (iv) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by or for the United States or the European Union (or any member thereof) on any of the Relevant Jurisdictions; or
- (v) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws in any of the Relevant Jurisdictions or affecting an investment in the Shares; or
- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors” in this prospectus; or
- (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
- (viii) any of the Directors being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of our Company vacating his or her office in circumstances where the operations of our Group will be materially and adversely affected; or
- (x) the commencement by any regulatory body of any public action against any of the Directors in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or
- (xi) a contravention by any member of our Group of the Companies Ordinance, the Listing Rules, or any applicable securities laws; or
- (xii) a prohibition on our Company for whatever reason from allotting the Offer Shares pursuant to the terms of the Global Offering; or
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the subscription of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xiv) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by us of a supplementary prospectus (or any other documents used in connection with the subscription of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

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- (xvi) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xvii) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xviii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise) or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Relevant Jurisdictions; or
- (xix) any suspension or limitation in trading in shares or securities generally on the New York Stock Exchange or the Stock Exchange or a disruption has occurred in securities settlement or clearance services or procedures in the Relevant Jurisdictions; or
- (xx) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Group, including any litigation or claim of material importance of any third party being threatened or instigated against our Company or any of its subsidiaries; or
- (xxi) any outbreak or escalation of hostilities (whether or not war is or has been declared) involving any of the Relevant Jurisdictions or any escalation thereof, or the declaration by any of the Relevant Jurisdictions of a national emergency or war,

which in each case in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Public Offering Underwriters):

- (a) is or will or could be expected to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Group taken as a whole; or
- (b) has or will have or could be expected to have a material adverse effect on the success of the Global Offering or the level of applications under the Public Offering or the level of interest under the International Offering; or
- (c) makes it inadvisable, inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering or shall otherwise result in an interruption to or delay thereof on the terms and in the manner contemplated in this prospectus; or

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- (d) would have the effect of making any part of the Public Offering Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings

Pursuant to the Public Offering Underwriting Agreement, CITIC Capital China has undertaken to each of the Sole Global Coordinator, the Joint Sponsors, our Company and the other Public Offering Underwriters that it will, and will procure CITIC Capital China Fund I to observe the following:

- (i) in the period commencing on the date by reference to which disclosure of the respective interest of the Controlling Shareholders in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the “**First Lock-up Period**”), except pursuant to the Global Offering and the Stock Borrowing Agreement, neither of the Controlling Shareholders shall, and shall procure that none of the relevant registered holder(s), associates and companies controlled by any of the Controlling Shareholders and any nominee or trustee holding in trust for any of the Controlling Shareholders shall, without the prior written consent of the Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of the Company as disclosed in this prospectus to be beneficially owned by any of the Controlling Shareholders or the relevant company, nominee or trustee which is disclosed in this prospectus to be the direct or indirect beneficial owner of any of the Shares or securities of the Company (the “**Relevant Securities**”); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities, in cash or otherwise; or (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in (a), (b) or (c) above;
- (ii) neither of the Controlling Shareholders shall, and shall procure that none of the relevant registered holder(s), associates and companies controlled by any of the Controlling Shareholders and any nominee or trustee holding in trust for any of the Controlling Shareholders shall, directly or indirectly, without the prior written consent of the Sole Global Coordinator and the Stock Exchange in the six months commencing on the expiry of the First Lock-up Period (the “**Second Lock-up Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights,

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interests or encumbrances, any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company;

- (iii) in the event of a disposal of any Shares or securities of our Company or any interest therein within the Second Lock-up Period, the Controlling Shareholders shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) the Controlling Shareholders shall, and shall procure that their respective associates and companies controlled by it and nominees or trustees holding in trust for it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder controlled by it of any Shares.

CITIC Capital China has further undertaken to each of our Company, the Sole Global Coordinator, the Joint Sponsors and the other Public Offering Underwriters that, within the Second Lock-up Period, it will and will procure CITIC Capital China Fund I to:

- (i) when it or CITIC Capital China Fund I pledges or charges any securities or interests in the Relevant Securities, immediately inform our Company and the Sole Global Coordinator in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it or CITIC Capital China Fund I receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Global Coordinator and the Joint Sponsors in writing of such indications.

We will inform the Stock Exchange as soon as practicable after we have been informed of the matters above (if any) by any of the Controlling Shareholders and disclose such matters by way of a press announcement.

We have undertaken to the Sole Global Coordinator and the Joint Sponsors that we shall not effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares of persons other than the Directors, chief executives, substantial shareholders or their respective associates (as defined in the Listing Rules) to below 25% within the First Lock-up Period without first having obtained the prior written consent of the Sole Global Coordinator (on behalf of the Public Offering Underwriters).

We have further undertaken to the Sole Global Coordinator and the Joint Sponsors that pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into its equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within the First Lock-up Period (whether or not such issue of Shares or its securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, inter alia, the International Underwriters, on terms and conditions that are substantially similar to the Public Offering Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or procure subscribers for the International Offering Shares being offered pursuant to the International Offering.

We will grant to the Sole Global Coordinator the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Price Determination Date until 30 days after the last day for the lodging of applications under the Public Offering, to require us to allot and issue up to an aggregate of 37,500,000 additional Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

Commissions and expenses

The Underwriters will receive an underwriting commission at the rate of 2.5% of the aggregate Offer Price payable for the Offer Shares (including shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Global Offering, is currently estimated to be HK\$40.4 million in aggregate (based on an Offer Price of HK\$2.70 per Offer Share, being the mid-point of the stated range of the Offer Price of between HK\$2.35 and HK\$3.05 per Offer Shares and the assumption that the Over-allotment Option is not exercised) and is paid or payable by our Company. In addition, our Company may also in its sole discretion pay the Sole Global Coordinator an incentive fee of up to 0.25% of the aggregate Offer Price for the number of Offer Shares offered by us under the Global Offering, which is currently estimated to be HK\$1.7 million (based on an Offer Price of HK\$2.70 per Offer Share, being the mid-point of the Offer Price range and the assumption that the Over-allotment Option is not exercised).

JOINT SPONSORS' AND UNDERWRITERS' INTERESTS IN OUR COMPANY

CIMB, being one of the Joint Sponsors, will receive a documentation fee. DBS, being the Sole Global Coordinator (for itself and on behalf of other Underwriters) will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth in the above "Commission and expenses".

Please refer to the "Joint Sponsors" in Appendix VI to this prospectus regarding the reason for DBS not being considered as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules. Save as disclosed above or otherwise disclosed in this prospectus, none of the Joint Sponsors, the Sole Lead Manager and the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Public Offering as part of the Global Offering. DBS and CIMB are the Joint Sponsors. DBS is the Sole Global Coordinator, Sole Lead Manager and Sole Bookrunner of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Public Offering of 25,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Public Offering”; and
- the International Offering of 225,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for our Shares under the Public Offering or indicate an interest, if qualified to do so, for our Shares under the International Offering, but may not do both. The Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our Shares to institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International Offering. Prospective investors will be required to specify the number of our Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, Wednesday, 1 December 2010, being the last day for lodging applications under the Public Offering.

The number of Shares to be offered under the Public Offering and the International Offering respectively may be subject to reallocation as described below under “Pricing and Allocation”.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, 2 December 2010 and in any event, no later than Tuesday, 7 December 2010.

The Offer Price will be not more than HK\$3.05 per Share and is expected to be not less than HK\$2.35 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters and with our consent) considers it appropriate, the indicative offer price range may be reduced to below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offering. In such a case, we will, as soon as practicable

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

following the decision to make such reduction, and in any event not later than the morning of Wednesday, 1 December 2010, being the last day for lodging applications under the Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) notice of the reduction in the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. Before submitting applications for the Public Offering Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offering.

The Shares to be offered in the Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of our Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which seek to lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Public Offering will be based solely on the level of valid applications received under the Public Offering. The basis of allocation may vary, depending on the number of Public Offering Shares validly applied for by applicants, but will be made strictly on a pro-rata basis (subject to rounding down to the nearest board lot of Shares), although the allocation of Public Offering Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offering Shares, and those applicants who are not successful in the ballot may not receive any Public Offering Shares.

The applicable Offer Price, level of applications in the Public Offering, the level of indications of interest in the International Offering, and the basis of allocations and the results of applications (with identification document numbers of successful applicants) of the Public Offering Shares are expected to be announced on Wednesday, 8 December 2010 in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese). The announcement will also be available for viewing on the Stock Exchange’s website at www.hkexnews.hk.

CONDITIONS OF THE PUBLIC OFFERING

Acceptance of all applications for the Public Offering Shares pursuant to the Public Offering will be conditional on:

- (i) the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue, the Shares which fall to be issued under the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Capitalisation Issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option, subject only to allotment), and any Shares which may be issued pursuant to the exercise of any of the Pre-IPO Share Options or the options which may be granted under the Share Option Scheme;

- (ii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iii) the obligations of the Underwriters under each of the Public Offering Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Thursday, 9 December 2010.

If for any reason, the Offer Price is not agreed by Tuesday, 7 December 2010 between the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company, the Global Offering will not proceed and will lapse.

If any of the above conditions is not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause notice of the lapse of the Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on the next day following such lapse.

In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for Public Offering Shares” in this prospectus. In the meantime, the application moneys will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended.

The consummation of each of the Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be despatched on Wednesday, 8 December 2010 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Thursday, 9 December 2010, if (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting – Underwriting arrangements and expenses – Grounds for termination” in this prospectus has not been exercised.

THE PUBLIC OFFERING

We are initially offering 25,000,000 new Shares at the Offer Price, representing 10% of the 250,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to reallocation of Offer Shares between the International Offering and the Public Offering, the number of Shares initially offered under the Public Offering will represent 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allotted Offer Shares in the International Offering.

The Sole Global Coordinator (for itself and on behalf of the other Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Public Offering and to ensure that it is excluded from any application for Shares under the Public Offering.

The Offer Price will be not more than HK\$3.05 and is expected to be not less than HK\$2.35. Applicants under the Public Offering are required to pay, on application, the maximum offer price of HK\$3.05 per Share plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$3.05, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application moneys) to successful applicants, without interest. Further details are set out in “How to Apply for Public Offering Shares” in this prospectus.

For allocation purposes only, the total number of Public Offering Shares initially available for subscription by the public under the Public Offering on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the HK eIPO White Form service (subject to any adjustment of the Shares between the International Offering and the Public Offering) will be divided equally (to the nearest board lot) into two pools for allocation purposes: Pool A and Pool B (i.e. 12,500,000 Shares for each of Pool A and Pool B). The Public Offering Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Public Offering Shares with a total subscription amount of HK\$5 million or below (excluding brokerage, the Stock Exchange trading fee and the SFC transaction levy payable). The Public Offering Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Public Offering Shares with a total subscription amount of more than HK\$5 million (excluding brokerage, the Stock Exchange trading fee and the SFC transaction levy payable).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Public Offering Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offering Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. The applicant can only receive an allocation of Public Offering Shares from either Pool A or Pool B but not from both pools. When there is over-subscription, allocation of the Public Offering Shares to investors under the Public Offering, both in relation to Pool A and Pool B, will be based solely on the level of valid applications received under the Public Offering. The basis of allocation in each pool may vary, depending on the number of Public Offering Shares validly applied for by each applicant. The allocation of Public Offering Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offering Shares and those applicants who are not successful in the ballot may not receive any Public Offering Shares. Multiple or suspected multiple applications and any applications for more than 50% of the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Public Offering Shares initially being offered for subscription by the public (that is, to apply for more than 12,500,000 Shares) are liable to be rejected.

The allocation of Shares between the Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Public Offering represents (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Public Offering, the total number of Offer Shares available under the Public Offering will be increased to 75,000,000, 100,000,000 and 125,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “Mandatory Reallocation”. In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be reallocated equally to Pool A and Pool B in the Public Offering.

If the Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Public Offering Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offering to the Public Offering to satisfy valid applications in the Public Offering, regardless of whether the Mandatory Reallocation is triggered.

References in this prospectus to applications, Application Forms, application moneys or to the procedure for application relate solely to the Public Offering.

THE INTERNATIONAL OFFERING

The number of Shares to be initially offered under the International Offering will be 225,000,000 Shares, representing 90% of the Offer Shares under the Global Offering, subject to adjustment and the Over-allotment Option. The International Offering is subject to the Public Offering becoming unconditional. Subject to the reallocation of the Offer Shares between the International Offering and the Public Offering, the number of Offer Shares initially offered under the International Offering will represent 22.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offering Shares with institutional and professional investors and other investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for, or purchase, the newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below their initial public offering price.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In connection with the Global Offering, DBS as the Stabilising Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by the applicable laws, over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Public Offering. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity which, if commenced, may be terminated at any time at the absolute discretion of the Stabilising Manager or any person acting for it. Any such stabilising activity is required to be brought to an end within 30 days after the last day for lodging of applications under the Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued upon exercise of the Over-allotment Option, being 37,500,000 Shares in aggregate, which is 15% of the number of Offer Shares initially available under the Global Offering.

Stabilising actions in Hong Kong must be carried out pursuant to the Securities and Futures (Price Stabilizing) Rules made pursuant to the SFO, and such stabilisation actions include:

- (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares;
- (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares;
- (iii) purchasing or subscribing, or agreeing to purchase or subscribe, for our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) as described above;
- (iv) purchasing, or agreeing to purchase, our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
- (v) selling or agreeing to sell our Shares in order to liquidate any position held as a result of those purchases; and
- (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager or any person acting for it may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager or any person acting for it will maintain the long position at the discretion of the Stabilising Manager and is uncertain. In the event that the Stabilising Manager or any person acting for it liquidates its long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilising action by the Stabilising Manager or any person acting for it is not permitted to support the price of our Shares for a period longer than the stabilising period, which begins on the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Listing Date on which trading of our Shares first commences on the Stock Exchange and is expected to end on 31 December 2010, being the 30th day after the last day for lodging applications under the Public Offering. As a result, demand for our Shares and their market price may fall after the end of the stabilising period.

We will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

Any stabilising action taken by the Stabilising Manager or its affiliates or any person acting for it may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of our Shares by the Stabilising Manager or its affiliates or any person acting for it may be made at a price at or below the Offer Price and therefore at or below the price paid by you for our Shares.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Stabilising Manager in its sole and absolute discretion on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through the stock borrowing agreement or a combination of these means. Any such purchase will be made in compliance with all applicable laws, rules and regulatory requirements. The number of Shares that may be over-allocated will not be greater than the total number of Shares that may be allotted and issued upon exercise of the Over-allotment Option, being 37,500,000 Shares, which in aggregate equals 15% of the number of Offer Shares initially available under the Global Offering. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Stabilising Manager may borrow up to 37,500,000 Shares from CITIC Capital China, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements (in particular Rule 10.07(3) of the Listing Rules and the arrangements therein will be adopted). No payments or other benefit will be extended to CITIC Capital China by the Stabilising Manager in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 9 December 2010, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, 9 December 2010.

UNDERWRITING ARRANGEMENTS

The Public Offering is fully underwritten by the Public Offering Underwriters under the terms of the Public Offering Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company on the Price Determination Date and subject to the other conditions set out in “Structure and Conditions of the Global Offering – Conditions of the Public Offering” in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

We expect shortly after determination of the Offer Price, to enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Public Offering Underwriting Agreement and the International Underwriting Agreement are summarised in “Underwriting” in this prospectus.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

WHO CAN APPLY FOR THE PUBLIC OFFERING SHARES

You can apply for the Public Offering Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form, if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States;
- are not a US Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC (other than Hong Kong, Macao and Taiwan).

If you wish to apply for Public Offering Shares online through the **HK eIPO White Form** service (www.hkeipo.hk), you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person who is a duly authorised attorney, the Company and the Sole Global Coordinator, or their respective agents and nominees as the Company's agents, may accept it at the Company's/their discretion, and subject to any conditions the Company thinks/they think fit, including production of evidence of the authority of the attorney.

The Company, Sole Global Coordinator, the Underwriters in their capacity as agent for the Company and the **HK eIPO White Form** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The number of joint applicants may not exceed four.

The Public Offering Shares are not available to existing beneficial owners of Shares or any of the Company's subsidiaries, or directors or chief executives of the Company or any of the

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Company's subsidiaries, or their respective associates (as defined in the Listing Rules); or any other connected persons (as defined in the Listing Rules) of the Company or persons who will become connected persons (as defined in the Listing Rules) immediately upon completion of the Global Offering.

You may apply for Public Offering Shares under the Public Offering or indicate an interest for Shares under the International Offering, but may not do both.

METHODS OF APPLYING FOR THE PUBLIC OFFERING SHARES

There are three ways to make an application for Public Offering Shares. You may either (i) use a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider, referred to herein as the **HK eIPO White Form** service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Public Offering Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC.

(I) APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Public Offering Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offering Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 26 November 2010, until 12:00 noon on Wednesday, 1 December 2010 from:

DBS Asia Capital Limited

22nd Floor, The Center
99 Queen's Road Central
Hong Kong

or

CIMB Securities (HK) Limited

25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

or

**Guotai Junan Securities
(Hong Kong) Limited**

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

Mizuho Securities Asia Limited

12th Floor, Chater House
8 Connaught Road Central
Hong Kong

or

Celestial Capital Limited

21st Floor, Low Block,
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFERING SHARES

or any of the following branches of DBS Bank (Hong Kong) Limited:

<u>Branch Name</u>	<u>Address</u>
<u>Hong Kong Island</u>	
Head Office	G/F, The Center, 99 Queen's Road Central
United Centre Branch	Shops 1015-1018 on 1/F, United Centre 95 Queensway, Admiralty
North Point Branch	G/F, 391 King's Road, North Point
Wanchai Branch	G/F, 191-193 Johnston Road, Wanchai
<u>Kowloon</u>	
Nathan Road Branch	G/F, Wofoo Commercial Building 574-576 Nathan Road, Mongkok
Tsimshatsui Branch	G/F, 22-24 Cameron Road, Tsimshatsui
Yue Man Square Branch	Shop 3-5 & G/F, Mido Mansion 51-63 Yue Man Square, Kwun Tong
Amoy Plaza Branch	G45-48, Amoy Plaza, 77 Ngau Tau Kok Road Ngau Tau Kok
<u>New Territories</u>	
Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long
Shatin Plaza Branch	Shop 47 & 48, Level 1, Shatin Plaza, No. 21-27 Sha Tin Centre Street, Shatin
Tsuen Wan Branch	G/F, 23 Chung On Street, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 26 November 2010 until 12:00 noon on Wednesday, 1 December 2010 from:

1. The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, or
2. Your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

You should note that by signing on the Application Form, among other things, you:

- **instruct** and **authorise** the Company and/or the Sole Global Coordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offering Shares allocated to you in your name(s) or the name of HKSCC Nominees, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
- **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder of the Public Offering Shares allocated to you, and as required by the Articles of Association;
- **represent** and **warrant** that you understand that the Public Offering Shares have not been and will not be registered under the US Securities Act and you and any person for whose account or benefit you are acquiring the Public Offering Shares are outside the United States when completing the Application Form and are not a US person described under the US Securities Act;
- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service (www.hkeipo.hk);
- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form**

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service (www.hkeipo.hk), and that you are duly authorised to sign the Application Form as that other person's agent;

- **undertake and confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offering Shares in the International Offering, nor otherwise participate in the International Offering;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, the Joint Sponsors, the Company's share registrars and receiving bankers and the Sole Global Coordinator and their respective agents any personal data and information about you or the person(s) for whose benefit you have made the application;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake and agree** to accept the Public Offering Shares applied for, or any lesser number allocated to you under the application;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offering made available by the Company;
- **authorise** the Company to place your name(s) or HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offering Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Public Offering Shares or more and have indicated in your Application Form that you will collect the share certificate(s) and/or refund cheque(s) (where applicable) in person, you can collect your share certificate(s) and/or refund cheque(s) (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Wednesday, 8 December 2010 (Hong Kong time) from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong;
- **authorise** the Company to dispatch e-Auto Refund payment instructions to your bank account if you have completed payment of the **HK eIPO White Form** application money from a single bank account; or authorise the Company to issue and dispatch refund cheque(s) to the address given on the **HK eIPO White Form** application if you have completed payment of the application money from multiple bank accounts;
- **understand** that these declarations and representations will be relied on by the Company and the Sole Global Coordinator in deciding whether or not to allocate any Public Offering Shares in response to your application;

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- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Law and the Articles of Association;
- **agree** with the Company and each shareholder of the Company that Shares are freely transferable by the holders thereof;
- **authorise** the Company to enter into a contract on behalf of you with each Director and officer of the Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association; and
- **confirm** that you are aware of the restrictions on offering of the Public Offering Shares described in this prospectus.

If you apply for Public Offering Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to above, you:

- **undertake** to sign all documents and to do all things necessary to enable HKSCC Nominees to be registered as the holder of the Public Offering Shares allocated to you, and as required by the Articles of Association;
- **agree** that any Public Offering Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
- **agree** that each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allotted Public Offering Shares issued in the name of HKSCC Nominees or not to accept such allotted Public Offering Shares for deposit into CCASS; (2) to cause such allotted Public Offering Shares to be withdrawn from CCASS and transferred into your name (or, in the case of joint applicants, to the name of the first-named applicant) at your own risk and costs; and (3) to cause such allotted Public Offering Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allotted Public Offering Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;

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- **agree** that each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offering Shares issued in the name of HKSCC Nominees;
- **agree** that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- **agree** that neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

In order for the **YELLOW** Application Forms to be valid:

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

- (a) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its CCASS participant I.D. in the appropriate box in the Application Form.

(ii) **If the application is made by an individual CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong Identity Card Number; and
- (b) the CCASS Investor Participant must insert his/her CCASS participant I.D. in the appropriate box in the Application Form.

(iii) **If the application is made by joint individual CCASS Investor Participants:**

- (a) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong identity card numbers; and
- (b) the CCASS participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong business registration number; and
- (b) the CCASS participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of CCASS participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

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If your application is made through a duly authorised attorney, we, and the Sole Global Coordinator or their respective agents and nominees as our agents, may accept it at our/their discretion, and subject to any conditions we/they think fit, including production of evidence of the authority of your attorney. The Sole Global Coordinator in the capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner.

How to make payment for the application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker’s cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- (i) be in Hong Kong dollars;
- (ii) be drawn on your Hong Kong dollar bank account with a licensed bank in Hong Kong;
- (iii) bear your account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the back of the cheque by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- (iv) be made payable to “**Ting Hong Nominees Limited – China Auto System Public Offer**”;
- (v) be crossed “**Account Payee Only**”; and
- (vi) not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- (i) be in Hong Kong dollars;
- (ii) be issued by a licensed bank in Hong Kong and have your name certified on the back of the banker’s cashier order by an authorised signatory of the bank on which it is drawn.

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The name on the back of the banker's cashier order and the name on your Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;

- (iii) be made payable to **“Ting Hong Nominees Limited – China Auto System Public Offer”**;
- (iv) be crossed **“Account Payee Only”**; and
- (v) not be post dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Wednesday, 1 December 2010. We will not give you a receipt for your payment. We shall keep all interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques or e-Auto Refund payment instructions). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

Time for applying for Public Offering Shares

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Wednesday, 1 December 2010, or, if the application lists are not open on that day, by the time and date stated in “– Applying by using an Application Form – Effect of bad weather on the opening of the application lists” of this section in this prospectus.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of DBS Bank (Hong Kong) Limited listed under “– Applying by using an Application Form – Where to Collect the Application Forms” at the following times:

Friday, 26 November 2010 – 9:00 a.m. to 4:30 p.m.
Saturday, 27 November 2010 – 9:00 a.m. to 12:00 noon
Monday, 29 November 2010 – 9:00 a.m. to 4:30 p.m.
Tuesday, 30 November 2010 – 9:00 a.m. to 4:30 p.m.
Wednesday, 1 December 2010 – 9:00 a.m. to 12:00 noon

The application lists will be opened from 11:45 a.m. to 12:00 noon on Wednesday, 1 December 2010, except as provided in “Applying by using an Application Form – Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.

No proceedings will be taken on applications for the Public Offering Shares and no allotment of any such Shares will be made until the closing of the application lists. No allotment of any of the Shares will be made after the closing of the application lists.

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Effect of bad weather on the opening of the application lists

The application lists will not open in relation to the Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 1 December 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day that is not a Saturday, Sunday or public holiday in Hong Kong which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Results of allocations

The results of allocations of the Public Offering Shares under the Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving electronic application instructions to the **HK eIPO White Form** Service Provider and HKSCC via CCASS, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offering Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from our website at www.chinaautosystem.com and the Stock Exchanges’ website at www.hkexnews.hk on Wednesday, 8 December 2010;
- Results of allocations will also be available from our website at www.chinaautosystem.com and our Public Offering designated results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Wednesday, 8 December to 12:00 midnight on Tuesday, 14 December 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offering Shares allocated to them, if any, by calling 3691-8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 8 December 2010 to Monday, 13 December 2010 (excluding Saturday and Sunday in Hong Kong); and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches from Wednesday, 8 December to Friday, 10 December 2010 at all the receiving bank branches at the

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addresses set out in “How to Apply for Public Offering Shares – Applying by using an Application Form – Where to collect the Application Forms” in this prospectus.

Despatch/collection of share certificates and refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the Conditions set out in “Structure and Conditions of the Global Offering – Conditions of the Public Offering” in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application moneys, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application moneys where appropriate.

All such interest accrued prior to the date of despatch of refund cheques and e-Auto Refund payment instructions will be retained for the benefit of our Company.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applicants on **WHITE** or **YELLOW** Application Forms, (i) Share certificate(s) for all the Public Offering Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Public Offering Shares successfully applied for, if the application is partially successful, in both cases except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below; and/or
- (b) for applicants on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application moneys for the Public Offering Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application moneys, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest.

Subject as mentioned below, refund cheques for surplus application moneys (if any) in respect of wholly and partially unsuccessful applications and Share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on or before Wednesday, 8 December 2010. The right is reserved to retain any Share certificates and any surplus application moneys pending clearance of cheque(s).

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(a) If you apply using a WHITE Application Form:

Applicants who apply for 1,000,000 Public Offering Shares or more and have elected in the **WHITE** Application Forms to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, we expect that you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, 8 December 2010. If you are an individual who has opted for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant, and have opted for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be sent promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Public Offering Shares or if you apply for 1,000,000 Public Offering Shares or more but have not indicated on your Application Form that you will collect your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) are expected to be sent to the address specified on your Application Form on Wednesday, 8 December 2010 by ordinary post and at your own risk.

You will receive one share certificate for all the Public Offering Shares issued to you.

(b) If you apply using a YELLOW Application Form:

If you apply for Public Offering Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 8 December 2010, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offering Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offering Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Public Offering in the newspapers on Wednesday, 8 December 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 8 December 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offering Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's

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“An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offering Shares credited to your stock account.

If you apply for 1,000,000 Public Offering Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Public Offering Shares or if you apply for 1,000,000 Public Offering Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, we expect to send your refund cheque(s) (if any) to the address on your Application Form on Wednesday, 8 December 2010 by ordinary post and at your own risk.

(II) APPLYING BY USING HK eIPO WHITE FORM SERVICE

You may apply through **HK eIPO White Form** service by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form** service, the Shares will be issued in your own name.

Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to the Company.

By submitting an application to the designated **HK eIPO White Form** Services Provider through **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to apply on the terms and conditions set forth in this prospectus, as supplemented and amended by the terms and conditions applicable to **HK eIPO White Form** service.

The designated **HK eIPO White Form** Service Provider may impose additional terms and conditions on you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to transfer the details of your application to the Company and the Hong Kong Share Registrar.

You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 2,000 Public Offering Shares. Each **electronic application instruction** in respect of more than 2,000 Public Offering Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

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You should give **electronic application instructions** through **HK eIPO White Form** service at the times set out in “Members of the public – Time for applying for the Public Offering Shares by using **HK eIPO White Form** service” in this section of this prospectus.

You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application moneys (including the brokerage fee, the Stock Exchange trading fee, and the SFC transaction levy) on or before 12:00 noon on Wednesday, 1 December 2010, or such later time as set out in “Applying by Using an Application Form – Effect of bad weather on the opening of the application lists” in this section of this prospectus, the designated **HK eIPO White Form** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.

Once you have completed payment in respect of any electronic application instruction given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Public Offering Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

Warning: The application for Public Offering Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. The Company, the Directors, the Sole Global Coordinator, the Sole Bookrunner and the Public Offering Underwriters take no responsibility for such applications, and provide no assurance that applications through **the HK eIPO White Form** service will be submitted to the Company or that you will be allotted any Public Offering Shares.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last day for submitting applications in the Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to “How many applications may you make” in this section of the prospectus.

Members of the public – Time for applying for the Public Offering Shares by using HK eIPO White Form service

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Friday, 26 November 2010 until 11:30 a.m. on Wednesday, 1 December 2010 or such later time as set out in “Applying by using an application form – Effect of Bad Weather on the Opening of the Application Lists” in this section

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of this prospectus (24 hours daily, except on the last application day). The latest time for completing full payment of application moneys in respect of such applications will be 12:00 noon on Wednesday, 1 December 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “Applying by using an application form – Effect of bad weather on the opening of the application lists” in this section of this prospectus.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application moneys) until 12:00 noon on the last day for submitting applications, when the application lists close.

Despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques if you apply using a HK eIPO White Form

If you apply for 1,000,000 Public Offering Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 8 December 2010, or such other date as notified by the Company in the newspapers as the date of dispatch/ collection of share certificates/e-Auto Refund payment instructions/refund cheques. If you do not collect your share certificate(s) and/or refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offering Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk on Wednesday, 8 December 2010, by ordinary post and at your own risk.

If you apply through the **HK eIPO White Form** service by paying the application money through a single bank account, e-Auto Refund payment instructions for surplus application money (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the initial price per Offer Share paid on application will be dispatched to your application payment bank account on Wednesday, 8 December 2010.

If you apply through the **HK eIPO White Form** service by paying the application money through multiple bank accounts, refund cheque(s) for surplus application money (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the initial price per Offer Share paid on application will be dispatched to you to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on Wednesday, 8 December 2010 by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Please also note the additional information relating to refund of application moneys overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out in “Additional information for applicants applying through **HK eIPO White Form**” of this section.

Additional information for applicants applying through HK eIPO White Form

For the purposes of allocating Public Offering Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offering Shares for which you have applied, or if your application is otherwise rejected by the **HK eIPO White Form** Service Provider, the **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of moneys to you. Please refer to the additional information provided by the **HK eIPO White Form** Service Provider on the designated website at www.hkeipo.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in “Refund of application moneys” below.

(III) APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offering Shares and to arrange payment of the moneys due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offering Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant, to our Company and our registrars.

Application for Public Offering Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offering Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person who:
 - **agrees** that the Public Offering Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Public Offering Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up any Shares under the International Offering;
 - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by our Company, the Directors and the Sole Global Coordinator in deciding whether to make any allotment of Public Offering Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

HOW TO APPLY FOR PUBLIC OFFERING SHARES

- **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offering Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations;
- **agrees** that our Company, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company and our registrar, branch registrar, receiving bankers, advisers, agents and the Sole Global Coordinator and their respective agents, the personal data and any information which they may require about that person or the person(s) for whose benefit the application is made;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable on or before Thursday, 9 December 2010 unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company, and will become binding when that person gives **electronic application instructions** to HKSCC. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offering Share to any person before Thursday, 9 December 2010 except by means of one of the procedures referred to in this prospectus;

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- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offering published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offering Shares; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things and neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offering Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, the brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application moneys, in each case including the brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offering Shares applied for by HKSCC Nominees will automatically be reduced by the number of Public Offering Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offering Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application made for the purposes of considering whether multiple application have been made.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Public Offering Shares. Such instructions in respect of more than 2,000 Public Offering Shares must be in one of the multiples set out in the table in the Application Forms.

Time for inputting electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants can input electronic application instructions via CCASS at the following times on the following dates:

Friday, 26 November 2010 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 27 November 2010 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, 29 November 2010 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 30 November 2010 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 1 December 2010 – 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to changes as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 26 November 2010 until 12:00 noon on 1 December 2010 (24 hours daily, except on the last application day).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) will be 12:00 noon on Wednesday, 1 December 2010, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 1 December 2010, the last application day will be postponed to the next business day that is not a Saturday, Sunday or public holiday in Hong Kong which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Allocation of Public Offering Shares

For the purposes of allocating Public Offering Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Deposit of share certificates into CCASS and refund of application moneys

No temporary documents of title will be issued. No receipt will be issued for application moneys received.

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Wednesday, 8 December 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offering in the newspapers on Wednesday, 8 December 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 8 December 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offering Shares allotted to you and the amount of refund moneys (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Public Offering Shares allotted to you and the amount of refund moneys (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 8 December 2010. Immediately after the credit of the Public Offering Shares to your CCASS Investor Participant stock account and the credit of any refund moneys (if any) to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offering Shares credited to your CCASS Investor Participant stock account and the amount of refund moneys (if any) credited to your designated bank account.

We expect that refunds of your application moneys (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 8 December 2010. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic**

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application instructions is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Sole Global Coordinator, our Company, our registrar, our branch share registrar, receiving bankers, advisers, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Public Offering Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sole Global Coordinator, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offering Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form (as appropriate); or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 1 December 2010 or such later time as described under “– Applying by Giving Electronic Application Instructions to HKSCC – Effect of bad weather on the last application Day” in this prospectus.

TERMS AND CONDITIONS OF THE PUBLIC OFFERING

If you apply for the Public Offering Shares in the Public Offering, you will be agreeing with the Company and the Sole Bookrunner (on behalf of the Public Offering Underwriters) on the terms as set out below.

If you electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offering Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

If you give **electronic application instructions** to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk, you will have authorised the **HK eIPO White Form** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.

In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf

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HKSCC Nominees or the **HK eIPO White Form** Service Provider is applying for the Public Offering Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC or by giving an application to the **HK eIPO White Form** Service Provider through the designated website for the **HK eIPO White Form** service.

Applicants should read this prospectus carefully, including other terms and conditions of the Public Offering in “Structure and conditions of the Global Offering – Conditions of the Public Offering” and those set out in “How to Apply for Public Offering Shares” in this prospectus and the terms and conditions set out in the relevant Application Form or imposed by HKSCC and/or the **HK eIPO White Form** Service Provider (as the case may be) prior to making an application for the Public Offering Shares.

OFFER TO PURCHASE PUBLIC OFFERING SHARES

You offer to purchase from the Company at the Offer Price the number of the Public Offering Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offering Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form by ordinary post. Details of the procedure for refunds are set out in “Refund of application moneys” in this section of this prospectus.

Any application may be rejected in whole or in part.

Applicants under the Public Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

ACCEPTANCE OF YOUR OFFER

The Public Offering Shares will be allocated after the application lists close. The Company expects to announce the Offer Price, the level of indication of interest in the International Offering, the basis of allotment including the level of any over-subscription and the results of successful applicants under the Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on or before Wednesday, 8 December 2010.

The results of allocations of the Public Offering Shares under the Public Offering, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration

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numbers (where applicable) of successful applicants (where supplied) and the number of Public Offering Shares successfully applied for, will be made available on Wednesday, 8 December 2010 as set out in “Results of allocations” in this section of this prospectus.

The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offering Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure and conditions of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of their application. This does not affect any other right you may have.

HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Public Offering Shares if:

You are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) or (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving

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electronic application instructions to HKSCC, and that you are duly authorised to sign the Application Form as that other person's agent.

Multiple or suspected multiple applications are liable to be **rejected**. Except where you are a nominee and provide the information required to be provided in your application, all of your applications are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (save in the case of applications made by nominees) or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service; or
- both apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service (www.hkeipo.hk); or
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service to apply for more than 50% of the Public Offering Shares initially being offered for subscription under the Public Offering as more particularly described in "Structure and Conditions of the Global Offering – The Public Offering" in this prospectus; or
- apply for or take up any Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offering Shares.

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **HK eIPO White Form** Service Provider to make an application for Public Offering Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving **electronic application instructions** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving **electronic application instructions** to the **HK eIPO White Form** Service Provider through the designated website and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

All of your applications for the Public Offering Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the

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application made by HKSCC Nominees acting on **electronic application instructions** or to the HK eIPO White Form Service Provider through the **HK eIPO White Form** service (www.hkeipo.hk). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be deemed to be made for your benefit. Unlisted company means a company with no equity securities listed on the Stock Exchange. Statutory control in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFERING SHARES

You may not be allocated Public Offering Shares for any of the following reasons:

1. If you revoke your application:

By completing and submitting an Application Form or **electronic application instructions** to the **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service or to HKSCC via CCASS, you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked on or before Thursday, 9 December 2010 unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to the **HK eIPO White Form** Service Provider or to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications.

If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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2. If the allocation of Public Offering Shares is void:

The allocation of Public Offering Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply using a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within **three** weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange **notifies** the Company of that longer period within three weeks of the closing of the application lists.

3. If you make applications under the Public Offering as well as the International Offering:

By filling in any of the Application Forms or giving application instructions to HKSCC electronically or to the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service, you agree not to apply for International Offering Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Public Offering from investors who have received International Offering Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Public Offering Shares in the Public Offering.

4. At the discretion of the Company, the Sole Global Coordinator or the HK eIPO White Form Service Provider (where applicable) or their agents or nominees, your application is rejected:

The Company, Sole Global Coordinator and the **HK eIPO White Form** Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application.

The Company, Sole Global Coordinator, the Underwriters in their capacity as agent for the Company and the **HK eIPO White Form** Service Provider (where applicable), or their respective agents or nominees, do not have to give any reason for any rejection or acceptance.

5. If your application is rejected:

Your application may be rejected if:

- it is a multiple application or a suspected multiple application; or
- your Application Form is not filled in correctly in accordance with the instructions; or
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.hkeipo.hk; or

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- your payment is not made correctly; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or
- if you apply for more than 12,500,000 Public Offering Shares, being 50% of the Public Offering Shares initially offered for public subscription under the Public Offering; or
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Shares in the International Offering; or
- your application for Shares is not in one of the numbers or multiples set out in the table in the Application Form; or
- the Company believes that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located.

6. If your application is not accepted:

Your application may not be accepted if:

- the Public Offering Underwriting Agreement and/or the International Underwriting Agreement do/does not become unconditional in accordance with its/their respective terms; or
- the Public Offering Underwriting Agreement and/or the International Underwriting Agreement is/are terminated in accordance with its/their respective terms.

HOW MUCH ARE THE PUBLIC OFFERING SHARES

The maximum Offer Price is HK\$3.05 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for every 2,000 Shares you will pay HK\$6,161.49. The Application Forms have tables showing the exact amount payable for certain multiples of Shares up to 12,500,000 Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange (or the Stock Exchange, as the case may be), SFC transaction levy and the Stock Exchange trading fee

HOW TO APPLY FOR PUBLIC OFFERING SHARES

are paid to the Stock Exchange (in the case of the SFC transaction levy collected on behalf of the SFC).

REFUND OF APPLICATION MONEYS

If you do not receive any Public Offering Shares for any reason, our Company will refund your application moneys, including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application moneys (including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application moneys, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of e-Auto Refund payment instructions/ refund cheques will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques or banker's cashier order for applications made on Application Forms for certain small denominations of Public Offering Shares (apart from successful applications) may not be presented for clearance.

Refund of your application moneys (if any) is expected to be made on Wednesday, 8 December 2010 in accordance with the various arrangements as described above.

All refunds will be made by a cheque crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first-named applicant (except where you apply through the HK eIPO White Form service by paying the application money through a single bank account, in such case refund will be made by e-Auto Refund payment instruction which will be dispatched to your application payment bank account). Part of your Hong Kong Identity Card number or passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number or passport number may lead to delay in encashment of or may invalidate your refund cheque.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 9 December 2010.

The Shares will be traded in board lots of 2,000 each. The stock code of the Company is 1283.

HOW TO APPLY FOR PUBLIC OFFERING SHARES

Any share certificates in respect of the Public Offering Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Underwriting Agreements.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

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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.



8th Floor

Prince's Building
10 Chater Road
Central
Hong Kong

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 Note	At 31 December			At 30 June 2010
		2007 RMB'000	2008 RMB'000	2009 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		<u>89,616</u>	<u>142,608</u>	<u>243,987</u>	<u>327,733</u>
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

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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 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
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	<u>6,378</u>	<u>23,847</u>	<u>9,317</u>	<u>22,013</u>
	6,378	24,038	9,317	22,485
Deferred tax				
Origination and reversal of temporary differences	<u>345</u>	<u>(688)</u>	<u>(785)</u>	<u>(2,096)</u>
	<u>6,723</u>	<u>23,350</u>	<u>8,532</u>	<u>20,389</u>

(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:**

	<u>At 31 December</u>		<u>At 30 June</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<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>4,213</u>	<u>3,446</u>
Current	—	1,533	1,533
Non-current	—	<u>2,680</u>	<u>1,913</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	2010 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	
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 31 December			At 30 June 2010
	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	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>517</u>

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	<u>3,163</u>	<u>—</u>	<u>—</u>	<u>—</u>
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

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.



8th Floor

Prince's Building
10 Chater Road
Central
Hong Kong

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 Nanjing Aotecar Refrigerating Co., Ltd. (the "**Company**") including the statement of comprehensive income, the statement of changes in equity and the cash flow statement of the Company for the year ended 31 December 2007 and the balance sheet of the Company as at 31 December 2007, together with the notes thereto (the "**Financial Information**"), for inclusion in the prospectus of China Auto System Technologies Limited dated 26 November 2010 (the "**Prospectus**").

The Company was incorporated in the People's Republic of China (the "**PRC**") on 16 May 2000 as a sino-foreign equity joint venture. The principal activities of the Company are manufacturing and sale of automotive compressors. The Company has adopted 31 December as its financial year end date. The statutory financial statements of the Company for the year ended 31 December 2007 were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the PRC.

The directors of the Company have prepared the financial statements of the Company for the year ended 31 December 2007 in accordance with the accounting policies set out in Section B below (the "**Underlying Financial Statements**"). The Underlying Financial Statements for the year ended 31 December 2007 were audited by us in accordance with Hong Kong Standards on Auditing 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.

OPINION

In our opinion, for the purpose of this report, the Financial Information, in accordance with the accounting policies set out in Section B below, gives a true and fair view of the Company's results and cash flows for the year ended 31 December 2007, and the state of affairs of the Company as at 31 December 2007.

A. FINANCIAL INFORMATION

1. Statement of comprehensive income

	Section B Note	Year ended 31 December 2007 <i>RMB'000</i>
Turnover	3	308,815
Cost of sales	13(b)	(226,655)
Gross profit		82,160
Other revenue and net income	4	2,059
Distribution expenses		(21,377)
Administrative expenses		(14,999)
Other operating expenses		(2,491)
Profit from operations		45,352
Finance costs	5(a)	(4,088)
Profit before taxation		41,264
Income tax	6(a)	479
Profit and total comprehensive income for the year		41,743

2. Balance sheet

	Section B Note	At 31 December 2007 <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	10	105,301
Lease prepayments	11	6,232
Intangible assets	12	4,092
Deferred tax assets	19	2,125
		<u>117,750</u>
Current assets		
Inventories	13(a)	68,532
Trade and other receivables	14	146,077
Income tax refundable		3,247
Pledged deposits	15	20,691
Cash	16	7,116
		<u>245,663</u>
Current liabilities		
Trade and other payables	17	102,399
Interest-bearing borrowings	18	55,855
Provision	20	7,985
		<u>166,239</u>
Net current assets		<u>79,424</u>
Net assets		<u>197,174</u>
Capital and reserves		
Paid-in capital	21(a)	119,895
Reserves	21(b)	77,279
Total equity		<u>197,174</u>

3. Statement of changes in equity

(Expressed in RMB'000)

	Attributable to equity holders of the Company				
	Paid-in capital (Note 21(a))	General reserve (Note 21(b))	Enterprise expansion fund (Note 21(b))	Retained earnings	Total equity
At 1 January 2007	119,895	1,861	930	32,745	155,431
Changes in equity for 2007					
Total comprehensive income for the year ...	—	—	—	41,743	41,743
Appropriation to reserves	—	7,898	2,369	(10,267)	—
At 31 December 2007	<u>119,895</u>	<u>9,759</u>	<u>3,299</u>	<u>64,221</u>	<u>197,174</u>

4. Cash flow statement

	Section B Note	Year ended 31 December 2007 RMB'000
Operating activities		
Profit before taxation		41,264
Adjustments for:		
Impairment losses on trade receivables	14(b)	481
Depreciation of property, plant and equipment	10	10,268
Amortisation of lease prepayments	11	147
Amortisation of intangible assets	12	2,338
Interest income	4	(493)
Loss on sale of property, plant and equipment	4	199
Finance costs	5(a)	4,088
Foreign exchange gains		(2,959)
Profit before changes in working capital		55,333
Increase in inventories		(25,750)
Increase in trade and other receivables		(27,744)
Increase in pledged deposits		(1,479)
Increase in trade and other payables		36,287
Proceeds from discounted bank acceptance bills		6,865
Increase in provisions		259
Cash generated from operating activities		43,771
Finance costs paid		(4,088)
Income tax paid		(4,540)
Net cash generated from operating activities		35,143
Investing activities		
Proceeds from sale of property, plant and equipment		198
Acquisition of property, plant and equipment		(14,221)
Interest received		493
Net cash used in investing activities		(13,530)
Financing activities		
Proceeds from bank loans		59,500
Repayments of bank loans		(79,500)
Net cash used in financing activities		(20,000)
Net increase in cash		1,613
Cash at 1 January		5,503
Cash at 31 December	16	7,116

B NOTES TO THE 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 (“**IASB**”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Company has adopted all these new and revised IFRSs to the year ended 31 December 2007, 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 not yet effective for the accounting periods prior to 1 January 2010 are set out in note 26.

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**”).

(b) Basis of measurement

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

(c) 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 25.

(d) Foreign currency**(i) Functional and presentation currency**

Items included in the Financial Information are measured at RMB, the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “**functional currency**”), which is also the presentation currency.

(ii) Foreign currency transactions

Foreign currency transactions during the year 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.

(e) 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(h)(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(r)).

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	8 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.

(f) 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 Company has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Company are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)(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:

Patents	7 years

Both the period and method of amortisation are reviewed annually.

(g) 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(h)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(h) 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 Company 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 Company 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:

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for 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 period in which the reversals are recognised.

(i) 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.

(j) 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(h)(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.

(k) 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.

(l) 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.

(m) Cash

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

(n) 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.

(o) 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 rate 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 Company 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 Company 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.

(p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company 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.

(q) 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 Company 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 Company 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 Company will comply with the conditions attaching to them. Grants that compensate the Company 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 Company 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.

(r) 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.

(s) Related parties

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

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

- (iv) the party is a member of key management personnel of the Company or the Company'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 Company or of any entity that is a related party of the Company.

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.

(t) 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 Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company'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 Company's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Company has determined that it only has one operating segment which is the manufacturing and sale of automotive compressors.

3. Turnover

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

Turnover represents the sales value of goods supplied to customers.

4. Other revenue and net income

	Year ended 31 December 2007 <i>RMB'000</i>
Other revenue	
Government grants	475
Interest income	493
	<u>968</u>
Other net income	
Loss on sale of property, plant and equipment	(199)
Net foreign exchange gains	1,290
	<u>1,091</u>
	<u>2,059</u>

5. Profit before taxation

(a) Finance costs

	Year ended 31 December 2007 <i>RMB'000</i>
Interest on bank loans	3,431
Interest on discounted bills	657
	<u>4,088</u>

(b) Staff costs

	Year ended 31 December 2007 <i>RMB'000</i>
Salaries, wages, and other benefits	17,146
Contributions to defined contribution retirement plan	960
	<u>18,106</u>

Pursuant to the relevant labour rules and regulations in the PRC, the Company participates in a defined contribution retirement benefit scheme organised by the PRC government authorities whereby the Company is required to make contributions to the scheme at the rate of 21% of the eligible employees' salary.

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

(c) Other items

	Section B Note	Year ended 31 December 2007 <i>RMB'000</i>
Amortisation		
– lease prepayments	11	147
– intangible assets	12	2,338
Depreciation	10	10,268
Impairment losses on trade receivables	14(b)	481
Auditors' remuneration		318
Research and development costs		1,326
Increase in provisions	20	10,923
Cost of inventories	13(b), (i)	226,655

Note

- (i) Cost of inventories includes RMB 16,793,000 relating to staff costs, depreciation and amortisation, 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 statement of comprehensive income represents:

	Year ended 31 December 2007 <i>RMB'000</i>
Current tax – PRC income tax	
Adjustment for prior year	(275)
Deferred tax	
Origination and reversal of temporary differences	(204)
	<u>(479)</u>

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

	Year ended 31 December 2007 <i>RMB'000</i>
Profit before taxation	<u>41,264</u>
Notional tax on profit before taxation, calculated at the rate applicable to the Company (i)	4,952
Tax credit for domestic equipment purchases (ii)	(5,288)
Adjustments for prior year's income tax	(275)
Tax effect of non-deductible expenses	217
Effect of changes in tax rate (iii)	<u>(85)</u>
Actual tax	<u>(479)</u>

Note

- (i) The Company, being a foreign invested enterprise engaged in manufacturing activities in a coastal economic development zone, is granted a preferential income tax rate of 24% and is 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**”). The Company started its tax holiday in 2004 and accordingly, it is subject to income tax at 12% for 2007.
- (ii) Pursuant to the tax regulations of the PRC, the Company is entitled to a tax credit of 40% of the capital expenditure on purchase of domestic equipment.
- (iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC which changed the statutory income tax rate to 25% with effect from 1 January 2008.

7. Directors' remuneration

No remuneration has been paid or is payable in respect of the year ended 31 December 2007 by the Company to the Company's directors.

8. Individuals with highest emoluments

The aggregate of the emoluments in respect of the five individuals with the highest emoluments are as follows:

	Year ended 31 December 2007
	<i>RMB'000</i>
Salaries and other emoluments	774
Discretionary bonus	575
Retirement scheme contribution	140

The emoluments of the above five individuals are within the following band:

	Year ended 31 December 2007
	<i>Number of individuals</i>
Nil to HKD 1,000,000	5

9. Earnings per share

Information of earnings per share is not presented as such information is not meaningful given the purpose of this report.

10. Property, plant and equipment

	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:						
<i>At 1 January 2007</i>	9,326	112,804	1,370	1,941	4,128	129,569
Additions	168	8,643	372	966	4,798	14,947
Transfer from CIP	3,305	—	—	—	(3,305)	—
Disposals	—	—	—	(560)	—	(560)
<i>At 31 December 2007</i>	12,799	121,447	1,742	2,347	5,621	143,956
Accumulated depreciation:						
<i>At 1 January 2007</i>	(1,243)	(25,855)	(754)	(698)	—	(28,550)
Charge for the year	(503)	(9,377)	(146)	(242)	—	(10,268)
Written back on disposal	—	—	—	163	—	163
<i>At 31 December 2007</i>	(1,746)	(35,232)	(900)	(777)	—	(38,655)
Carrying amounts:						
<i>At 31 December 2007</i>	11,053	86,215	842	1,570	5,621	105,301
<i>At 1 January 2007</i>	8,083	86,949	616	1,243	4,128	101,019

Carrying amount of buildings pledged as collateral for the Company's bank loans as at 31 December 2007 was RMB 6,455,000 (see note 18).

11. Lease prepayments

	RMB'000
Cost:	
At 1 January and 31 December 2007	6,907
Accumulated amortisation:	
At 1 January 2007	(528)
Charge for the year	(147)
At 31 December 2007	(675)
Carrying amounts:	
At 31 December 2007	6,232
At 1 January 2007	6,379

Lease prepayments represented cost of land use rights in respect of land located in the PRC, on which the Company's plant and buildings were built. The Company was granted land use rights for a period of 50 years. None of the leases included contingent rentals.

Carrying amount of lease prepayments pledged as collateral for the Company's bank loans as at 31 December 2007 was RMB 6,232,000 (see note 18).

12. Intangible assets

	<u>Patents</u> <u>RMB'000</u>
<i>Cost:</i>	
At 1 January 2007 and 31 December 2007	16,563
<i>Accumulated amortisation:</i>	
At 1 January 2007	(10,133)
Charge for the year	(2,338)
At 31 December 2007	(12,471)
<i>Carrying amounts:</i>	
At 31 December 2007	<u>4,092</u>
At 1 January 2007	<u>6,430</u>

The amortisation charge for the year ended 31 December 2007 is included in "Other operating expenses" in the statement of comprehensive income.

13. Inventories**(a) Inventories in the balance sheet comprise:**

	<u>At 31 December 2007</u> <u>RMB'000</u>
Raw materials	27,637
Work in progress	7,059
Finished goods	<u>33,836</u>
	<u>68,532</u>

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

	<u>Year ended</u> <u>31 December 2007</u> <u>RMB'000</u>
Carrying amount of inventories sold	224,213
Write-off of inventories	<u>2,442</u>
	<u>226,655</u>

14. Trade and other receivables

	Section B Note	<u>At 31 December 2007</u> <i>RMB'000</i>
Trade receivables		116,912
Less: Allowance for doubtful debts	14(b)	<u>(2,187)</u>
		114,725
Bills receivable		27,828
Other receivables		<u>3,524</u>
		<u>146,077</u>

(a) Ageing analysis

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2007.

	<u>At 31 December 2007</u> <i>RMB'000</i>
Less than 3 months	125,833
3 to 6 months	13,068
6 to 12 months	2,462
More than 12 months	<u>1,190</u>
Total	<u>142,553</u>

Trade receivables and bills receivable are due within 90 days to 120 days from the date of billing. Further details on the Company's credit policy are set out in note 22(a).

(b) Impairment of trade receivables and bills receivable

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

The movement in the allowance for doubtful debts during the year ended 31 December 2007, including both specific and collective loss components, is as follows:

	<u>Year ended</u> <u>31 December 2007</u> <i>RMB'000</i>
At 1 January	(1,798)
Impairment loss recognised	(481)
Uncollectible amounts written off	<u>92</u>
At 31 December	<u>(2,187)</u>

At 31 December 2007, the Company's trade receivables of RMB 2,688,000 were individually determined to be impaired. The individually impaired receivables related to 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 were recognised. The Company does not hold any collateral over these balances.

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

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

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Neither past due nor impaired	125,833
Less than 1 month past due	7,214
1 to 3 months past due	5,854
3 to 12 months past due	2,877
Over 12 months past due	274
	<u>16,219</u>
Total	<u>142,052</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 Company. 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 Company does not hold any collateral over these balances.

15. Pledged deposits

Pledged deposits can be analysed as follows:

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Guarantee deposits for issuance of commercial bills and letters of credit	<u>20,691</u>

16. Cash

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Cash at bank and on hand	<u>7,116</u>

17. Trade and other payables

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Trade payables	67,585
Bills payable	15,750
Other payables	6,821
Dividends payable	7,629
Other tax payable	4,614
	<u>102,399</u>

An ageing analysis of trade payables and bills payable of the Company based on invoice date is as follows:

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Within 1 month	34,773
Over 1 month but less than 3 months	24,536
Over 3 months but less than 6 months	20,121
Over 6 months but less than 1 year	1,667
Over 1 year	2,238
	<u>83,335</u>

18. Interest-bearing borrowings

	<u>At 31 December 2007</u>
	<i>RMB'000</i>
Bank loans	
– Secured	(i) 30,000
– Unsecured	18,991
Bank advances under discounted bills	(ii) 6,864
	<u>55,855</u>

All bank loans during the year ended 31 December 2007 were interest-bearing, with interest rates ranging from 6.57% to 9.65%.

- (i) At 31 December 2007, the bank loans of the Company were secured by mortgages over buildings and land use rights with aggregate carrying amounts of RMB 6,455,000 and RMB 6,232,000 respectively (see notes 10 and 11).
- (ii) The Company's discounted bank acceptance bills have been accounted for as collateralised bank advances, and the corresponding discounted bills are included in "bills receivable" (see note 14).

19. Deferred tax assets

The components of deferred tax assets recognised in the balance sheet and movement during the year ended 31 December 2007 are as follows:

	Allowance for bad debt	Other payables	Intangible assets	Provision	Pre-operating expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax arising from:						
At 1 January 2007 ...	174	361	355	927	104	1,921
Charged/(credited) to profit or loss	<u>99</u>	<u>38</u>	<u>100</u>	<u>71</u>	<u>(104)</u>	<u>204</u>
At 31 December 2007	<u>273</u>	<u>399</u>	<u>455</u>	<u>998</u>	<u>—</u>	<u>2,125</u>

20. Provision

Provision for product warranties

	<i>RMB'000</i>
At 1 January 2007	7,726
Additional provisions made	10,923
Provisions utilised	<u>(10,664)</u>
At 31 December 2007	<u>7,985</u>

Under the terms of the Company's sales agreements, the Company will rectify any product defects arising within two years of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the two years prior to 31 December 2007. The amount of provision takes into account the Company's recent claim experience and is only made where a warranty claim is probable.

21. Capital and reserves**(a) Paid-in capital**

	At 31 December 2007
	<i>USD'000</i>
Registered capital	<u>14,460</u>
	At 31 December 2007
	<i>RMB equivalent'000</i>
Paid-in capital	<u>119,895</u>

(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 Company and were approved by the board of directors.

(i) General reserve fund

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

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

(ii) Enterprise expansion fund

Subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of appropriation is determined by the board of directors.

Enterprise expansion fund can be used for the Company's business development and working capital purposes. This fund can also be used to increase paid-in capital of the Company, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to equity holders.

(c) Capital management

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

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holder 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 Company monitors its capital structure on the basis of the net debt-to-capital ratio. Net debt is calculated as interest-bearing borrowings less pledged deposits and cash. Capital comprises all components of equity.

During the year ended 31 December 2007, the Company's strategy was to maintain the net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Company may adjust the amount of dividends paid to equity holders, issue new shares or raise new debt financing.

The net debt-to-capital ratio at 31 December 2007 was as follows:

	Section B Note	At 31 December 2007 <i>RMB'000</i>
Interest-bearing borrowings	18	55,855
Total debt		55,855
Less: Cash	16	(7,116)
Pledged deposits	15	(20,691)
Net debt		<u>28,048</u>
Capital		<u>197,174</u>
Net debt-to-capital ratio		<u>14%</u>

The Company is not subject to any externally imposed capital requirements.

22. Financial instruments

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

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

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

(a) Credit risk

The Company's credit risk is primarily attributable to trade 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 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 Company'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 risk. At 31 December 2007, 17% and 55% of the total trade receivables was due from the Company's largest customer and five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Company 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 Company's reputation.

The Company'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 31 December 2007 of the Company'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 reporting date) and the earliest date the Company can be required to pay:

At 31 December 2007

	Effective interest rates	Carrying amount	Contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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		102,399	102,399	102,399	—	—
		158,254	159,675	159,675	—	—

(c) Interest rate risk

The Company's interest rate risk arises primarily from cash, pledged deposits and interest-bearing borrowings, issued at variable rates and at fixed rates, exposing the Company to cash flow interest rate risk and fair value interest rate risk respectively.

The interest rate profile of the Company's interest-bearing financial instruments at the reporting date is as follows:

	At 31 December 2007	
	<i>Effective interest rates % (annual)</i>	<i>RMB'000</i>
Fixed rate borrowings:		
Bank loans	6.57	30,000
Bank advances under discounted bills	6.93 – 9.65	6,864
		<u>36,864</u>
Net variable rate borrowings:		
Bank loans	6.57	18,991
Less: Cash	0.72	(7,116)
Pledged deposits	3.78	(20,691)
		<u>(8,816)</u>
Total net borrowings		<u>28,048</u>

Sensitivity analysis:

The Company 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.

A general increase/decrease of 100 basis points in interest rates of variable rate borrowings prevailing at 31 December 2007, with all other variables held constant, would have decreased/increased the Company's profit after tax and retained earnings by approximately RMB 167,000.

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at 31 December 2007 and had been applied to the exposure to interest rate risk for non-derivative financial instruments held by the Company at the reporting date. The impact on the Company's profit after tax and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(d) 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 Company's exposure at 31 December 2007 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in Renminbi, translated using the spot rate at 31 December 2007.

<u>At 31 December 2007</u>	Exposure to foreign currencies <i>(Expressed in RMB'000)</i>	
	<i>USD</i>	<i>JPY</i>
Bank deposits	2,104	975
Pledged deposits	2	—
Interest-bearing borrowings	(18,992)	—
Net exposure	<u>(16,886)</u>	<u>975</u>

(ii) Sensitivity analysis

The following table indicates the change in the Company's profit after tax and retained earnings that would arise if foreign exchange rates to which the Company has significant exposure at 31 December 2007 had changed at that date, assuming all other risk variables remained constant.

	Gain/(Loss) At 31 December 2007 <i>RMB'000</i>
USD	
– 5% depreciation of RMB	(743)
– 5% appreciation of RMB	743
JPY	
– 5% depreciation of RMB	43
– 5% appreciation of RMB	(43)

Results of the analysis as presented in the above table represent an aggregation of the effects on the Company's profit after tax and retained earnings measured in the respective foreign currencies, translated into Renminbi at the exchange rate ruling at the reporting 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 due to the short-term maturities of those instruments.

23. Capital commitments

Capital commitment outstanding at 31 December 2007, but not provided for in the Financial Information was as follows:

	<u>At 31 December 2007</u> <i>RMB'000</i>
Contracted for	<u>572</u>

24. Material related party transactions

Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to certain of the highest paid employees as disclosed in note 8 is as follows:

	<u>Year ended</u> <u>31 December 2007</u> <i>RMB'000</i>
Short-term employee benefits	<u>1,490</u>

25. 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 statements are described as follows:

(a) Depreciation

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

(b) Warranty provisions

As mentioned in note 19, the Company makes provisions under the warranties it gives on sale of its products after taking into account the Company's recent claim experience. As the Company 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. The 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.

26. New standards 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 Company 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 Company's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendices IA and IB to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and the accountants' reports set forth in Appendices IA and IB to this prospectus.

REPORT ON PRO FORMA FINANCIAL INFORMATION

For illustrative purpose, the financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, is set out here to provide prospective investors with further information about how the financial information of China Auto System Technologies Ltd 中國汽車系統技術有限公司 and its subsidiaries (the "**Group**") might be affected by completion of the Global Offering as if the Global Offering had been completed on 30 June 2010. The statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the Group's financial condition on the completion of the Global Offering.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

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

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

Notes:

- (1) The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2010 is extracted from the Accountants' Report set out in Appendix IA to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$2.35 and HK\$3.05 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- (3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 1,000,000,000 Shares in issue immediately after the Global Offering without taking into account any Share which may be issued upon the exercise of the Over-allotment Option.

(B) PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

Forecast combined profit after taxation attributable to equity shareholders of the Company for the year ending 31 December 2010 ⁽¹⁾	Not less than RMB139.8 million (equivalent to HK\$159.4 million)
Unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010 ⁽²⁾	Not less than RMB0.14 (equivalent to approximately HK\$0.16)

Notes:

- (1) *The bases and assumptions on which the above profit forecast for the year ending 31 December 2010 has been prepared are summarised in "Profit Forecast" in Appendix III to this prospectus. Our forecast combined profit after taxation attributable to equity shareholders of the Company for the year ending 31 December 2010 prepared by our Directors is based on the audited combined financial statements of our Group for the six months ended 30 June 2010, the unaudited combined management accounts of our Group for the three months ended 30 September 2010 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in "Accountants' Report of the Group" as set out in Appendix 1A to this prospectus.*
- (2) *The calculation of the unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2010 is based on the forecast combined results of our Group for the year ending 31 December 2010, assuming the Global Offering has been completed on 1 January 2010 and a total of 1,000,000,000 Shares were in issue during the entire period, taking no account of any additional income our Group may have earned from the estimated net proceeds from the Global Offering, or any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.*

(C) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

26 November 2010

The Directors
China Auto System Technologies Limited

Dear Sirs,

China Auto System Technologies Limited (the “**Company**”)

We report on the unaudited pro forma financial information (the “**Pro Forma Financial Information**”) of the Company and its subsidiaries (the “**Group**”) set out on pages II-2 and II-3 of the prospectus dated 26 November 2010 (the “**Prospectus**”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages II-2 and II-3 of the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“**HKSIR**”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the

adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2010 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2010 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of proceeds" set out in "Future Plans and Use of Proceeds" of the Prospectus.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company, and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The forecast of the combined profit attributable to equity shareholders of the Company for the year ending 31 December 2010 is set out in “Profit forecast” in “Financial Information” in this prospectus.

(1) BASIS AND ASSUMPTIONS

The forecast of the combined profit attributable to equity shareholders of the Company for the financial year ending 31 December 2010 prepared by our Directors is based on the audited combined financial statements of our Group for the six months ended 30 June 2010, the unaudited combined management accounts of our Group for the three months ended 30 September 2010 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the accountants’ report, the text of which is set out in Appendix IA to this prospectus and is based on the following principal assumptions:

- (a) There will be no material changes in existing government policies or political and legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Group operates, where the Group’s customers carry out business, to which the Group exports its products or from which it imports its raw materials;
- (b) There will be no significant fluctuations in currency exchange rates, interest rates and inflation rates and tariffs and duties in the respective countries in which the Group operates;
- (c) There will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which they operate;
- (d) The Group is not materially and adversely affected by any of the risk factors set out in “Risk Factors” of this Prospectus; and
- (e) The Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

(2) LETTERS

Set out below are texts of letters received by our Directors from (i) KPMG, the reporting accountants of our Company, and (ii) the Joint Sponsors, prepared for the purpose of inclusion in this prospectus in connection with the profit forecast of the Group for the year ending 31 December 2010.

(i) *Letter from KPMG*

Set out below is the text of a letter from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending 31 December 2010.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
China Auto System Technologies Limited
DBS Asia Capital Limited
CIMB Securities (HK) Limited

26 November 2010

Dear Sirs,

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the combined profit attributable to equity shareholders of China Auto System Technologies Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ending 31 December 2010 (the "**Profit Forecast**"), for which the directors of the Company are solely responsible, as set forth in "Financial Information" in the prospectus of the Company dated 26 November 2010 (the "**Prospectus**").

The Profit Forecast has been prepared by the directors of the Company based on the audited combined financial statements of the Group for the six months ended 30 June 2010, the unaudited combined management accounts of the Group for the three months ended 30 September 2010 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 26 November 2010, the text of which is set out in Appendix IA to the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus by DBS Asia Capital Limited and CIMB Securities (HK) Limited in connection with the profit forecast of the Group for the year ending 31 December 2010.



26 November 2010

The Directors
China Auto System Technologies Ltd

Dear Sirs

We refer to the forecast of the combined profit attributable to equity shareholders of China Auto System Technologies Ltd (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ending 31 December 2010 (the “**Profit Forecast**”) as set out in “Financial Information — Profit Forecast for the year ending 31 December 2010” of the prospectus of the Company dated 26 November 2010 (the “**Prospectus**”).

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited combined financial statements of the Group for the six months ended 30 June 2010, the unaudited combined management accounts of the Group for the three months ended 30 September 2010, and a forecast of the combined results of the Group for the remaining three months ending 31 December 2010.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 26 November 2010 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you are solely responsible, has been made after due and careful enquiry.

DBS Asia Capital Limited
Andrew Yeung
Senior Vice President

CIMB Securities (HK) Limited
Heidi Cheng
Director

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuations as of 31 August 2010 of the properties of the Group.



The Directors
China Auto System Technologies Limited
No. 103 Daming Road
Qinhuai District
Nanjing
Jiangsu Province 210022
PRC

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong
T: (852) 2801 6100
F: (852) 2530 0756
EA LICENCE: C-023750
savills.com

26 November 2010

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the "**PRC**") and Hong Kong in which China Auto System Technologies Limited (the "**Company**") and its subsidiaries (hereinafter referred to as the "**Group**") have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 August 2010 ("date of valuation") for incorporation in a Public Offering Document.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation of the properties in the PRC, we have assumed that, unless otherwise stated, transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owners of the properties have proper legal titles and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In valuing the property in Group I, which is mainly held by the Group for owner-occupation in the PRC, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement costs. We would define “depreciated replacement cost” to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on market sales. For a portion of Property No. 1 which is subject to a tenancy, we have considered the rental income derived from such portion. The depreciated replacement cost is subject to adequate potential profitability of the business.

In valuing the property in Group II, which is held by the Group under development in the PRC, we have valued it on the basis that it will be developed and completed in accordance with the Group’s latest development proposal provided to us and by depreciated replacement cost approach with regard to its prevailing cost level and status of construction as at the date of valuation. We have also assumed that all consents, approvals and licences from the relevant government authorities for the development have been granted without any onerous conditions or undue delay.

In valuing the properties in Groups III and IV, which are leased by the Group in the PRC and Hong Kong respectively, we have assigned no commercial value to the properties, due either to the short-term nature of the leases or the prohibition against assignments or sub-lettings or otherwise due to the lack of substantial profit rents.

We have been provided with extracts of documents in relation to the titles to the properties. However, we have not searched the original documents to ascertain the existence of any amendments which may not appear on the extracts handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its PRC legal adviser, Chen & Co. Law Firm, on PRC laws, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal, construction costs, site and floor areas and all relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing our valuation report, we have complied with the requirements set out in Chapter 5 and Practice Notes 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi (“**RMB**”).

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Managing Director

Note: Charles C K Chan is a qualified valuer and has about 26 years' experience in the valuation of properties in Hong Kong and has about 21 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
Group I—Property mainly held by the Group for owner occupation in the PRC				
1.	An industrial complex located at No. 103 Daming Road, Qinhuai District, Nanjing, Jiangsu Province, PRC	32,490,000	100%	32,490,000
	<i>Sub-total:</i>	<u>32,490,000</u>		<u>32,490,000</u>
Group II—Property held by the Group under development in the PRC				
2.	An industrial complex located at Moling Street Industrial Zone, Jiangning District, Nanjing, Jiangsu Province, PRC	81,780,000	100%	81,780,000
	<i>Sub-total:</i>	<u>81,780,000</u>		<u>81,780,000</u>
Group III—Properties leased by the Group in the PRC				
3.	An industrial complex located at No. 11 Ningyang Street, Danyang Community, Hengxi Street, Jiangning District, Nanjing, Jiangsu Province, PRC			No commercial value
4.	18 units of Dormitory No. A02, Living Ancillary Zone, Export Processing Zone, Jiangning District, Nanjing, Jiangsu Province, PRC			No commercial value
5.	Unit 401 of No. 36, Block 11, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
6.	Unit 202 of No. 122, Block 34, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
7.	Unit 601 of No. 42, Block 10, Kangye Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
8.	Unit 602 of No. 32, Mingdou Yayuan (明都雅苑), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
9.	Unit 602 of No. 55, Block 10, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
10.	Room 1102 of Unit 3, Block 28, Liangcheng Meijing (良晨美景), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
11.	Unit 301 of No. 10, Block 2, Xiaguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
12.	Unit 202 of No. 82, Block 23, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
13.	Unit 702 of No. 54, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
14.	Room 501 of Unit 12, No. 119, Block 33, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
15.	Unit 302 of No. 53, Block 10, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
16.	Unit 502 of No. 67, Block 13, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
17.	Unit 1101 of No. 104, Block 28, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
18.	Room 802 of Unit 4, Block 1, Lijing Huating (麗景華庭), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
19.	Unit 402 of No. 4, Block 2, Yiju Yuan (怡居園), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
20.	Unit 103, Block 9, Lijing Huating (麗景華庭), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
21.	Unit 501 of No. 10, Block 2, Kangju Lane (康居里), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
22.	Unit 202 of No. 19, Block 5, Yishui Jiayuan (怡水嘉園), Daxiaochang Road, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
23.	Unit 701 of No. 69, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
24.	Room 501 of Unit 2, Block 22, Liangcheng Meijing (良晨美景), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
25.	Unit 406 of No. 155, Block 22, East of Zhongpai Lou (中牌樓), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
26.	Unit 401 of No. 71, Block 13, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
27.	Unit 302 of No. 44, Block 9, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
28.	Unit 202 of No. 64, Block 12, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
29.	Unit 202 of No. 17, Block 03, Tianhua Yuan (天華園), Fuhua Road, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
30.	Unit 101 of No. 61, Block 11, Xianguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
31.	Unit 602 of No. 27, Block 08, Jiulong Yayuan (九龍雅園), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
32.	Unit 202 of No. 27, Block 7, Kangye Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
33.	Unit 302, Block 9, Yuren Yaju (育仁雅居), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
34.	Unit 501 of No. 1, Block 11, Shuguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
35.	Unit 101 of No. 17, Tianhuai Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV**PROPERTY VALUATION**

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
36.	Room 601 of Unit 9, Block 2, Kangmei Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
37.	Unit 602 of No. 51, Block 15, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
38.	Unit 1201 of No. 104, Block 28, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
39.	Unit 602 of No. 8, Tianhua Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
40.	Unit 201 of No. 18, Tianhua Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
41.	Unit 501 of No. 19, Mingdou Yayuan (明都雅苑), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 August 2010 (RMB)	Interest attributable to the Group	Capital value in existing state as at 31 August 2010 (RMB)
42.	Unit 302 of No. 118, Block 24, Kangju Lane (康居里), Qinhuai District, Nanjing, Jiangsu Province, PRC			No commercial value
<i>Sub-total:</i>				<i>Nil</i>
Group IV—Property leased by the Group in Hong Kong				
43.	Room 1613, 16/F., Leighton Centre, No. 77 Leighton Road, Causeway Bay, Hong Kong			No commercial value
<i>Sub-total:</i>				<i>Nil</i>
Total:		<u><u>114,270,000</u></u>		<u><u>114,270,000</u></u>

VALUATION CERTIFICATE

Group I—Properties mainly held by the Group for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010
1.	An industrial complex located at No. 103 Daming Road, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises various buildings and structures completed in between 1994 and 2009 and erected over a parcel of land with a site area of 27,707.50 sq.m. (298,244 sq.ft.). The buildings comprises various workshops, offices, warehouses and ancillary facilities with a total gross floor area of 21,279.10 sq.m. (229,048 sq.ft.). The land use rights of the property have been granted to the Group for a term expiring on 2 April 2050 for industrial use.	As at the date of valuation, a building with a gross floor area of 2,996.00 sq.m. (32,249 sq.ft.) together with an open ground with a site area of 2,850.00 sq.m. (30,677 sq.ft.) were subject to a tenancy due to expire on 31 October 2017 at an annual rental of RMB800,000 as at the date of valuation. The remaining portion of the property was occupied by the Group for industrial, office, storage and other ancillary uses.	RMB32,490,000 (100% interest attributable to the Group: RMB32,490,000) (Please refer to 5 for details)

Notes:

- (1) Pursuant to the Land Use Rights Certificate (Ning Qin Guo Yong (2004) Di No. 04245) issued by the People's Government of Nanjing (南京市人民政府) on 24 May 2004, the land use rights of the property with a site area of 27,707.50 sq.m. have been granted to Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing"), a wholly-owned subsidiary of the Company, for a term expiring on 2 April 2050 for industrial use.
- (2) Pursuant to the following Building Ownership Certificates issued by Nanjing Housing Administration Bureau (南京市房屋管理局), the building ownership rights of portions of the property with a total gross floor area of 6,258.25 sq.m. is vested in Aotecar Nanjing. Details of the said certificates are summarized as below:

Certificate No.	Issuance Date	Gross Floor Area (sq.m.)	Usage
Ning Fang Quan Zheng Qin Chu Zi Di No. 230039	22 November 2004	319.07	Non-residential
Ning Fang Quan Zheng Qin Chu Zi Di No. 230040	22 November 2004	2,626.67	Non-residential
Ning Fang Quan Zheng Qin Chu Zi Di No. 230041	22 November 2004	3,312.51	Non-residential

As advised by the Group, the aforesaid Building Ownership Certificates only comprise portions of the buildings of the property and the Building Ownership Certificates for the remaining buildings with a total gross floor area of approximately 15,020.85 sq.m. have not been obtained.

- (3) Pursuant to the Tenancy Agreement and its supplementary agreement entered into between Aotecar Nanjing and Jiangsu Ningfeng Junhao Automobile Sales Services Co., Ltd. (江蘇寧楓君豪汽車銷售服務有限公司) (the “Lessee”) on 10 April 2007 and 9 November 2009 respectively, a building with a gross floor area of 2,996.00 sq.m. together with an open ground with a site area of 2,850.00 sq.m. have been leased to the Lessee for a term due to expire on 31 October 2017 at an annual rental of RMB800,000 as at the date of valuation.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group’s legal adviser, which contains, inter-alia, the following information:
- (i) Aotecar Nanjing is the legal owner of the land use rights as mentioned in Note 1 and is entitled to occupy, use, earn from, transfer, lease out, mortgage or dispose of such land parcel by other means within the term and according to the usage as stated in the Land Use Rights Certificate;
 - (ii) Aotecar Nanjing is the legal owner of the building ownership rights as mentioned in Note 2 and is entitled to occupy, use, earn from, transfer, lease out, mortgage or dispose of such buildings by other means according to the usage as stated in the Building Ownership Certificates;
 - (iii) in respect of the buildings without Building Ownership Certificate that have not yet been subject to any formal administrative fine or the demolition order has not been fulfilled, there are legal risks that the responsible planning authorities may order demolition of such buildings within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs;
 - (iv) in respect of the building without Building Ownership Certificate that has been imposed an administrative fine of RMB36,000, Aotecar Nanjing has fully paid off the fine and they should not be fined again due to the unlawful construction. However, an unconditional demolition of such building may be required if the demolition becomes necessary for town planning purpose;
 - (v) Aotecar Nanjing has not obtained the relevant Building Ownership Certificate for a portion of the property that has been leased out. Such portion should not be leased out and the tenancy agreement and its supplementary agreement may be held as invalid. Aotecar Nanjing may be liable to an administrative penalty from RMB500 to RMB2,000 and may be required to rectify the non-compliance by the responsible leasing administration authorities. However, since the Lessee has actual knowledge of the non-compliance, it is unlikely that Aotecar Nanjing will be held liable for the compensation as stipulated in the tenancy agreement. Also, the amount of administrative penalty is relatively small. As such, such non-compliance would not have material financial and operational impact on Aotecar Nanjing;
 - (vi) the People’s Government of Qinhuai (秦淮區人民政府) had issued a letter confirming that Aotecar Nanjing would not suffer any economic loss due to the above unlawful construction. However, the People’s Government of Qinhuai has no power to govern and approve the use as well as the application for certificates of such buildings. They also do not have the authority to decide whether or not impose the administrative penalty on Aotecar Nanjing. Therefore, it is unable to ensure that no fine or enforcement action will be imposed on such buildings even upon receipt of the letter issued by the People’s Government of Qinhuai;
 - (vii) the People’s Government of Qinhuai still has the authority to issue the above-mentioned letter. The risk of any future fine/penalty being imposed on Aotecar Nanjing is low and the financial and operational impact on Aotecar Nanjing due to such non-compliance is minimal; and
 - (viii) Aotecar Nanjing has checked with several government authorities and they have confirmed that they are not aware of any relocation plan for Aotecar Nanjing. However, according to several regulations, such government authorities are not the relevant departments to approve the dismantling plan. But as a local government or a relevant government department, such government authorities should be able to confirm such information.
- (5) In the course of our valuation, we have assigned no commercial value to the buildings with a total gross floor area of 15,020.85 sq.m. of the property as the Group has not obtained any valid Building Ownership Certificates or other construction approval documents granted by the relevant government departments for such portions of the property. For reference purpose, the total depreciated replacement cost of such buildings is RMB17,000,000. (100% interest attributable to the Group: RMB17,000,000).

Group II – Properties held by the Group under development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010
2.	An industrial complex located at Moling Street Industrial Zone, Jiangning District, Nanjing, Jiangsu Province, PRC	The property comprises a parcel of land with a site area of 82,843.80 sq.m. (891,731 sq.ft.) on which various buildings and structures are being constructed. The proposed buildings comprise various workshops and ancillary facilities. Upon completion, the total gross floor area of the proposed buildings will be 28,675.55 sq.m. (308,664 sq.ft.). The construction of the proposed development was commenced in July 2008 and is scheduled to be completed by January 2011. The land use rights of the property have been granted to the Group for two concurrent terms expiring on 27 February 2060 and 27 May 2060 respectively for industrial use.	The property was under construction as at the date of valuation. (Please refer to 9 for details)	RMB81,780,000 (100% interest attributable to the Group: RMB81,780,000)

Notes:

- ⁽¹⁾ Pursuant to the following Land Use Rights Grant Contracts entered into between Nanjing State Land Resources Bureau, Jiangning Office (南京市國土資源局江寧分局) and Nanjing Aotecar Xiangyun Refrigerating Co., Ltd. ("Aotecar Xiangyun"), a wholly-owned subsidiary of the Company, the land use rights of the property with a total site area of 82,843.40 sq.m. have been agreed to be granted to Aotecar Xiangyun. at a total consideration of RMB39,334,002.5. Details of the said contracts are summarized as below:

Contract No.	Issuance Date	Site Area (sq.m.)	Usage	Lease Term (years)	Consideration (RMB)
3201212009CR0035	31 August 2009	34,235.90	Industrial	50	14,690,000
3201212010CR0053	28 May 2010	48,607.50	Industrial	50	24,644,002.5

- (2) Pursuant to the Land Use Rights Certificate (Ning Jiang Guo Yong [2010] Di No. 21687) issued by the People's Government of Nanjing (南京市人民政府) on 30 August 2010, the land use rights of the property with a site area of 82,843.80 sq.m. have been granted to Aotecar Xiangyun for two concurrent terms expiring on 27 February 2060 and 27 May 2060 respectively for industrial use.
- (3) Pursuant to the two Construction Land Planning Permits (Di Zi Di Nos. 320115201011078 and 320115201011219) issued by Nanjing Planning Bureau (南京市規劃局) on 17 March 2010 and 14 May 2010 respectively, Aotecar Xiangyun is permitted to develop two parcels of land with a total site area of 82,835.90 sq.m.
- (4) Pursuant to the three Construction Project Planning Permits (Jian Zi Di Nos. 32011520108 – 1196, 1202 and 1290) issued by Nanjing Planning Bureau, Jiangning Office (南京市江寧區規劃局) between 14 July 2010 and 16 September 2010, the planned construction works of the property with a total gross floor area of 28,675.55 sq.m. have been approved for construction.
- (5) Pursuant to the three Construction Licences (Nos. 3201152010091300003A, 3201152010102800003A and 3201152010110800001A) issued by Nanjing Construction Bureau, Jiangning Office (南京市江寧區建築工程局) between 14 September 2010 and 18 November 2010 respectively, the planned construction works of the property with a total gross floor area of 28,675.55 sq.m. have been approved for commencement.
- (6) As advised by the Group, the estimated construction cost for the completion of the proposed development was approximately RMB36,000,000 in which approximately RMB33,700,000 had been spent as at 31 August 2010.
- (7) In our opinion, the capital value of the proposed development as if completed as at 31 August 2010 was approximately RMB83,380,000.
- (8) We have been provided with a legal opinion on the title to the property issued by the Group's legal adviser, which contains, inter-alia, the following information:
- (i) Aotecar Xiangyun is entitled to occupy, use, earn from, transfer, lease out, mortgage or dispose of the land parcel by other means within the term and according to the permitted usage as stated in the Land Use Rights Certificate; and
 - (ii) Aotecar Xiangyun failed to fully pay off the land premium before the payment deadline. Therefore, a surcharge of RMB246,680 was imposed on Aotecar Xiangyun as a penalty for late payment of the above contractual sum. The Moling Street Office of Jiangning District, Nanjing City (南京市江寧區秣陵街道辦事處) ("Street Office") paid the surcharge on behalf of Aotecar Xiangyun and confirmed that they would not seek any recovery or damages from Aotecar Xiangyun. Hence there is no risk for Aotecar Xiangyun that either Nanjing State Land Resources Bureau, Jiangning Office or the Street Office will seek any recovery or damages from Aotecar Xiangyun in relation to its failure to pay the contractual sum before the payment deadline;
 - (iii) in respect of the Land Use Rights Grant Contract (No. 3201212010CR0053) which has been obtained by the mean of negotiation, it is confirmed that Aotecar Xiangyun has obtained the relevant approval and legal basis;
 - (iv) in respect of the buildings constructed before obtaining the relevant Land Use Rights Certificate, given that the Land Use Rights Certificate had eventually been granted to Aotecar Xiangyun and that the Street Office had clarified and settled the fine of RMB804,000, there is no risk that Aotecar Xiangyun will be penalized for the same non-compliance;
 - (v) the buildings with a total gross floor area of 24,921.06 sq.m. were constructed before Aotecar Xiangyun had obtained the relevant Construction Project Planning Permit and Construction Licence. There are legal risks that the relevant government authorities may order demolition of such buildings within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs;
 - (vi) since Aotecar Xiangyun had already obtained the Land Use Rights Certificate, the Construction Project Planning Permits and the Construction Licences, there should not be any legal impediment for Aotecar Xiangyun to obtain the Building Ownership Certificate subject to the submission of all the necessary documents in compliance with the required procedures in accordance with the PRC laws; and
 - (vii) in light of the fact that approval was obtained from Nanjing Planning Bureau for the plan of construction work in such defective buildings and that the Construction Land Planning Permits, the Construction Project Planning Permits and the Construction Licences in relation to the constructions of such defective buildings and land were obtained, the risk for future fine or penalty is minimal.
- (9) As advised by the Group, the construction works for the buildings with a total gross floor area of 24,921.06 sq.m. have actually been completed. However, since Aotecar Xiangyun has not yet obtained the relevant completion documents issued by the relevant government authorities, we still define such portions as property under constructions.

Group III—Properties leased by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
3.	An industrial complex located at No. 11 Ningyang Street, Danyang Community, Hengxi Street, Jiangning District, Nanjing, Jiangsu Province, PRC	The property comprises various buildings and structures completed in between 1980 and 2010 and erected over two parcels of land with a total site area of 6,832.00 sq.m. (73,540 sq.ft.). The industrial complex comprises various workshops and a composite building with a total gross floor area of 5,819.37 sq.m. (62,640 sq.ft.). As advised by the Group, the buildings with a total gross floor area of 4,441.77 sq.m. (47,811 sq.ft.) and several structures were constructed or purchased by Nanjing Aotecar Changheng Casting Co., Ltd. (“Aotecar Casting”), a 51% owned subsidiary of the Company. The property is leased to Aotecar Casting from Nanjing Changheng Casting Company Limited (“Changheng Casting”), which holds 49% of Aotecar Casting, for two concurrent terms with a latest expiring date on 30 July 2036.	The property was occupied by the Group for industrial, office and other ancillary uses.	No commercial value

Notes:

⁽¹⁾ Pursuant to the tenancy agreement entered into between Changheng Casting and Aotecar Casting on 25 December 2008, the two parcels of land of the property with site areas of approximately 4,840.00 sq.m. and 1,992.00 sq.m. (including a composite building with a gross floor area of 1,377.60 sq.m. erected on these land parcel) have been leased to Aotecar Casting for two concurrent terms from 1 December 2008 to 30 July 2036 and from 1 December 2008 to 30 March 2012 at an annual rentals of RMB24,200 and RMB24,000 respectively.

As advised by the Group, Aotecar Casting has also purchased various buildings with a total gross floor area of 2,385.49 sq.m. from Changheng Casting at a consideration of RMB200,000.

⁽²⁾ We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s legal adviser, which contains, inter-alia, the following information:

- (i) the land parcels of the property are collective construction lands. Before Changheng Casting leased the land parcels to Aotecar Casting, the consent from the collective land owners should have been obtained and the relevant certification procedures of collective construction lands should have been completed. Since the legal requirements have not been fulfilled, the tenancy agreements may become void and therefore the rights of Aotecar Casting in the buildings may not be protected by law;
- (ii) in relation to the buildings purchased from Changheng Casting, since Changheng Casting had not obtained the relevant Land Use Rights Certificates and Building Ownership Certificate at the time when it transferred the factory to Aotecar Casting, the said transfer had not been duly registered in accordance with PRC laws. Therefore Aotecar Casting is not entitled to the immovable property right in such buildings;

- (iii) *in respect of the buildings constructed by Aotecar Casting, since the relevant construction permits were not obtained before the construction of such buildings commenced, there is the risk that the relevant government authorities may order demolition of such buildings within a prescribed period and confiscate any realty or unlawful gain for parts which cannot be demolished, and may impose a fine of equivalent not more than 10% of the construction costs; and*
 - (iv) *given that Aotecar Casting only accounted for less than 2% of the Aotecar Nanjing's net profit ratio after merger in 2009 and Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing"), a wholly-owned subsidiary of the Company, can obtain the relevant production components at prevailing market price even though the property is needed to be moved out or closed, the risk for the operation of Aotecar Nanjing of being influenced is low.*
- ⁽³⁾ *For reference purpose, the total depreciated replacement cost of the buildings and structures constructed or purchased by Aotecar Casting is RMB1,560,000. (51% interest attributable to the Group: RMB795,600).*

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
4.	18 units of Dormitory No. A02, Living Ancillary Zone, Export Processing Zone, Jiangning District, Nanjing, Jiangsu Province, PRC	The property comprises 18 residential units of a dormitory with a total floor area of 450.00 sq.m. (4,844 sq.ft.). It was completed in 2008. The property is leased to Nanjing Aotecar Xiangyun Refrigerating Co., Ltd. (“Aotecar Xiangyun”), a wholly-owned subsidiary of the Company, for a term commencing on 1 June 2010 and expiring on 31 May 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Nanjing Jiangning Economics Techniques Development Co., Ltd. (南京江寧經濟技術開發總公司) (the “**Lessor**”) and Aotecar Xiangyun, the property has been leased to Aotecar Xiangyun for a term commencing on 1 June 2010 and expiring on 31 May 2011 at a monthly rental of RMB10,800.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the landlord has not provided Aotecar Xiangyun with evidence of its legal title to the property and hence the tenancy agreement may not be legally valid and enforceable. But Aotecar Xiangyun as a lessee would not be liable for any civil or criminal responsibilities or any administrative penalty;
 - (ii) the tenancy agreement has not been registered at the relevant authority. As a result of the non-registration of the tenancy agreement, each of the landlord and Aotecar Xiangyun may be liable for a fine from RMB100 to RMB1,000. But the non-registration of the tenancy agreement does not affect the validity of the tenancy agreement; and
 - (iii) the property is currently used for staff accommodation and it is easy to find another substitutes in the market. So the production and operation of Aotecar Xiangyun will not be subject to any substantial influences or losses.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
5.	Unit 401 of No. 36, Block 11, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 61.47 sq.m. (662 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 26 February 2010 and expiring on 25 February 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Chu Xiaqing (儲小青) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 26 February 2010 and 25 February 2011 at a monthly rental of RMB1,050.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
6.	Unit 202 of No. 122, Block 34, Fenggang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 91.22 sq.m. (982 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 5 December 2009 and expiring on 4 December 2010.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Chen Yan (陳燕) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 5 December 2009 and expiring on 4 December 2010 at a monthly rental of RMB1,150.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
7.	Unit 601 of No. 42, Block 10, Kangye Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 70.38 sq.m. (758 sq.ft.). It was completed in 2004. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 12 November 2009 and expiring on 11 November 2010. As advised by the Group, the tenancy will be further extended.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Feng Zhigang (豐志剛) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 12 November 2009 and expiring on 11 November 2010 at a monthly rental of RMB1,150.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
8.	Unit 602 of No. 32, Mingdou Yayuan (明都雅苑), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 115.98 sq.m. (1,248 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 28 October 2009 and expiring on 27 October 2010. As advised by the Group, the tenancy will be further extended.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Zhu Qiuxiang (朱秋香) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 28 October 2009 and expiring on 27 October 2010 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
9.	Unit 602 of No. 55, Block 10, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 61.44 sq.m. (661 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 31 October 2009 and expiring on 1 November 2010. As advised by the Group, the tenancy will be further extended.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Bao Jinyu (包金玉) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 31 October 2009 and expiring on 1 November 2010 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
10.	Room 1102 of Unit 3, Block 28, Liangcheng Meijing (良晨美景), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 177.05 sq.m. (1,906 sq.ft.). It was completed in 2006. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 17 September 2009 and expiring on 16 September 2010. As advised by the Group, the tenancy will be further extended.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Li Jianlin (李建林) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 17 September 2009 and expiring on 16 September 2010 at a monthly rental of RMB1,500.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
11.	Unit 301 of No. 10, Block 2, Xianguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 52.60 sq.m. (566 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 12 March 2010 and expiring on 11 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Jin Zhihua (金志華) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 12 March 2010 and expiring on 11 March 2011 at a monthly rental of RMB1,000.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
12.	Unit 202 of No. 82, Block 23, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 76.54 sq.m. (824 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 1 April 2010 and expiring on 31 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between He Tianhui (何天慧) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 1 April 2010 and expiring on 31 March 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
13.	Unit 702 of No. 54, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 59.00 sq.m. (635 sq.ft.). It was completed in 2010. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 17 April 2010 and expiring on 16 April 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Nanjing Tianju Real Estate Agency Co., Ltd. (南京天居房產經紀有限公司) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 17 April 2010 and expiring on 16 April 2011 at a monthly rental of RMB900.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
14.	Room 501 of Unit 12, No. 119, Block 33, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 108.89 sq.m. (1,172 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 25 March 2010 and expiring on 24 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Ma Jianzhong (馬建中) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 25 March 2010 and expiring on 24 March 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
15.	Unit 302 of No. 53, Block 10, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 53.18 sq.m. (572 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 24 March 2010 and expiring on 23 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Song Jinhua (宋金花) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 24 March 2010 and expiring on 23 March 2011 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
16.	Unit 502 of No. 67, Block 13, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 71.04 sq.m. (765 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 16 July 2010 and expiring on 15 July 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Zhou Caiping (周彩萍) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 16 July 2010 and expiring on 15 July 2011 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
17.	Unit 1101 of No. 104, Block 28, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 143.93 sq.m. (1,549 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 16 June 2010 and expiring on 15 June 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Wang Rongrong (王蓉蓉) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 16 June 2010 and expiring on 15 June 2011 at a monthly rental of RMB1,600.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
18.	Room 802 of Unit 4, Block 1, Lijing Huating (麗景華庭), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 134.43 sq.m. (1,447 sq.ft.). It was completed in 2006. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 16 June 2010 and expiring on 15 December 2010.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Chang Le (常樂) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 16 June 2010 and expiring on 15 December 2010 at a monthly rental of RMB1,800.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
19.	Unit 402 of No. 4, Block 2, Yiju Yuan (怡居園), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 103.24 sq.m. (1,111 sq.ft.). It was completed in 2008. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 7 April 2010 and expiring on 6 April 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Zhao Likang (趙利康) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 7 April 2010 and expiring on 6 April 2011 at a monthly rental of RMB1,250.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
20.	Unit 103, Block 9, Lijing Huating (麗景華庭), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 106.77 sq.m. (1,149 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 25 May 2010 and expiring on 24 May 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Liu Ning (劉玲) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 25 May 2010 and expiring on 24 May 2011 at a monthly rental of RMB1,400.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
21.	Unit 501 of No. 10, Block 2, Kangju Lane (康居里), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 62.59 sq.m. (674 sq.ft.). It was completed in 2003. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 6 March 2010 and expiring on 5 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Wu Jianqiang (吳建強) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 6 March 2010 and expiring on 5 March 2011 at a monthly rental of RMB1,250.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
22.	Unit 202 of No. 19, Block 5, Yishui Jiayuan (怡水嘉園), Daxiaochang Road, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 100.03 sq.m. (1,077 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 13 June 2010 and expiring on 12 June 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Dong Sheng (董盛) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 13 June 2010 and expiring on 12 June 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
23.	Unit 701 of No. 69, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 63.00 sq.m. (678 sq.ft.). It was completed in 2001. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 11 June 2010 and expiring on 10 June 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Liu Bin (劉濱) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 11 June 2010 and expiring on 10 June 2011 at a monthly rental of RMB1,180.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
24.	Room 501 of Unit 2, Block 22, Liangcheng Meijing (良晨美景), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 105.01 sq.m. (1,130 sq.ft.). It was completed in 2006. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 25 February 2010 and expiring on 24 February 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Li Jiufang (李久方) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 25 February 2010 and expiring on 24 February 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
25.	Unit 406 of No. 155, Block 22, East of Zhongpai Lou (中牌樓), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 54.75 sq.m. (589 sq.ft.). It was completed in 2008. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 3 March 2009 and expiring on 2 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Xie Zhong (謝中) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 3 March 2009 and expiring on 2 March 2011 at a monthly rental of RMB1,000.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
26.	Unit 401 of No. 71, Block 13, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 71.04 sq.m. (765 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 18 May 2010 and expiring on 17 May 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Chu Yulan (褚育蘭) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 18 May 2010 and expiring on 17 May 2011 at a monthly rental of RMB1,000.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
27.	Unit 302 of No. 44, Block 9, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 71.04 sq.m. (765 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 13 May 2010 and expiring on 12 May 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Liu Ruiqin (劉瑞勤) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 13 May 2010 and expiring on 12 May 2011 at a monthly rental of RMB1,150.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
28.	Unit 202 of No. 64, Block 12, Staff Quarter, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 94.01 sq.m. (1,012 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 25 February 2010 and expiring on 24 February 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Zhao Baojun (趙寶俊) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 25 February 2010 and expiring on 24 February 2011 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
29.	Unit 202 of No. 17, Block 03, Tianhua Yuan (天華園), Fuhua Road, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 126.00 sq.m. (1,356 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 8 March 2010 and expiring on 8 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Ma Xiaomin (馬曉敏) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 8 March 2010 and expiring on 8 March 2011 at a monthly rental of RMB1,600.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
30.	Unit 101 of No. 61, Block 11, Xiaguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 65.68 sq.m. (707 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 28 February 2010 and expiring on 27 February 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Fang Jun (房俊) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 28 February 2010 and expiring on 27 February 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
31.	Unit 602 of No. 27, Block 08, Jiulong Yayuan (九龍雅園), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 93.20 sq.m. (1,003 sq.ft.). It was completed in 2003. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 6 March 2010 and expiring on 5 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Jin Hongxiang (金宏祥) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 6 March 2010 and expiring on 5 March 2011 at a monthly rental of RMB1,250.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
32.	Unit 202 of No. 27, Block 7, Kangye Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 63.94 sq.m. (688 sq.ft.). It was completed in 2004. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 18 December 2009 and expiring on 17 December 2010.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Nanjing Tianju Real Estate Agency Co., Ltd. (南京天居房產經紀有限公司) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 18 December 2009 and expiring on 17 December 2010 at a monthly rental of RMB1,200.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
33.	Unit 302, Block 9, Yuren Yaju (育仁雅居), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 82.79 sq.m. (891 sq.ft.). It was completed in 2008. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 8 September 2010 and expiring on 7 September 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Chen Yaoxiang (陳姚香) and Xiong Xin (熊昕) (the “**Lessors**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 8 September 2010 and expiring on 7 September 2011 at a monthly rental of RMB1,400.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessors have obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessors to register the property. Hence the Lessors are entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
34.	Unit 501 of No. 1, Block 11, Shuguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 108.00 sq.m. (1,163 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 26 February 2010 and expiring on 25 February 2012.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Sun Chunfang (孫春芳) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 26 February 2010 and expiring on 25 February 2012 at a monthly rental of RMB1,250.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
35.	Unit 101 of No. 17, Tianhuai Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 93.07 sq.m. (1,002 sq.ft.). It was completed in 2007. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 7 February 2010 and expiring on 6 February 2012.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Bai Yongyu (白永玉) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 7 February 2010 and expiring on 6 February 2012 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
36.	Room 601 of Unit 9, Block 2, Kangmei Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 75.72 sq.m. (815 sq.ft.). It was completed in 2009. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 20 January 2010 and expiring on 19 January 2012.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Lu Xiang (蘆祥) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 20 January 2010 and expiring on 19 January 2012 at a monthly rental of RMB1,250.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
37.	Unit 602 of No. 51, Block 15, Ganghong Yuan (崗虹苑), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 60.00 sq.m. (646 sq.ft.). It was completed in 2002. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 10 March 2010 and expiring on 9 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Dan Youhua (單有華) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 10 March 2010 and expiring on 9 March 2011 at a monthly rental of RMB850.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
38.	Unit 1201 of No. 104, Block 28, Fengguang Lane, Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 65.00 sq.m. (700 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 16 June 2010 and expiring on 15 June 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Wang Rongrong (王蓉蓉) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 16 June 2010 and expiring on 15 June 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
39.	Unit 602 of No. 8, Tianhua Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 126.73 sq.m. (1,364 sq.ft.). It was completed in 2007. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 15 March 2010 and expiring on 14 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Dai Changhong (戴長鴻) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 15 March 2010 and expiring on 14 March 2011 at a monthly rental of RMB1,450.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
40.	Unit 201 of No. 18, Tianhua Yuan (天華園), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 103.00 sq.m. (1,109 sq.ft.). It was completed in 2008. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 7 March 2010 and expiring on 6 March 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Wang Jinxia (汪敬霞) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 7 March 2010 and expiring on 6 March 2011 at a monthly rental of RMB1,150.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
41.	Unit 501 of No. 19, Mingdou Yayuan (明都雅苑), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 120.38 sq.m. (1,296 sq.ft.). It was completed in 2005. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 17 April 2010 and expiring on 16 April 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Kang Qingsheng (康慶生) (the “**Lessor**”) and Aotecar Nanjing, the property has been leased to Aotecar Nanjing for a term commencing on 17 April 2010 and expiring on 16 April 2011 at a monthly rental of RMB1,300.
- (2) We have been provided with a legal opinion on the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
42.	Unit 302 of No. 118, Block 24, Kangju Lane (康居里), Qinhuai District, Nanjing, Jiangsu Province, PRC	The property comprises a residential unit of a domestic building with a gross floor area of 60.00 sq.m. (646 sq.ft.). It was completed in 2003. The property is leased to Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”), a wholly-owned subsidiary of the Company, for a term commencing on 1 August 2010 and expiring on 28 February 2011.	The property is occupied by the Group for residential use.	No commercial value

Notes:

- (1) Pursuant to the tenancy agreement entered into between Li Liuxia (李留霞) (the “**Lessor**”) and Aotecar Nanjing, the property have been leased to Aotecar Nanjing for a term commencing on 1 August 2010 and expiring on 28 February 2011 at a monthly rental of RMB1,400.
- (2) We have been provided with a legal opinion on the tenancy agreement of the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (i) the Lessor has obtained the Building Ownership Certificate, sale agreement or other relevant documents. Nanjing Qinhuai Housing Administration Bureau (南京市秦淮區房產管理局) has also approved the Lessor to register the property. Hence the Lessor is entitled to lease out the property and the tenancy agreement is legal, valid, binding and enforceable.

Group IV—Property leased by the Group in Hong Kong

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 August 2010
43.	Room 1613, 16/F., Leighton Centre, No. 77 Leighton Road, Causeway Bay, Hong Kong	The property comprises an office unit on 16th Floor of a high-rise commercial building with a gross floor area of 94.30 sq.m. (1,015 sq.ft.). It was completed in 1976. The property is leased to Aotecar Refrigerating (Hong Kong) Limited (“Aotecar Hong Kong”), a wholly-owned subsidiary of the Company, for a term commencing on 1 September 2010 and expiring on 31 August 2013.	The property is occupied by the Group for office use.	No commercial value

Note:

- ⁽¹⁾ Pursuant to the tenancy agreement entered into between Leighton Property Company Limited and Aotecar Hong Kong, the property has been leased to Aotecar Hong Kong for a term commencing on 1 September 2010 and expiring on 31 August 2013 at a monthly rental of HK\$20,936 exclusive of rates, operating charges and other outgoings.

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association was conditionally adopted on 9 November 2010, and is to become effective on the Listing Date and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in “Documents available for inspection” in Appendix VII in this prospectus.

2 Articles of Association

The Articles of Association were conditionally adopted on 9 November 2010, and is to become effective on the Listing Date and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$20,000,000 divided into 2,000,000,000 shares of par value HK\$0.01 each.

2.2 Directors*(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by

any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest or the interest of any of his associates in such contract or arrangement is material, declare the nature of his interest or the interest of any of his associates at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he or his associate (as applicable) is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (v) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

Without prejudice to the aforesaid, a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his associates has any material interest including any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or any of his associates is/are beneficially interested in the shares of that company, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum of the resolution).

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by drawing lot. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution—majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one

of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation or proxy shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by notice in writing of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice in writing of not less than 21 clear days and not less than 10 clear business days. All other extraordinary general meetings shall be called by notice in writing of not less than 14 clear days and not less than 10 clear business days. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published in the newspapers or any electronic means in which manner as may be accepted by the Stock Exchange in the manner prescribed under the Listing Rules, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease

sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may

be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published in the newspapers or by any electronic means in such manner as may be accepted by the Stock Exchange, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange

has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 May 2010 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;

- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the

dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 8 June 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20 General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

Our Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 25 May 2010. Our Company has established a principal place of business and head office in Hong Kong at Room 1613, 16th Floor, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong and was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 11 August 2010. Mr. Chui Wing Fai has been appointed as our authorised representative for the acceptance of service of process in Hong Kong. The address for acceptance of service of process in Hong Kong is the same as our principal place of business in Hong Kong set out above.

As our Company was incorporated in the Cayman Islands, it operates subject to Cayman Islands law and its constitution comprising the Memorandum and Articles. A summary of various provisions of its constitution and relevant aspects of Cayman Islands company law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

- (a) The authorised share capital of our Company as at the date of its incorporation was HK\$100,000 divided into 10,000,000 Shares.
- (b) On 25 May 2010, one Share was allotted and issued as nil paid to Mapcal Limited as the initial subscriber.
- (c) On 8 June 2010, Mapcal Limited transferred its one Share to Fang Brothers as nil paid Share.
- (d) On 8 June 2010, our Company allotted and issued 699 Shares to Fang Brothers, 3,600 Shares to CITIC Capital China, 870 Shares to CDH Cool and 1,830 Shares to CDH Auto, respectively, as nil paid Shares.
- (e) Pursuant to the written resolutions of the Shareholders passed on 9 November 2010, the authorised share capital of our Company was increased from HK\$100,000 to HK\$20,000,000 by the creation of additional 1,990,000,000 Shares.
- (f) On 10 November 2010, in consideration of the transfer of 95 shares in Aotecar International from CUAS to our Company, the Shares described in (c) and (d) above were credited as fully paid up at par value and our Company allotted and issued a further 700 Shares to Fang Brothers, 3,600 Shares to CITIC Capital China, 870 Shares to CDH Cool and 1,830 Shares to CDH Auto, respectively, all credited as fully paid up. Details of the said transfer of shares in Aotecar International are set out in “Further information about the Company – Corporate reorganisation” in this Appendix.
- (g) On 10 November 2010, Mr. Qian transferred his five shares in Aotecar International to our Company in consideration of the allotment and issue by our

Company to him of 737 Shares credited as fully paid up. Details of the said share swap between our Company and Mr. Qian are set out in “Further information about the Company – Corporate reorganisation” in this Appendix.

- (h) Immediately upon completion of the Global Offering and the Capitalisation Issue, but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options or any options which may be granted under the Share Option Scheme, 1,000,000,000 Shares will be allotted and issued or credited as fully paid up, and 1,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options or any options which may be granted under the Share Option Scheme, and save as otherwise disclosed herein, the Directors have no present intention to issue any part of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Except as discussed above and in “Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010” and “Corporate reorganisation” in this Appendix, there has been no alteration in our share capital since the date of our incorporation.

3. Written resolutions of the Shareholders passed on 9 November 2010

Pursuant to the written resolutions of the Shareholders passed on 9 November 2010, approving among other matters:

- (a) the authorised share capital of our Company was increased from HK\$100,000 divided into 10,000,000 Shares to HK\$20,000,000 by the creation of an additional 1,990,000,000 Shares;
- (b) the amended and restated Memorandum and Articles were adopted in substitution for and to the exclusion of the existing Memorandum and Articles conditional upon the Listing of the Shares on the Stock Exchange;
- (c) conditional on (1) the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and (2) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the Offer Shares and any Shares which are required to be issued if the Over-allotment Option is exercised;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in “Share Option Schemes” in this Appendix, were approved and

adopted and the Directors were authorised to implement the same, to grant options to subscribe for Shares thereunder, and to allot and issue Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme;

- (iii) conditional further on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise an amount of HK\$7,499,852.63 from the amount standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 749,985,263 Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company at the close of business on 10 November 2010 or its nominees in proportion to their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares;
- (iv) a general unconditional mandate was given to the Directors to exercise all the powers to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal value of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earlier of:
 - (1) the conclusion of the next annual general meeting of our Company;
 - (2) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law; or
 - (3) the date on which such mandate is revoked or varied by an ordinary resolution by the Shareholders in a general meeting;
- (v) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal value of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option or pursuant to any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the

Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law;
 - (3) the date on which such mandate is revoked or varied by an ordinary resolution by Shareholders in a general meeting; and
- (vi) the general unconditional mandate mentioned in paragraph (iv) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above.

4. Corporate reorganisation

In preparation for the listing of Shares on the Stock Exchange, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. Our Reorganisation involved the following major steps:

(a) Incorporation of the Company

On 25 May 2010, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$100,000 divided into 10,000,000 Shares.

On 25 May 2010, one Share was allotted and issued as nil paid to Mapcal Limited as the initial subscriber.

On 8 June 2010, Mapcal Limited transferred its one Share to Fang Brothers as nil paid Share.

On 8 June 2010, our Company allotted and issued 699 Shares to Fang Brothers, 3,600 Shares to CITIC Capital China, 870 Shares to CDH Cool and 1,830 Shares to CDH Auto respectively, as nil paid Shares.

(b) Allotment of 99 shares in Aotecar International to CUAS

On 22 June 2010, Aotecar International allotted and issued for cash at par its 99 shares of US\$1.00 each to CUAS.

(c) *Transfer of five shares in Aotecar International from CUAS to Mr. Qian*

On 22 June 2010:

- (a) CUAS transferred to Mr. Qian legal interest in three shares in Aotecar International (the beneficial interest in which CUAS had previously transferred to Mr. Qian on 11 September 2008);
- (b) CUAS transferred to Mr. Qian the legal and beneficial interests in two shares in Aotecar International; and
- (c) Mr. Qian settled in full (i) the cash consideration of US\$1,145,485 payable to CUAS for the transfer by CUAS to Mr. Qian of the legal and beneficial interests in the three shares described in (a) above and the creditor's right to 3% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS and (ii) the cash consideration of US\$2 payable to CUAS for the transfer by CUAS to Mr. Qian of the legal and beneficial interests in the two shares described in (b) above and the creditor's right to 2% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS.

(For details regarding the transfers by CUAS to Mr. Qian of the legal and beneficial interests in a total of five shares in Aotecar International and the creditor's right to 5% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS, please refer to "History, Development and Reorganisation – Corporate History" in this prospectus).

(d) *Increase in authorised share capital of the Company*

On 9 November 2010, the authorised share capital of our Company was increased from HK\$100,000 to HK\$20,000,000 by the creation of an additional 1,990,000,000 Shares.

(e) *Share swap for our Company's Shares*

On 10 November 2010, CUAS transferred its 95 shares in the issued share capital of Aotecar International to our Company in consideration of:–

- (i) the crediting as fully paid up at par by our Company of the 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares held by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively; and
- (ii) the allotment and issue by our Company of a further 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares credited as fully paid up to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively.

On 10 November 2010, Mr. Qian transferred his five shares in Aotecar International to our Company in consideration of the allotment and issue by our Company to him of 737 Shares credited as fully paid up.

(f) *Capitalisation Issue*

Pursuant to the written resolutions of the Shareholders passed on 9 November 2010 and conditional on the conditions set out in “Structure and Conditions of the Global Offering – Conditions of the Public Offering” in this prospectus and conditional on the share premium account of our Company being created as a result of the Global Offering, the Directors were authorised to allot and issue an aggregate of 749,985,263 Shares by way of capitalisation of the amount of HK\$7,499,852.63 from the amount standing to the credit of the share premium account of our Company, details of which are set out in “Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010” in this Appendix.

As at the Latest Practicable Date, our Company had five registered Shareholders.

5. Changes in the share capital of our subsidiaries

Our subsidiaries are listed in the accountants’ report, the text of which is set out in Appendix IA to this prospectus. The following alterations in the share capital of the subsidiaries of our Company have taken place within two years preceding the date of this prospectus:

(a) *Aotecar International*

On 22 June 2010, 99 shares of US\$1.00 each in Aotecar International were allotted and issued for cash at par to CUAS.

On 22 June 2010, CUAS transferred its legal interest in three shares (the beneficial interest in which CUAS had previously transferred to Mr. Qian on 11 September 2008) and legal and beneficial interest in two shares in the issued share capital of Aotecar International to Mr. Qian. For details regarding the aforesaid transfer of shares in Aotecar International by CUAS to Mr. Qian, including the consideration paid therefor by Mr. Qian, please refer to “History, Development and Reorganisation – Corporate History” in this prospectus.

On 10 November 2010, CUAS transferred its 95 shares in the issued share capital of Aotecar International to our Company in consideration of:–

- (i) the crediting as fully paid up at par by our Company of the 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares held by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively; and
- (ii) the allotment and issue by our Company of a further 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares credited as fully paid up to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively.

On 10 November 2010, Mr. Qian transferred his five shares in Aotecar International to our Company in consideration of the allotment and issue by our Company to him of 737 Shares credited as fully paid up.

(b) Aotecar Nanjing

On 16 August 2010, the registered capital of Aotecar Nanjing was increased from RMB14,460,000 to RMB20,460,000.

(c) Aotecar Casting

On 4 December 2008, Aotecar Casting was incorporated in the PRC with a registered capital of RMB5,000,000.

On 26 May 2010, the registered capital of Aotecar Casting was increased from RMB5,000,000 to RMB7,000,000.

Save as disclosed in this prospectus, there have been no alterations in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

This paragraph sets forth information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a specific transaction.

As set forth in "Further information about the Company – Written resolutions of the Shareholders passed on 9 November 2010" in this Appendix, our Directors were given a general unconditional mandate to repurchase securities.

(ii) Source of funds

Repurchases must only be funded out of funds legally available for the purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement

otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchases may be made out of funds legally available for the purpose, namely profits or the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by the Articles and subject to the Companies Law, out of capital. Any premium on a purchase may be made out of profits or the Company's share premium account or, if so authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Trading restrictions

The total number of shares which a company is authorised to repurchase on the Stock Exchange is such number of shares which represents up to a maximum of 10% of the existing issued share capital of our Company as at the date of the resolution approving the repurchase. A company may not issue or announce an issue of securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

(iv) Shares to be purchased

The Listing Rules provide that the shares which are proposed to be purchased by a company must be fully paid up.

(v) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, a company's repurchased securities are to be treated as cancelled.

(vi) Suspension of repurchases

Securities repurchases are prohibited after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been publicly announced. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(vii) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, the company's annual report is required to

disclose details regarding repurchases of securities made during the year, including the number of securities repurchased and the aggregate prices paid.

(viii) Connected persons

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his securities to the company.

(b) *Share capital*

The exercise in full of the repurchase mandate, on the basis of 1,000,000,000 Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), could accordingly result in up to 100,000,000 Shares being repurchased by our Company during the period prior to the date on which such repurchase mandate expires or terminates.

(c) *General information relevant to the repurchase mandate*

- (i) Our Directors believe that it is in the best interests of our Company and our Shareholders to have a general authority from Shareholders to enable our Directors to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our net value and our assets and/or earnings per Share.
- (ii) There might be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate is exercised in full. However, our Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on our working capital requirements or on such gearing levels that our Directors consider appropriate from time to time.
- (iii) None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective associates, have any present intention to sell any Shares to our Company if the repurchase mandate is exercised.
- (iv) Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate only in

accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands. We shall procure the broker who effects the repurchase of securities to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.

- (v) If as a result of a repurchase of securities a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder (or a group of Shareholders acting in concert, as defined in the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Except as aforesaid, our Directors are not aware of any consequences that may arise under the Takeovers Code as a result of a repurchase pursuant to the repurchase mandate.
- (vi) Any repurchase of Shares which results in the amount of Shares held by the public being reduced to less than 25% could only be implemented with the agreement of the Stock Exchange to waive the requirement regarding the public shareholding referred to above. Except in extraordinary circumstances, a waiver of this provision would not normally be given by the Stock Exchange.
- (vii) No connected person has notified us that he has any present intention to sell Shares to our Company, nor has any connected person undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by us within the two years preceding the date of this prospectus and are, or may be, material:

- (a) a share transfer agreement dated 11 September 2008 entered into among Aotecar International, CUAS and Mr. Qian (the "**Share Transfer Agreement**") pursuant to which CUAS (i) agreed to transfer three shares (representing 3%) in the issued share capital of Aotecar International to Mr. Qian for a cash consideration of US\$1,145,485 and (ii) granted an option to Mr. Qian to acquire from CUAS a further two shares in the issued share capital of Aotecar International (the "**Option Shares**") for a cash consideration of US\$2 upon the fulfilment of certain conditions, including the condition that the net profit (excluding the effect of the Share Transfer Agreement (as supplemented by the two agreements dated 7 June 2010 and 15 July 2010 respectively) in relation to the 5%

shareholding in Aotecar International) of Aotecar Nanjing for the year ended 31 December 2008 was at least RMB45,000,000;

- (b) a supplemental agreement to the Share Transfer Agreement dated 7 June 2010 entered into among Aotecar International, CUAS and Mr. Qian pursuant to which (i) the parties confirmed that beneficial interest in 3% of the shareholding of Aotecar International had been transferred by CUAS to Mr. Qian on 11 September 2008 and (ii) the parties agreed that the legal interest in the said 3% shareholding together with the legal and beneficial interest in the 2% Option Shares shall, upon the exercise of the option by Mr. Qian, be transferred by CUAS to Mr. Qian on or before 22 June 2010 or such other date as the parties may agree;
- (c) a second supplemental agreement to the Share Transfer Agreement dated 15 July 2010 entered into among Aotecar International, CUAS and Mr. Qian pursuant to which the parties confirmed that (i) on 11 September 2008, in addition to the 3% beneficial interest in the shareholding of Aotecar International as described at (b)(i) above, CUAS also transferred to Mr. Qian the creditor's right to 3% of a US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS; (ii) when Mr. Qian exercised the option to acquire the 2% Option Shares described at (b)(ii) above, he also acquired from CUAS the creditor's right to 2% of the US\$30,673,735.70 amount owed by Aotecar Hong Kong to CUAS and (iii) CUAS would notify Aotecar Hong Kong of Mr. Qian's 5% interest in the US\$30,673,735.70 owed by Aotecar Hong Kong;
- (d) a non-competition deed dated 9 November 2010 entered into among CITIC Capital China Fund I, CITIC Capital China, Mr. Qian and our Company (for itself and as trustee for its subsidiaries) pursuant to which certain non-competition arrangements shall be implemented, particulars of which are set forth in "Relationship with Controlling Shareholders" in this prospectus;
- (e) a share purchase agreement dated 10 November 2010 entered into among CUAS, Mr. Qian and our Company pursuant to which (i) CUAS transferred to the Company 95 shares in the issued share capital of Aotecar International in consideration of and in exchange for the crediting as fully paid up at par of 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares held by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively, and the allotment and issue by our Company of a further 700 Shares, 3,600 Shares, 870 Shares and 1,830 Shares credited as fully paid up to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively, and (ii) Mr. Qian transferred his five shares in the issued share capital of Aotecar International to our Company in consideration of the allotment and issue by our Company to Mr. Qian of 737 Shares credited as fully paid up; and
- (f) the Public Offering Underwriting Agreement dated 25 November 2010 entered into among our Company, CITIC Capital China, Mr. Qian, the Joint Sponsors and the Public Offering Underwriters.

2. Our intellectual property rights

(a) Trademarks

- (i) As at the Latest Practicable Date, we were the registered owner of the following trademarks:

	Trademark	Place of Registration	Class(es)	Registration Number	Validity Period	Registered Owner
1.		PRC	11	1638043	2001/09/21-2011/09/20	Aotecar Nanjing
2.		PRC	7	1653723	2001/10/21-2011/10/20	Aotecar Nanjing
3.		PRC	11	1638040	2001/09/21-2011/09/20	Aotecar Nanjing
4.	AOTECAR	PRC	12	6642299	2010/03/28-2020/03/27	Aotecar Nanjing
5.	AOTECAR	PRC	7	6642301	2010/03/28-2020/03/27	Aotecar Nanjing
6.	AOTECAR	PRC	11	6642300	2010/05/14-2020/05/13	Aotecar Nanjing
7.	奥特佳	PRC	4	7036548	2010/07/28-2020/07/27	Aotecar Nanjing
8.	AOTECAR	PRC	4	7036549	2010/07/28-2020/07/27	Aotecar Nanjing
9.	AOTECAR	PRC	1	7037042	2010/07/28-2020/07/27	Aotecar Nanjing
10.		USA	13, 21, 23, 31, 34	3406667	2008/04/01-2018/03/31	Aotecar Nanjing
11.	AOTECAR	Hong Kong	1, 4, 7, 11, 12	301616094	2010/05/18-2020/05/17	Aotecar Hong Kong
12.	奥特佳	Hong Kong	1, 4, 7, 11, 12	301616102	2010/05/18-2020/05/17	Aotecar Hong Kong

- (ii) As at the Latest Practicable Date, we had applied for the registration of the following trademarks:

Trademark	Place of Application	Class(es)	Application Number	Application Date	Applicant
1. 	Hong Kong	4, 7, 12	301616111AA	2010/05/18	Aotecar Hong Kong
2. 	Hong Kong	1	301616111AB	2010/05/18	Aotecar Hong Kong
3. 	Hong Kong	11	301616111AC	2010/05/18	Aotecar Hong Kong
4. CHINA GREENWAY SYSTEM TECHNOLOGIES	Hong Kong	1, 4, 7, 11, 12	301644921	2010/06/21	The Company
5. 中國綠源系統技術, 中国绿源系统技术	Hong Kong	1, 4, 7, 11, 12	301644930	2010/06/21	The Company
6. 	Hong Kong	1, 4, 7, 11, 12	301644912	2010/06/21	The Company
7. 	Hong Kong	1, 4, 7, 11, 12	301691424	2010/08/17	The Company

(b) *Patents*

(i) As at the Latest Practicable Date, we have been granted the following patents in the PRC:

	Type	Patent Description	Patent Number	Validity Period	Registered Owner
1.	Invention	Variable scroll compressor with centrifugal force control (離心力控制式變排量渦旋式壓縮機)	ZL 2004 1 0014037.6	2004/02/11 - 2024/02/10	Aotecar Nanjing
2.	Invention	Method and structure of compact automotive scroll compressor (渦旋式車用空調壓縮機的小型化方法及其結構)	ZL 2006 1 0038169.1	2006/02/07 - 2026/02/06	Aotecar Nanjing
3.	Invention	Large displacement automotive scroll compressor (大排量車用渦旋式壓縮機)	ZL 2005 1 0041482.6	2005/08/15 - 2025/08/14	Aotecar Nanjing
4.	Invention	Hermetic constant pressure automotive scroll compressor (車用恒壓式全封閉渦旋壓縮機)	ZL 2006 1 0040514.5	2006/05/22 - 2026/05/21	Aotecar Nanjing
5.	Invention	Control device for variable scroll compressor (渦旋式壓縮機用變排量控制裝置)	ZL 2006 1 0096136.2	2006/09/22 - 2026/09/21	Aotecar Nanjing
6.	Invention	High efficiency low noise electric vehicle scroll compressor (電動汽車用高效低噪渦旋式壓縮機)	ZL 2008 1 0023678.6	2008/04/23 - 2028/04/22	Aotecar Nanjing
7.	Invention	Methods of improving efficiency and reliability of the vertical hermetic scroll compressor and its structure (提高立式全封閉渦旋式壓縮機效率和可靠性的方法及其結構)	ZL 2005 1 0038118.4	2005/01/17 - 2025/01/16	Aotecar Nanjing
8.	Utility Model	Scroll compressor unit for bus (大客車用渦旋式壓縮機組)	ZL 2004 2 0024425.8	2004/01/20 - 2014/01/19	Aotecar Nanjing
9.	Utility Model	By pass variable scroll compressor (旁通式變排量渦旋式壓縮機)	ZL 2004 2 0062933.5	2004/07/21 - 2014/07/20	Aotecar Nanjing
10.	Utility Model	Ring-pin structure automotive scroll compressor (環銷結構的渦旋式車用空調壓縮機)	ZL 2007 2 0041284.4	2007/08/01 - 2017/07/31	Aotecar Nanjing
11.	Utility Model	External relief valve large displacement automotive scroll compressor (帶外置泄荷裝置的大排量車用渦旋式壓縮機)	ZL 2005 2 0074476.6	2005/08/15 - 2015/08/14	Aotecar Nanjing
12.	Utility Model	Large displacement automotive scroll compressor with oil separator (帶油氣分離裝置的大排量車用渦旋式壓縮機)	ZL 2005 2 0074474.7	2005/08/15 - 2015/08/14	Aotecar Nanjing
13.	Utility Model	Large displacement automotive scroll compressor with oil return device (帶回油裝置的大排量車用渦旋式壓縮機)	ZL 2005 2 0074478.5	2005/08/15 - 2015/08/14	Aotecar Nanjing
14.	Utility Model	External clutch large displacement automotive scroll compressor (離合器外置式大排量車用渦旋式壓縮機)	ZL 2005 2 0074475.1	2005/08/15 - 2015/08/14	Aotecar Nanjing

	Type	Patent Description	Patent Number	Validity Period	Registered Owner
15.	Utility Model	Large displacement automotive scroll compressor with internal relief valve (帶內置泄荷裝置的大排量車用渦旋式壓縮機)	ZL 2005 2 0074473.2	2005/08/15 - 2015/08/14	Aotecar Nanjing
16.	Utility Model	Anti liquid slug device for bus compressor (客車空調壓縮機抗液擊裝置)	ZL 2008 2 0161916.5	2008/10/15 - 2018/10/14	Aotecar Nanjing
17.	Utility Model	Electric scroll compressor with suction passage on front cover (吸氣通道位於前蓋上的電動汽車用渦旋式壓縮機)	ZL 2008 2 0034636.8	2008/04/23 - 2018/04/22	Aotecar Nanjing
18.	Utility Model	High efficiency low noise electric scroll compressor (電動汽車用高效低噪渦旋式壓縮機)	ZL 2008 2 0034633.4	2008/04/23 - 2018/04/22	Aotecar Nanjing
19.	Utility Model	Multi-piston swash automotive compressor (斜盤式多活塞車用空調壓縮機)	ZL 2008 2 0032301.2	2008/02/26 - 2018/02/25	Aotecar Nanjing
20.	Utility Model	Electric automotive scroll compressor with reducing noise device in fixed scroll (靜盤上帶有降噪排氣結構的電動汽車用渦旋式壓縮機)	ZL 2008 2 0034635.3	2008/04/23 - 2018/04/22	Aotecar Nanjing
21.	Utility Model	Electric automotive scroll compressor (電動汽車用渦旋式壓縮機)	ZL 2008 2 0034634.9	2008/04/23 - 2018/04/22	Aotecar Nanjing
22.	Design	Bus scroll compressor (渦旋式客車空調壓縮機)	ZL 2005 3 0080999.7	2005/03/03 - 2015/03/02	Aotecar Nanjing
23.	Design	Automotive scroll compressor (渦旋式汽車空調壓縮機)	ZL 2005 3 0080998.2	2005/03/03 - 2015/03/02	Aotecar Nanjing
24.	Design	Automotive scroll compressor (WXH-086-L) (渦旋式汽車空調壓縮機 (WXH-086-L))	ZL 2005 3 0154256.X	2005/12/12 - 2015/12/11	Aotecar Nanjing
25.	Design	Automotive scroll compressor (WXH-086-C5) (渦旋式汽車空調壓縮機 (WXH-086-C5))	ZL 2005 3 0171792.0	2005/12/28 - 2015/12/27	Aotecar Nanjing
26.	Design	Automotive scroll compressor (WXH-106-C6) (渦旋式汽車空調壓縮機 (WXH-106-C6))	ZL 2005 3 0154257.4	2005/12/12 - 2015/12/11	Aotecar Nanjing
27.	Design	Automotive scroll compressor (WXH-086-F10) (渦旋式車用壓縮機 (WXH-086-F10))	ZL 2005 3 0154258.9	2005/12/12 - 2015/12/11	Aotecar Nanjing
28.	Design	Automotive scroll compressor (車用渦旋式壓縮機)	ZL 2005 3 0087897.8	2005/08/16 - 2015/08/15	Aotecar Nanjing
29.	Design	Electric automotive scroll compressor (渦旋式汽車空調電動壓縮機)	ZL 2008 3 0027499.0	2008/04/23 - 2018/04/22	Aotecar Nanjing
30.	Utility Model	Variable scroll compressor with micro-motor control displacement (以微電機調節閥控制排量的變排量渦旋壓縮機)	ZL 01 2 45453.2	2001/08/20 - 2011/08/19	Aotecar Nanjing
31.	Utility Model	Variable scroll compressor with fast insert control valve (快速接插式控制閥可變排量渦旋壓縮機)	ZL 01 2 17185.9	2001/01/16 - 2011/01/15	Aotecar Nanjing

	Type	Patent Description	Patent Number	Validity Period	Registered Owner
32.	Utility Model	Universe installation clutch for automotive scroll compressor (萬能型汽車空調渦旋壓縮機離合器)	ZL 01 2 17869.1	2001/03/15 - 2011/03/14	Aotecar Nanjing
33.	Utility Model	Automotive scroll compressor with positioner (帶定位機構的渦旋式汽車空調壓縮機)	ZL 02 2 62678.6	2002/06/25 - 2012/06/24	Aotecar Nanjing
34.	Utility Model	Scroll compressor with axial seal element (渦旋壓縮機的軸向密封機構)	ZL 02 2 21114.4	2002/06/10 - 2012/06/09	Aotecar Nanjing
35.	Utility Model	Multi source electric auto (多源電動汽車)	ZL 2009 2 0041436.X	2009/04/01 - 2019/03/31	Aotecar Nanjing
36.	Utility Model	Bidirectional piston swash compressor (斜盤式雙頭活塞式壓縮機)	ZL 2009 2 0043490.8	2009/07/09 - 2019/07/08	Aotecar Nanjing
37.	Utility Model	Multi-source hybrid electric vehicle (多源混合驅動電動車)	ZL 201020122298.0	2010/03/03 - 2020/03/02	Aotecar Nanjing
38.	Utility Model	Electric vehicle intelligent temperature control system (電動汽車智能溫度控制系統)	ZL 201020122296.1	2010/03/03 - 2020/03/02	Aotecar Nanjing
39.	Utility Model	Scroll compressors with high-pressure discharge device for room air conditioner (帶高壓泄荷裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074486.X	2005/08/15 - 2015/08/14	Aotecar Nanjing
40.	Utility Model	Scroll compressors with oil return device for room air conditioner (帶回油裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074480.2	2005/08/15 - 2015/08/14	Aotecar Nanjing
41.	Utility Model	Scroll compressors with radial compensation device for room air conditioner (帶徑向補償裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074487.4	2005/08/15 - 2015/08/14	Aotecar Nanjing
42.	Utility Model	Scroll compressors with oil separator for room air conditioner (帶油氣分離裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074488.9	2005/08/15 - 2015/08/14	Aotecar Nanjing
43.	Utility Model	Scroll compressors with moving disc type linear seal device for room air conditioner (帶有動盤型線密封裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074484.0	2005/08/15 - 2015/08/14	Aotecar Nanjing
44.	Utility Model	Scroll compressors with anti-reverse device for room air conditioner (帶有防反轉裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074481.7	2005/08/15 - 2015/08/14	Aotecar Nanjing
45.	Utility Model	Scroll compressors with new down-support structure for room air conditioner (帶有新型下支承結構的房間空用渦旋式壓縮機)	ZL 2005 2 0074482.1	2005/08/15 - 2015/08/14	Aotecar Nanjing
46.	Utility Model	Scroll compressors with axial compensation device for room air conditioner (帶軸向補償裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074483.6	2005/08/15 - 2015/08/14	Aotecar Nanjing

	Type	Patent Description	Patent Number	Validity Period	Registered Owner
47.	Utility Model	Scroll compressors with anti-return air device on exhaust port for room air conditioner (排氣口帶有防回氣裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074479.X	2005/08/15 - 2015/08/14	Aotecar Nanjing
48.	Utility Model	Scroll compressors with oil suction device on crankshaft for room air conditioner (曲軸中設有吸油裝置的房間空調器用渦旋式壓縮機)	ZL 2005 2 0074485.5	2005/08/15 - 2015/08/14	Aotecar Nanjing

(ii) As at the Latest Practicable Date, we had applied for the registration of the following patents in the PRC:

	Type of Patent	Patent Description	Application Number	Acceptance Date	Applicant
1.	Invention	Bidirectional piston swash compressor (斜盤式雙頭活塞式壓縮機)	200910032126.6	2009/07/09	Aotecar Nanjing
2.	Invention	Multi source electric auto (多源電動汽車)	200910026124.6	2009/04/03	Aotecar Nanjing
3.	Invention	Automotive air-conditioning compressor wiring wrap positioning ring installation tool (汽車空調壓縮機線包定位擋圈安裝用具)	201010147167.2	2010/04/16	Aotecar Nanjing
4.	Invention	Eccentric type crankshaft bearing lubrication device for speed based scroll compressor (基於轉速的渦旋式壓縮機曲軸偏心套軸承潤滑裝置)	201010269346.3	2010/09/02	Aotecar Nanjing
5.	Design	Scroll compressor (1) (渦旋式壓縮機 (1))	201030620550.6	2010/11/19	Aotecar Nanjing
6.	Design	Scroll compressor (2) (渦旋式壓縮機 (2))	201030620679.7	2010/11/19	Aotecar Nanjing
7.	Design	Scroll compressor (3) (渦旋式壓縮機 (3))	201030620702.2	2010/11/19	Aotecar Nanjing
8.	Design	Scroll compressor (4) (渦旋式壓縮機 (4))	201030620572.2	2010/11/19	Aotecar Nanjing
9.	Design	Scroll compressor (5) (渦旋式壓縮機 (5))	201030620614.2	2010/11/19	Aotecar Nanjing
10.	Design	Scroll compressor (6) (渦旋式壓縮機 (6))	201030620591.5	2010/11/19	Aotecar Nanjing
11.	Design	Scroll compressor (7) (渦旋式壓縮機 (7))	201030620710.7	2010/11/19	Aotecar Nanjing
12.	Design	Scroll compressor (8) (渦旋式壓縮機 (8))	201030620754.X	2010/11/19	Aotecar Nanjing
13.	Design	Scroll compressor (9) (渦旋式壓縮機 (9))	201030620619.5	2010/11/19	Aotecar Nanjing
14.	Design	Scroll compressor (10) (渦旋式壓縮機 (10))	201030620681.4	2010/11/19	Aotecar Nanjing
15.	Design	Scroll compressor (11) (渦旋式壓縮機 (11))	201030620604.9	2010/11/19	Aotecar Nanjing
16.	Design	Scroll compressor (12) (渦旋式壓縮機 (12))	201030620559.7	2010/11/19	Aotecar Nanjing
17.	Design	Scroll compressor (13) (渦旋式壓縮機 (13))	201030620778.5	2010/11/19	Aotecar Nanjing

	Type of Patent	Patent Description	Application Number	Acceptance Date	Applicant
18.	Design	Scroll compressor (14) (渦旋式壓縮機 (14))	201030620551.0	2010/11/19	Aotecar Nanjing
19.	Design	Scroll compressor (15) (渦旋式壓縮機 (15))	201030620791.0	2010/11/19	Aotecar Nanjing
20.	Design	Scroll compressor (16) (渦旋式壓縮機 (16))	201030620706.0	2010/11/19	Aotecar Nanjing
21.	Design	Scroll compressor (17) (渦旋式壓縮機 (17))	201030620624.6	2010/11/19	Aotecar Nanjing
22.	Design	Scroll compressor (18) (渦旋式壓縮機 (18))	201030620715.X	2010/11/19	Aotecar Nanjing
23.	Design	Scroll compressor (19) (渦旋式壓縮機 (19))	201030620573.7	2010/11/19	Aotecar Nanjing
24.	Design	Scroll compressor (20) (渦旋式壓縮機 (20))	201030620599.1	2010/11/19	Aotecar Nanjing
25.	Design	Scroll compressor (21) (渦旋式壓縮機 (21))	201030620787.4	2010/11/19	Aotecar Nanjing
26.	Design	Scroll compressor (22) (渦旋式壓縮機 (22))	201030620741.2	2010/11/19	Aotecar Nanjing
27.	Design	Scroll compressor (23) (渦旋式壓縮機 (23))	201030620627.X	2010/11/19	Aotecar Nanjing
28.	Design	Scroll compressor (24) (渦旋式壓縮機 (24))	201030620598.7	2010/11/19	Aotecar Nanjing
29.	Design	Scroll compressor (25) (渦旋式壓縮機 (25))	201030620789.3	2010/11/19	Aotecar Nanjing
30.	Design	Scroll compressor (26) (渦旋式壓縮機 (26))	201030620642.4	2010/11/19	Aotecar Nanjing
31.	Design	Scroll compressor (27) (渦旋式壓縮機 (27))	201030620792.5	2010/11/19	Aotecar Nanjing
32.	Design	Scroll compressor (28) (渦旋式壓縮機 (28))	201030620667.4	2010/11/19	Aotecar Nanjing
33.	Design	Scroll compressor (29) (渦旋式壓縮機 (29))	201030620600.0	2010/11/19	Aotecar Nanjing
34.	Design	Scroll compressor (30) (渦旋式壓縮機 (30))	201030620660.2	2010/11/19	Aotecar Nanjing
35.	Design	Scroll compressor (31) (渦旋式壓縮機 (31))	201030620747.X	2010/11/19	Aotecar Nanjing
36.	Design	Scroll compressor (32) (渦旋式壓縮機 (32))	201030620682.9	2010/11/19	Aotecar Nanjing
37.	Design	Scroll compressor (33) (渦旋式壓縮機 (33))	201030620755.4	2010/11/19	Aotecar Nanjing
38.	Design	Scroll compressor (34) (渦旋式壓縮機 (34))	201030620552.5	2010/11/19	Aotecar Nanjing
39.	Design	Scroll compressor (35) (渦旋式壓縮機 (35))	201030620560.X	2010/11/19	Aotecar Nanjing
40.	Design	Scroll electric compressor (1) (渦旋式電動壓縮機 (1))	201030620680.X	2010/11/19	Aotecar Nanjing
41.	Design	Scroll electric compressor (2) (渦旋式電動壓縮機 (2))	201030620644.3	2010/11/19	Aotecar Nanjing
42.	Design	Scroll electric compressor (3) (渦旋式電動壓縮機 (3))	201030620623.1	2010/11/19	Aotecar Nanjing
43.	Design	Scroll electric compressor (4) (渦旋式電動壓縮機 (4))	201030620617.6	2010/11/19	Aotecar Nanjing

(c) Domain name

As at the Latest Practicable Date, we were the registered owner of the following domain name(s):

Domain Name	Place of Registration	Registration Date	Expiry Date
1. aotecar.com	PRC	2003/04/03	2015/04/03
2. 奥特佳.com	PRC	2008/09/08	2015/09/08
3. chinagreenway.com.cn	PRC	2010/07/20	2020/07/20
4. greenwaysystech.com.cn	PRC	2010/07/20	2020/07/20
5. greenwaysystech.com	PRC	2010/07/20	2020/07/20
6. 中國綠源系統技術.com	PRC	2010/07/20	2020/07/20
7. chinaautosystem.com	PRC	2010/09/01	2020/09/01
8. chinagreenway.com.hk	Hong Kong	2010/07/13	2013/07/29
9. greenwaysystech.com.hk	Hong Kong	2010/07/13	2013/07/29

The contents of the website(s), registered or licensed, do not form part of this prospectus.

(d) Copyright

As at the Latest Practicable Date, we were the registered owner of the following software copyright:

Copyright	Place of Registration	Registration Number	Registration Date	Registrant
Aotecar Scroll Compressor Process Simulation Software V1.0 (奥特佳渦旋壓縮機 過程模擬軟件V1.0)	PRC	2009SR057244	2009/12/10	Aotecar Nanjing

Except as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT THE GROUP'S ENTERPRISES IN THE PRC

Brief particulars of the operating subsidiaries of our Company set up in the PRC are set out below:

(1) Aotecar Nanjing

Names:	南京奥特佳冷機有限公司 (Nanjing Aotecar Refrigerating Co., Ltd.)
Date and place of establishment:	16 May 2000, PRC
Nature:	Limited liability company (wholly foreign-owned enterprise)
Registered office:	103 Daming Road, Qinhuai District, Nanjing
Shareholder:	Aotecar Hong Kong
Scope of business:	Develop and promote the application technology of freon alternative; production and sales of non-freon environmentally friendly refrigeration products and related ancillary consultancy services
Registered capital:	US\$20,460,000
Total investment:	US\$38,640,000
Attributable interest to our Group:	100%
Term of operation:	16 May 2000 to 15 May 2030
Legal representative:	Mr. Zhang Yichen

(2) Aotecar Xiangyun

Names:	南京奥特佳祥雲冷機有限公司 (Nanjing Aotecar Xiangyun Refrigerating Co., Ltd.)
Date and place of establishment:	27 June 2008, PRC
Nature:	Limited liability company (wholly foreign-owned enterprise)

Shareholder:	Aotecar Hong Kong
Registered office:	Moling Subdistrict Industrial Centre, Jiangning District, Nanjing
Scope of business:	Production and sale of automobile air-conditioners, refrigeration compressors and other equipment for refrigeration, and provision of related ancillary services
Registered capital:	US\$12,000,000
Total investment:	US\$29,800,000
Attributable interest to our Group:	100%
Term of operation:	27 June 2008 to 26 June 2038
Legal representative:	Mr. Zhang Yichen
(3) Aotecar Casting	
Names:	南京奥特佳長恒鑄造有限公司 (Nanjing Aotecar Changheng Casting Co., Ltd.)
Date and place of establishment:	4 December 2008, PRC
Nature:	Limited liability company
Shareholders:	Aotecar Nanjing (51%), Changheng Casting (49%)
Registered office:	11 Ningyang Street, Hengxi Subdistrict, Jiangning District, Nanjing
Scope of business:	Production of aluminium alloy casting; research, development and sales of machinery products
Registered capital:	RMB7,000,000
Attributable interest to our Group:	51%
Term of operation:	4 December 2008 to 3 December 2028
Legal representative:	Mr. Wu Peirong

D. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND SUBSTANTIAL SHAREHOLDERS**1. Particulars of Directors' service agreements**

Our executive Director has entered into a service agreement with our Company commencing from the Listing Date for a term of three years.

Our executive Director is entitled to a basic salary. The current basic annual remuneration (excluding any discretionary bonus which may be paid) payable by our Group to the executive Director is set out below.

RMB***Executive Director***

Mr. Qian Yonggui	264,000

Each of the non-executive Directors and the independent non-executive Director has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date and renewable by mutual agreement on annual basis. The current basic annual remuneration payable by our Group to the non-executive Directors and the independent non-executive Directors are as follows:

HK\$***Non-executive Directors***

Mr. Kenneth Fang	nil
Mr. Gao Chunhe	nil
Mr. Liu Xiaoping	nil
Mr. Wang Zhenyu	nil
Mr. Zhang Yichen	nil

HK\$***Independent non-executive Directors***

Mr. Cheung Man Sang	200,000
Mr. Lai Ni Hium	200,000
Mr. Zhao Chunming	200,000

2. Directors' remuneration

The aggregate remuneration paid to the Directors by our Group in respect of the financial year ended 31 December 2009 was RMB1.9 million. The aggregate remuneration and benefits in kind which the Directors are entitled to receive for the financial year ending 31 December 2010 is estimated to be RMB0.3 million, excluding any discretionary bonuses which may be paid to the Directors.

3. Interests of Directors and chief executive in our share capital

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or options granted under Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering which would affect disclosure in this section), the interests and short positions of the Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which, once the Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, will be as follows:

Shares

Name of Director	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Mr. Qian Yonggui	Beneficial owner	37,500,000 (L)	3.75%
Mr. Kenneth Fang ⁽²⁾	Interest of a controlled corporation	71,250,000 (L)	7.13%

Notes:

⁽¹⁾ The letter "L" denotes long position of the directors in the Shares.

⁽²⁾ Fang Brothers is wholly-owned by Fang Brothers Holdings, which is in turn owned as to 50% by Mr. Kenneth Fang. Therefore, Mr. Kenneth Fang is deemed to be interested in all the Shares in which Fang Brothers Holdings is interested in by virtue of the SFO.

4. Substantial shareholders

So far as the Directors are aware, information on the persons, not being Directors or the chief executive of our Company, who will have, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or options granted under Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering which would affect disclosure in this section), an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO will be as follows:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Fang Brothers ⁽²⁾	Beneficial owner	71,250,000 (L)	7.13%
Fang Brothers Holdings ⁽²⁾	Interest of a controlled corporation	71,250,000 (L)	7.13%
CDH Cool ⁽³⁾	Beneficial owner	88,554,000 (L)	8.85%
CDH China Growth Capital Fund II, L.P. ^{(3) (4)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
CDH China Growth Capital Holdings Company Limited ^{(4) (5)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
China Diamond Holdings II, L.P. ^{(5) (6)}	Interest of a controlled corporation	88,554,000 (L)	8.85%
CDH Auto ⁽⁷⁾	Beneficial owner	186,268,000 (L)	18.63%
CDH China Fund III, L.P. ^{(7) (8)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
CDH III Holdings Company Limited ^{(8) (9)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
China Diamond Holdings III, L.P. ^{(6) (9)}	Interest of a controlled corporation	186,268,000 (L)	18.63%
China Diamond Holdings Company Limited ⁽⁶⁾	Interest of a controlled corporation	274,822,000 (L)	27.48%
CITIC Capital China ⁽¹⁰⁾	Beneficial Owner	366,428,000 (L)	36.64%
CITIC Capital China Fund I ^{(10) (11)}	Interest of a controlled corporation	366,428,000 (L)	36.64%
CCP GP Ltd. ⁽¹¹⁾	Interest of a controlled corporation	366,428,000 (L)	36.64%

Notes:

- (1) The letter “L” denotes long position of the shareholders in the Shares.
- (2) Fang Brothers is wholly-owned by Fang Brothers Holdings, therefore, Fang Brothers Holdings is deemed to be interested in all the Shares in which Fang Brothers is interested in by virtue of the SFO.
- (3) CDH Cool is wholly-owned by CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Fund II, L.P. is deemed to be interested in all the Shares in which CDH Cool is interested in by virtue of the SFO.
- (4) CDH China Growth Capital Holdings Company Limited is the general partner of CDH China Growth Capital Fund II, L.P., therefore, CDH China Growth Capital Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Growth Capital Fund II, L.P. is interested in by virtue of the SFO.
- (5) CDH China Growth Capital Holdings Company Limited is owned as to 69.5% by China Diamond Holdings II, L.P., therefore, China Diamond Holdings II, L.P. is deemed to be interested in all the Shares in which CDH China Growth Capital Holdings Company Limited is interested in by virtue of the SFO.
- (6) China Diamond Holdings Company Limited is the general partner for each of China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P., therefore, China Diamond Holdings Company Limited is deemed to be interested in all the Shares in which China Diamond Holdings II, L.P. and China Diamond Holdings III, L.P. are interested in by virtue of the SFO.
- (7) CDH Auto is wholly-owned by CDH China Fund III, L.P., therefore, CDH China Fund III, L.P. is deemed to be interested in all the Shares in which CDH Auto is interested in by virtue of the SFO.
- (8) CDH III Holdings Company Limited is the general partner of CDH China Fund III, L.P., therefore, CDH III Holdings Company Limited is deemed to be interested in all the Shares in which CDH China Fund III, L.P. is interested in by virtue of the SFO.
- (9) CDH III Holdings Company Limited is owned as to 80% by China Diamond Holdings III, L.P., therefore, China Diamond Holdings III, L.P. is deemed to be interested in all the Shares in which CDH III Holdings Company Limited is interested in by virtue of the SFO.
- (10) CITIC Capital China is wholly owned by CITIC Capital China Fund I, therefore, CITIC Capital China Fund I is deemed to be interested in all the Shares in which CITIC Capital China is interested in by virtue of the SFO.
- (11) CCP GP Ltd. is the general partner of CITIC Capital China Fund I, therefore, CCP GP Ltd. is deemed to be interested in all the Shares in which CITIC Capital China Fund I is interested in by virtue of the SFO.

In addition to the above and so far as the Directors are aware, information on the persons who are, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or options granted under Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering which would affect disclosure in this section), directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group will be as follows:

<u>Name of our subsidiary</u>	<u>Substantial shareholder of such subsidiary</u>	<u>Percentage of shareholding</u>
Aotecar Casting	Changheng Casting	49%

5. Disclaimers

Except as disclosed in this prospectus:

- (a) none of our Directors or any of the experts referred to in “Other information – Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have been within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be so acquired, disposed of or leased;

- (b) none of our Directors or any of the experts referred to in “Other information – Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date to this prospectus which is significant in relation to our business;
- (c) none of the experts referred to in “Other information – Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group, save in connection with the Underwriting Agreements, nor is in the employment of an officer of our Company; and
- (d) none of our Directors, any of their associates (as defined in the Listing Rules) or any shareholder of our Company (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our Group’s five largest suppliers or five largest customers.

E. SHARE OPTION SCHEMES

1. Summary of the terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved and adopted pursuant to the written resolutions of the Shareholders passed on 9 November 2010.

(a) *Purpose*

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) to the Group by granting options to them as incentives or rewards.

(b) *Who may join*

The Board may during the Scheme Period (as defined in paragraph (j) below) at its absolute discretion (subject to any conditions as it may think fit) offer (“**Offer**”) to grant options to subscribe for such number of Shares as the Board may determine at an option price determined in accordance with paragraph (c) below to the following persons (“**Eligible Participants**”):

- (i) any executive, employee, director (including non-executive director and independent non-executive director) consultant, adviser and/or agent of any member of the Group (or persons proposed to be appointed as such provided that the Offer to such appointee(s) shall be conditional upon the proposed appointment taking effect); and
- (ii) other individuals as may be proposed by the Board.

(c) *Subscription price*

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall at least be the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("**Business Day**"); and
- (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the date of Offer.

(d) *Acceptance of Offer*

HK\$1.00 is payable by an Eligible Participant on acceptance of an Offer of option. Any Offer of option may be accepted, in whole or in part, in a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and in writing received by any Director or the secretary of the Company until 5:00 p.m. on the date specified in the Offer provided that no such Offer shall be open for acceptance after the expiry of the Scheme Period (as defined in paragraph (j) below) or after the Share Option Scheme has been terminated in accordance with the rules thereof.

(e) *Maximum number of Shares in respect of which options may be granted*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date, which is expected to be 100,000,000 Shares (assuming that the Over-allotment Option is not exercised and that none of the options granted the Pre-IPO Share Option Scheme and the Share Option Scheme are exercised) (the "**Limit**"). Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company) will not be counted for the purpose of calculating the Limit.

Subject to the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that:

- (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit;
- (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and

- (iii) a circular containing the information and the disclaimer, respectively required under Rules 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the Shareholders together with the notice of the relevant general meeting.

The Company may also with the approval of Shareholders in general meeting grant options in respect of Shares in excess of the Limit (as refreshed from time to time) to Eligible Participants specifically identified by the Company. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at anytime shall not exceed 30% of the Shares in issue from time to time. No Offer may be made under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded.

(f) Maximum entitlement of each Eligible Participant

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company disclosing the identity of the Eligible Participant, the number of and terms of the options to be granted (and options previously granted to such participant) and the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates abstaining from voting.

The number and terms (including the exercise price) of options to be granted to such Eligible Participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible

Participant shall be taken as the date of grant of the options for the purpose of calculating the subscription price of the Shares.

(g) Granting options to connected persons

Any grant of options to a director, chief executive (as defined in the Listing Rules) or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is proposed to be an option holder).

If the Company proposes to grant options to a substantial shareholder or any independent non-executive director of the Company or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting at which all connected persons of the Company shall abstain from voting in favour at such general meeting, and/or such other requirements prescribed under the Listing Rules from time to time.

(h) Restrictions on the times of grant of options

An Offer may not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in accordance with the requirements of the Listing Rules. In particular, no Offer may be made during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of publication of the results announcement.

(i) *Rights are personal to option holder*

An option is personal to the option holder. No option holder shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any options or attempt so to do.

(j) *Exercise period and duration of the Share Option Scheme*

Subject to the rules of the Share Option Scheme, options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date of grant and ending on such date as the Board may determine in granting the option, but in any event not exceeding ten years from the date of grant. Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective for a period commencing from 9 November 2010 and expiring at 5:00 p.m. on the business day preceding the tenth anniversary of such date (“**Scheme Period**”).

(k) *Rights of exercise for option holders*

Unless otherwise determined by the Board, no performance target is required to be achieved before an option can be exercised.

In the event that the grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of ill-health, injury, disability or death or because his employing company ceases to be a member of the Group before exercising his options in full, the grantee or his personal representative may exercise the options (to the extent not already exercised) within a period of six months of such ill-health, injury, disability or death or cessation, failing which such options will lapse at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of retirement in accordance with his contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, the grantee may exercise the options (to the extent not already exercised) within a period of six months after he so retires or expiration of his contract of employment or term of directorship, failing which such options will lapse at the end of the relevant period.

In the event that a grantee ceases to be an Eligible Participant under the Share Option Scheme by reason of voluntary resignation other than by reason of the circumstances set out above or by termination of his employment in accordance with the termination provisions of his contract of employment by his employing company before exercising his options in full, such options and any outstanding Offer will lapse on the date he so ceases to be an Eligible Participant.

(l) *Discretion of the Board*

Notwithstanding the aforesaid in paragraph (k) above, in each case, the Board may in its absolute discretion decide that any option shall not so lapse or determine subject to such conditions or limitations as the Board may decide.

(m) *Rights on general offers*

If a general offer by way of takeover is made to all the Shareholders and the offeror shall have obtained control of the Company as a consequence, option holders shall, subject to paragraph (k) above, be entitled at any time within the period of one month after control has been obtained to exercise the option in whole or in part (to the extent not already exercised), notwithstanding any restrictions in the terms of grant of the option which would otherwise have prevented the option from being exercised during such period. Any option that has not been so exercised within the one-month period shall cease and determine.

(n) *Rights on winding-up*

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all option holders and thereupon, each option holder shall be entitled to exercise all or any of his or her options (to the extent not already exercised) at any time thereafter until such resolution is duly passed or defeated or the general meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, lapse and determine.

(o) *Rights on compromise or arrangement between the Company and its members or creditors*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which the Company was incorporated, the Company shall give notice to all the option holders on the same date as it gives notice of the meeting to its members or creditors summoning the meeting to consider such compromise or arrangement and each option holder shall forthwith be entitled to exercise his or her option until the earlier of the date two months thereafter or the date on which the compromise or arrangement is sanctioned by the court. But the exercise of the option as aforesaid shall be conditional upon the compromise or arrangement being sanctioned by the court and becoming effective.

Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

(p) *Ranking of Shares issued upon exercise of options*

The Shares to be allotted and issued upon the exercise of an option will not carry voting rights until completion of the registration of the option holder (or any other person nominated by the option holder) as the Shareholder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects with Shares in issue on the date of the exercise and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation, as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(q) *Effect of alterations to capital*

Upon any variation in the share capital of the Company arising from any reduction, sub-division or consolidation of share capital, any rights issue or the issue of any share capital by way of capitalisation of profits or reserves or in connection with an open offer to the Shareholders (each a “**Relevant Event**”), the number or nominal amount of Shares comprised in each option and/or the subscription price thereunder may be adjusted in any manner as the Board (having received a confirmation in writing from the auditors of the Company or an approved independent financial adviser that in their/its opinion the adjustments proposed satisfy the requirements of the note to Rule 17.03(13) of the Listing Rules and/or the rules, requirements and guidelines issued by the Stock Exchange from time to time) may deem appropriate provided always that:

- (i) no increase shall be made in the aggregate subscription price relating to any option;
- (ii) any adjustments should give each option holder the same proportion of the share capital of the Company as that to which he or she was previously entitled prior to such adjustments;
- (iii) no adjustments shall be made which will enable a Share to be issued at less than its nominal value; and
- (iv) where the Relevant Event arises from an issue of Shares, references to options shall include references to options that have been exercised prior to the date of the adjustment in respect of Shares which otherwise do not rank and are not entitled to participate in the issue by reason of the option holder not having been then registered as the holder of the relevant Shares.

(r) *Lapse of options*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;

- (ii) the date of lapse as provided in paragraphs (k), (m), (n) or (o) above; and
- (iii) the date on which the option holder commits a breach of paragraph (i) above.

(s) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the option holders or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting except where the proposed alteration takes effect automatically under the existing terms of the Share Option Scheme. Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(t) *Cancellation of options*

Any unexercised option may be cancelled if the option holder so agrees. Issuance of new options to the same option holder may only be made if there are unissued options available under the Share Option Scheme (excluding the cancelled options) within the 10% Limit or the Limit as refreshed pursuant to rule 5.1(b) of the Share Option Scheme and in compliance with the terms of the Share Option Scheme in force from time to time.

(u) *Termination of the Share Option Scheme*

The Company may by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further options shall be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Administration of the Share Option Scheme*

The Share Option Scheme shall be administered by the Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional upon: (1) the approval for the listing of, and permission to deal in, the Shares in issue and to be issued, and any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme, being granted by the Listing Committee of the Stock Exchange; (2) the Global Offering becoming unconditional and not being terminated according to the terms thereof; and (3) the commencement of dealing of the Shares on the Stock Exchange.

(x) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

2. Summary of the terms of the Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders passed on 20 September 2010, the rules of the Pre-IPO Share Option Scheme were approved and adopted.

(a) *Purpose and terms*

The purpose of the Pre-IPO Share Option Scheme is to recognise and acknowledge the contributions of certain executives, employees and directors of the members of the Group to the growth of the Group and/or to the listing of the Shares on the Stock Exchange by granting options to them as incentives or rewards. The principal terms of the Pre-IPO Share Option Scheme, approved and adopted pursuant to the written resolutions of the Shareholders passed on 20 September 2010, are substantially the same as the terms of the Share Option Scheme except that:

- (i) an “eligible participant” is defined as any executive, director and/or employee of any member of the Group and other individuals who have made contributions to our Group at the time when an option is granted;
- (ii) options granted hereunder shall vest in the relevant option holder in tranches in the following manner:
 - (a) 34% of the options shall vest on the first anniversary of the Listing Date (“**First Tranche**”) at an option price equal to 85% of the Offer Price payable on the exercise of the options; and
 - (b) 33% of the options shall vest on each of the second and third anniversaries of the Listing Date (“**Subsequent Tranches**”) at an

option price equal to 85% of the Offer Price payable on the exercise of the options;

- (iii) any options vested may be exercised in whole or in part at anytime during the period commencing on the date of grant and expiring on such date as the Board may determine in granting the Option but in any event not exceeding ten (10) years from the date of grant;
- (iv) any options which are not vested prior to an option holder ceasing to be an eligible participant shall lapse upon such cessation except in circumstances set out in rules of the Pre-IPO Share Option Scheme;
- (v) the maximum number of Shares subject to the Pre-IPO Share Option Scheme in respect of options granted thereunder is 7,500,000 Shares;
- (vi) save for the options which have been granted (see below) no further options will be offered or granted, as the right to do so will end upon the Listing;
- (vii) the Pre-IPO Share Option Scheme contains no provisions relating to (a) the granting of options to connected persons; (b) the refreshment of the 10% limit or the seeking of separate approval for granting options beyond the 10% limit as anticipated in the note to Rule 17.03(3) of the Listing Rules; and (c) the restrictions on the number of Shares issued or to be issued pursuant to the exercise of any options granted in any 12-month period to any eligible participant of the Pre-IPO Share Option Scheme not exceeding 1% of the shares in issue as anticipated in the note to Rule 17.03(4) of the Listing Rules; and
- (viii) there is no prohibition on granting of options after a price-sensitive event has occurred.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

(b) Outstanding options under the Pre-IPO Share Option Scheme

As at the date of this prospectus, options to subscribe for an aggregate of 7,500,000 Shares have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. An amount of HK\$1.00 is payable by the grantees on acceptance of an offer of option. All of these options are exercisable subject to such period of time (if any) as may be determined by the Board and have a duration of not exceeding ten years from the date of grant or on any other grounds set out in the Pre-IPO Share Option Scheme. A discount to the subscription price of the Shares under the Pre-IPO Share Option Scheme is granted as a recognition of the contribution of the grantees to the growth of the Group.

Particulars of the outstanding options conditionally granted under the Pre-IPO Share Option Scheme are set out below:

Grantee and Position	Residential Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Options	Percentage of issued share capital of our Company immediately after completion of the Global Offering ⁽¹⁾
Directors of Aotecar Casting			
Wu Pinliang	Room 103, Block 21, Yaohuaxincun 6 Yaojia Road, Qixia District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Guo Jun	Room 608, Unit 4, Block 30 Jinwangfu, Jiangning District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Sub-total		150,000	0.0150%
Senior management of our Group who are not Directors			
Mak Wai Man Raymond	Flat B, 35th Floor, Tower 8 The Belcher's 89 Pokfulam Road Hong Kong	375,000	0.0375%
Tian Shichao	Room 304, Block 24, Cuizhuyuan 5 Yulan Road, Yuhuatai District Nanjing, Jiangsu Province PRC	378,000	0.0378%
Yi Fengshou	Room 406, 15 Xianxia Road Gulou District Nanjing, Jiangsu Province PRC	378,000	0.0378%
Zhao Chengzhou	Room 202, Block 2, Wuyi Garden Dongshan Town, Jiangning District, Nanjing, Jiangsu Province PRC	378,000	0.0378%
Wang Jianming	Room 506, Block 2, Yingjiachuntian, Jiangning District Nanjing, Jiangsu Province PRC	378,000	0.0378%
Liu Shantong	Room 502, Unit 1, Block 9 Bishuiyuntian 15 Yingtian Avenue, Qinhuai District Nanjing, Jiangsu Province PRC	378,000	0.0378%
Yu Heyuan	Room 603, Unit 2, Block 7 30 Dayanggou, Baixia District Nanjing, Jiangsu Province PRC	225,000	0.0225%
Chui Wing Fai	Flat C, 9th Floor, One Madison 305 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	225,000	0.0225%
Sub-total		2,715,000	0.2715%

Grantee and Position	Residential Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Options	Percentage of issued share capital of our Company immediately after completion of the Global Offering ⁽¹⁾
Other employees of our Group with options to subscribe for more than 75,000 Shares			
Chen Wenbing	Room 210, Block A1, Nantian Mansions Private Science and Technology Park Dongshan Town, Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Shen Peihai	Room 505, Block 16 Nanfangfengcaiyuan 833 Shuanglong Avenue Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Wu Weixin	Room 305, Unit 2, Block 06 Wenjinyayuan 1 Yingyuan South Road Xuanwu District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Zhu Xiaogang	Room 601, No. 51, Block 13 Jihongyuan, Qinhuai District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Li Jianxin	Room 505, Block 18 Caiyunwan, Gangwanhuayuan Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Xu Lidong	Room 501, No. 24, Block 08 Chuntianjiayuan, Qinhuai District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Huang Ying	Room 3-1, Block 28 1 Gupinggang, Gulou District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Wang Xiaoliang	Room 205, Unit 21, Building 10 Wuyi Garden, Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Wu Jian	Room 504, Unit 2, Block 2 Henghuayuan, 24 Jiangning Road Nanjing, Jiangsu Province PRC	90,000	0.0090%
Shi Yuxing	Room 404, 290 Bancang Street Xuanwu District Nanjing, Jiangsu Province PRC	90,000	0.0090%

Grantee and Position	Residential Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Options	Percentage of issued share capital of our Company immediately after completion of the Global Offering ⁽¹⁾
Zhang Weilin	Room 204, Block 9, Xuriwan, Gangwanhuayuan 988 Jinsheng Road, Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Cao Zhenyu	Room 502, Block 19, Tianyuanjidicheng 369 Hushan Road, Dongshan Street, Jiangning District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Ji Jun	Room 304, Unit 2, Block 5 228 Shepopomiao, Qinhuai District Nanjing, Jiangsu Province PRC	90,000	0.0090%
Liu Aijun	Room 606, Block 15, Dongchengjiayuan 863 Shangyuan Avenue Dongshan Street, Jiangning District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Wang Jianxin	Room 101, Unit 1, No. 4 Jihongyuan, Qinhongxiaoqu Qinhong Road, Qinhuai District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Zang Ruoling	Room 202, 72 Hunan Road Gulou District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Song Huiming	Room 602, No. 55, Block 10 Jiaoshigongyu, Qinhuai District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Jia Chuanbao	Room 1007, Unit 4, Block 1 Youranyuan, Yuecheng International Garden 9 Huashen Avenue, Yuhuatai District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Liu Yongxing	Room 106, Block 5 72 Babao Front Street Baixia District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Shen Qingren	Room 601, Unit 2, Block 07 Liangchengmeijingjiayuan 168 Qinhong South Road Qinhuai District Nanjing, Jiangsu Province PRC	75,000	0.0075%

Grantee and Position	Residential Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Options	Percentage of issued share capital of our Company immediately after completion of the Global Offering ⁽¹⁾
Zhang Lei	Room 304, Block 7, Dongyinhuayuan Dongshan Street, Jiangning District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Zhu Xiaojian	Room 302, Block 17 Caiyunwan, Gangwanhuayuan 988 Jinsheng Road Dongshan Street, Jiangning District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Han Bin	Room 502, Block 11, Moxiangshanzhuang 30 Moxiang Road, Xuanwu District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Qiu Guo	Room 406, Block 14, Hejiahuayuan 899 Chengxin Avenue Moling Street, Jiangning District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Huang Wanru	Room 704, Block 39 Qiaobeixincun, Pukou District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Yin Meixian	Room 101, Block 6, Yiyuanxiaoqu 150 Jinqu Village, Qixia District Nanjing, Jiangsu Province PRC	75,000	0.0075%
Sub-total		2,145,000	0.2145%
Other 91 employees of our Group		2,490,000	0.2490%
TOTAL		7,500,000	0.7500%

Note:

⁽¹⁾ On the assumption that the Over-allotment Option is not exercised and that all the remaining outstanding options under the Pre-IPO Share Option Scheme are exercised at the same time immediately upon completion of the Global Offering.

Our shareholding immediately following the Global Offering, assuming that the Over-allotment Option is not exercised, would be diluted by 0.7% upon the exercise in full of the Pre-IPO Share Options. Assuming that (i) the Company had been listed on the Stock Exchange since 1 January 2010, (ii) a total of 1,000,000,000 Shares had been in issue during the financial year and (iii) all the Pre-IPO Share Options were exercised in full on 1 January 2010, without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, the earnings per Share on a pro forma fully diluted basis would decrease from RMB0.140 (equivalent to HK\$0.160) to RMB0.139 (equivalent to HK\$0.158) for the year ending 31 December 2010.

Save as disclosed above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme or the Share Option Scheme as at the date of the prospectus.

F. WAIVERS FROM COMPLIANCE WITH THE COMPANIES ORDINANCE AND THE LISTING RULES

Pre-IPO Share Options

Under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A and paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance, this prospectus is required to include, among other things, details of the number, description and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given. We have granted options to 127 persons to subscribe for 7,500,000 Shares on the terms set out in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in this Appendix. Except for those 10 grantees who are directors or senior management of our Group as disclosed in “Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme” in this Appendix, no grantees under the Pre-IPO Share Option Scheme are directors or senior management or connected persons of our Group.

Under the Pre-IPO Share Option Scheme, eligible persons include any executive, director and/or employee of our Group and other individuals who have made contributions to our Group at the time when the Pre-IPO Share Option is granted.

We have applied for (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance on the ground that disclosure of the names and addresses of the remaining 91 grantees of the Pre-IPO Share Option Scheme who are not directors or senior management or connected persons of our Group or any other employees of the Group with a right to subscribe for more than 75,000 Shares (such grantees to be collectively referred to as the “**Grantees**”), as well as the number of Shares in respect of which options have been conditionally granted to each Grantee would be unduly burdensome for us due to the following reasons:

- (i) as the options granted under the Pre-IPO Share Option Scheme are in many instances considered as part of each Grantee’s remuneration package, individual information on such options is highly sensitive and confidential among the Grantees;
- (ii) given the 91 Grantees involved, strict compliance with the applicable disclosure requirements under the Companies Ordinance on an individual basis in this

prospectus will be costly and unduly burdensome on our Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;

- (iii) the grant and exercise in full of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse change in the financial position of our Company;
- (iv) the lack of full compliance with the applicable disclosure requirements under the Listing Rules and the Companies Ordinance will not hinder our Company in providing an informed assessment of our Company's activities, assets and liabilities, financial position, management and prospects to its potential investors; and
- (v) the disclosure of a summary of information relating to the options granted under the Pre-IPO Share Option Scheme, as described in "Share Option Schemes – Summary of the terms of the Pre-IPO Share Option Scheme" in this Appendix should provide potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process.

The Stock Exchange has granted the waiver to us subject to that:

- (a) the grant of a certificate of exemption from strict compliance with the relevant Companies Ordinance requirements by the SFC;
- (b) full disclosure in this prospectus on all options under the Pre-IPO Share Option Scheme granted to each of the directors, senior management, connected persons and employees of our Group who have been granted options for 75,000 Shares or more, including all the particulars required under paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules;
- (c) disclosure in this prospectus, for the remaining grantees on an aggregate basis:
 - (1) their aggregate number and the number of Shares underlying the options granted;
 - (2) the consideration paid for the options;
 - (3) the exercise period of each option; and
 - (4) the exercise price of the options;
- (d) disclosure in this prospectus the aggregate number of Shares underlying the options under the Pre-IPO Share Option Scheme and the percentage of our Company's issued share capital represented by them, the dilution effect and impact on earnings per Share upon full exercise of the options under the Pre-IPO Share Option Scheme; and

- (e) availability for public inspection a full list of all the grantees under the Pre-IPO Share Option Scheme with all the particulars required under the relevant provisions of the Companies Ordinance and the Listing Rules.

The SFC has issued a certificate of exemption under section 342A of the Companies Ordinance exempting the Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance subject to the conditions that:

- (aa) full details of the options granted by our Company under the Pre-IPO Share Option Scheme to each of the directors of the Company or its subsidiaries, senior management, connected persons and grantees who have been granted options for 75,000 Shares or more be disclosed in this prospectus, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (bb) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme to the employees other than those referred to in sub-paragraph (aa), the following details be disclosed in this prospectus:
 - (1) the aggregate number of grantees and number of Shares subject to the options;
 - (2) the consideration paid for the grant of the options; and
 - (3) the exercise period and the exercise price for the options; and
- (cc) a full list of all the grantees (including the persons referred to in sub-paragraph (aa) above) who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance, be made available for public inspection in accordance with the section headed “Documents available for inspection” in Appendix VII to this prospectus.

G. OTHER INFORMATION

1. Estate duty

We have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries in the PRC and that the Cayman Islands currently have no estate duty, inheritance tax or gift tax.

2. Litigation

Save as disclosed in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by the Directors to be pending or threatened by or against any member of our Group.

3. Promoters

Our Company has no promoter as the term is defined under the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor any proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

4. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Schemes).

As regards to the independence of each of the Joint Sponsors:

- (a) DBS is not considered as an independent sponsor under Rule 3A.07 of the Listing Rules as a fellow subsidiary of DBS (the “**Fellow Subsidiary**”) has an indirect attributable interest in the Company. Whilst the aggregate indirect shareholding interests of the Fellow Subsidiary in the Company are less than 0.5% after Listing, certain of these indirect interests held through an intermediate company is the general partner of an underlying investment fund and they are considered as interests that have impaired the independence of DBS as an independent sponsor under Rule 3A.07 of the Listing Rules; and
- (b) CIMB has met the criteria under Rule 3A.07 of the Listing Rules and is an independent sponsor to the Company.

5. Preliminary expenses

The preliminary expenses incurred by our Company are estimated to be HK\$47,000, and are payable by our Company.

6. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which are contained, or referred to, in this prospectus:

Expert	Qualification
DBS Asia Capital Limited	Licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
CIMB Securities (HK) Limited	Licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants
Savills Valuation and Professional Services Limited	Chartered professional surveyors and valuers
Maples and Calder	Cayman Islands legal advisers
Chen & Co. Law Firm	PRC legal advisers

7. Consents of experts

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificate(s) and/or the references to its name and/or opinion in the form and context in which they are respectively included.

Save as disclosed in “Other information – Joint Sponsors” in this Appendix, as at the Latest Practicable Date, none of the experts referred to above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Miscellaneous

Except as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;
- (b) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (d) since 30 June 2010 (being the date to which the latest audited combined financial statements of our Group were made up) there has not been any material adverse effect in the financial or trading position of our Group;
- (e) no founder, management or deferred shares or debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (f) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement;
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (h) there is no arrangement under which future dividends are waived or agreed to be waived;
- (i) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus; and
- (j) the principal register of members of our Company will be maintained in the Cayman Islands by our principal share registrar, Butterfield Fulcrum Group (Cayman) Limited, and a branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Share Registrar, Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy to this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in “Other information – Consents of experts” in Appendix VI to this prospectus and copies of the material contracts referred to in “Further information about the Business – Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Jones Day at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum and Articles;
- (2) the accountants’ reports prepared by KPMG, the text of which is set out in Appendices IA and IB to this prospectus;
- (3) the report on our unaudited pro forma financial information prepared by KPMG, the text of which is set out in Appendix II to this prospectus;
- (4) the letters relating to our profit forecast prepared by KPMG and the Joint Sponsors, the texts of which are set out in Appendix III;
- (5) the audited financial statements of the Group for the two years ended 31 December 2009 and the six months ended 30 June 2010;
- (6) the letter, summary of valuations and valuation certificate relating to the property interests of our Group prepared by Savills Valuation and Professional Services Limited, the text of which is set out in Appendix IV to this prospectus;
- (7) a copy of the letter of advice prepared by Maples and Calder summarizing certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;
- (8) the PRC legal opinions dated 26 November 2010 prepared by Chen & Co. Law Firm;
- (9) the rules of the Pre-IPO Share Option Scheme;
- (10) the rules of the Share Option Scheme;
- (11) the material contracts referred to in “Further information about the business – Summary of material contracts” in Appendix VI to this prospectus;
- (12) the service agreements and the letters of appointment referred to in “Further information about Directors, management, staff and substantial shareholders – Particulars of Directors’ service agreements” in Appendix VI to this prospectus;

- (13) the written consents referred to in “Other information – Consents of experts” in Appendix VI to this prospectus;
- (14) the Companies Law; and
- (15) the list of all the grantees who have been conditionally granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all details as required under the Listing Rules and the Companies Ordinance.

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China Auto System Technologies Limited
中國汽車系統技術有限公司